Orbis S.A.

Annual Report for 2018

Separate Financial Statements

February 21, 2019

TABLE OF CONTENTS

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

INCOME STATEMENT
for the year 2018

	Note	2018 (under IFRS 15)	2017 (under IAS 18)
Net sales	5.1	**900 145**	**888 275**
Outsourced services	5.2	(199 313)	(196 658)
Employee benefit expense	5.3	(238 968)	(229 075)
Raw materials and energy used	5.2	(131 037)	(137 394)
Taxes and charges	5.2	(29 484)	(30 574)
Other expenses by nature	5.2	(6 971)	(6 878)
Impairment of receivables	5.2	(919)	(299)
Net other operating income/(expenses)	5.4	(1 013)	(81)
EBITDAR		**292 440**	**287 316**
Rental expense	5.2	(7 596)	(7 749)
Operating EBITDA		**284 844**	**279 567**
Depreciation and amortisation	5.2	(127 136)	(125 164)
Operating profit without the effects of one-off events		**157 708**	**154 403**
Result on sale of real property	5.5	2 052	11 734
Revaluation of non-current assets	5.6	(1 773)	8 348
Restructuring costs	5.7	(598)	(3 157)
Result of other one-off events	5.8	(563)	0
Operating profit		**156 826**	**171 328**
Finance income	5.9	34 036	26 388
Finance costs	5.10	(15 697)	(41 434)
Profit before tax		**175 165**	**156 282**
Income tax expense	6	(33 264)	(29 679)
Net profit for the period		**141 901**	**126 603**
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	3.08	2.75

Definitions of individual result levels are provided under Note 2.4.1.

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

STATEMENT OF COMPREHENSIVE INCOME

for the year 2018

	Note	2018 (under IFRS 15)	2017 (under IAS 18)
Net profit for the period		**141 901**	**126 603**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/losses arising from the defined employee benefit plan	27	(1 187)	(564)
Income tax relating to items that will not be reclassified subsequently		215	85
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	31.4	75	42
Income tax relating to items that may be reclassified subsequently		(14)	(8)
Other comprehensive income/(loss) after tax		**(911)**	**(445)**
Total comprehensive income for the period		**140 990**	**126 158**

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

STATEMENT OF FINANCIAL POSITION
as at December 31, 2018

Assets	Note	As at:	
		December 31, 2018 *(under IFRS 15)*	December 31, 2017 *(under IAS 18)*
Non-current assets		**2 271 603**	**2 517 115**
Property, plant and equipment	9	1 660 408	1 587 720
Investment property	10	4 483	6 099
Intangible assets	11	109 320	110 488
- goodwill	11	107 252	107 252
Investments in subsidiaries	12	467 529	467 529
Loans granted	13	22 815	329 500
Derivative financial instruments	31.3	0	885
Other financial assets	14	0	6 944
Deferred tax assets	6	5 980	6 637
Other long-term assets	15	1 068	1 313
Current assets		**567 489**	**195 240**
Inventories	16	3 820	3 839
Trade receivables	17	25 132	28 250
Income tax receivables	6	0	506
Other short-term receivables	17	22 841	15 969
Loans granted	13	156 526	68 866
Derivative financial instruments	31.3	0	837
Cash and cash equivalents	18	359 170	76 973
Assets classified as held for sale	19	**8 690**	**23 514**
TOTAL ASSETS		**2 847 782**	**2 735 869**

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

STATEMENT OF FINANCIAL POSITION, continued
as at December 31, 2018

Equity and liabilities	Note	As at: December 31, 2018 (under IFRS 15)	As at: December 31, 2017 (under IAS 18)
Equity		**2 121 463**	**2 056 754**
Share capital	20.1	517 754	517 754
Reserves	20.2	133 333	133 272
Retained earnings	20.3	1 470 376	1 405 728
Non-current liabilities		**543 010**	**538 551**
Bonds	21	502 111	501 778
Liabilities arising under contracts	22	1 854	0
Deferred revenue	23	10 928	12 202
Other non-current liabilities	24	7 200	5 777
Provision for retirement benefits and similar obligations	27	20 917	18 794
Current liabilities		**183 309**	**140 564**
Other financial liabilities	31.4	0	74
Trade payables	26	48 387	52 486
Liabilities associated with tangible assets	26	53 907	18 024
Current tax liabilities	6	11 455	0
Liabilities arising under contracts	22	16 822	0
Deferred revenue	23	916	14 142
Other current liabilities	26	47 382	50 729
Provision for retirement benefits and similar obligations	27	3 386	3 014
Provisions for liabilities	25	1 054	2 095
TOTAL EQUITY AND LIABILITIES		**2 847 782**	**2 735 869**

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

STATEMENT OF CHANGES IN EQUITY
for the year 2018

	Note	Share capital	Reserves	Retained earnings	Total
Twelve months ended December 31, 2017					
Balance as at January 1, 2017		**517 754**	**133 238**	**1 353 327**	**2 004 319**
- net profit for the period		0	0	126 603	**126 603**
- other comprehensive income/(loss)		0	34	(479)	**(445)**
Total comprehensive income for the period		**0**	**34**	**126 124**	**126 158**
- dividends		0	0	(73 723)	**(73 723)**
Balance as at December 31, 2017	20	**517 754**	**133 272**	**1 405 728**	**2 056 754**
Twelve months ended December 31, 2018					
Balance as at January 1, 2018 (as reported)		**517 754**	**133 272**	**1 405 728**	**2 056 754**
- adjustment for IFRS 9	2.7.1	0	0	(1 395)	**(1 395)**
- adjustment for IFRS 15	2.7.1	0	0	(1 163)	**(1 163)**
Balance as at January 1, 2018 (restated)*		**517 754**	**133 272**	**1 403 170**	**2 054 196**
- net profit for the period		0	0	141 901	**141 901**
- other comprehensive income/(loss)		0	61	(972)	**(911)**
Total comprehensive income for the period		**0**	**61**	**140 929**	**140 990**
- dividends	8	0	0	(73 723)	**(73 723)**
Balance as at December 31, 2018	20	**517 754**	**133 333**	**1 470 376**	**2 121 463**

** description of the restatement is provided in Note 2.7.1.*

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

STATEMENT OF CASH FLOWS
for the year 2018

	Note	2018 (under IFRS 15)	2017 (under IAS 18)
OPERATING ACTIVITIES			
Profit before tax		**175 165**	**156 282**
Adjustments:		**103 014**	**107 459**
Depreciation and amortisation	5.2	127 136	125 164
Foreign exchange (gains)/losses		(12 548)	21 250
Interest, borrowing costs and dividends		(6 958)	(5 922)
Gain from investing activities		(2 052)	(11 428)
Change in receivables	33	(5 565)	(11 051)
Change in liabilities arising from contracts	33	3 289	0
Change in other liabilities, excluding borrowings	33	(1 083)	(847)
Change in deferred revenue	33	(1 274)	212
Change in provisions	33	267	(119)
Change in inventories		19	264
Other adjustments	33	1 783	(10 064)
Cash generated from operations		**278 179**	**263 741**
Income taxes paid	6	(19 845)	(32 602)
Net cash generated by operating activities		**258 334**	**231 139**
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment, intangible assets and investment property		17 550	62 116
Dividends and share of profits	5.9	12 360	13 412
Repayment of loans granted	13	265 254	12 581
Interest received		9 068	11 392
Other investing cash inflows		4 860	9 691
Payments for property, plant and equipment and intangible assets		(163 680)	(92 534)
Increase in share capital of related parties	12	(10)	0
Loans granted	13	(33 418)	(73 651)
Net cash generated by/(used in) investing activities		**111 984**	**(56 993)**
FINANCING ACTIVITIES			
Repayment of borrowings		0	(123 512)
Interest paid and other financing cash outflows resulting from received borrowings		0	(3 549)
Interest paid and other financing cash outflows resulting from issue of bonds	21	(14 090)	(14 190)
Dividends and other payments to owners	8	(73 723)	(73 723)
Net cash used in financing activities		**(87 813)**	**(214 974)**
Change in cash and cash equivalents		**282 505**	**(40 828)**
Effects of exchange rate changes on the balance of cash held in foreign currencies		(308)	(157)
Cash and cash equivalents at the beginning of the period		**76 973**	**117 958**
Cash and cash equivalents at the end of the period	18	**359 170**	**76 973**

1. BACKGROUND

1.1 GENERAL INFORMATION

The attached financial statements of Orbis S.A. present a statement of financial position as at December 31, 2018, and as at December 31, 2017, statement of changes in equity, income statement, statement of comprehensive income and statement of cash flows, covering data for 2018 and 2017, 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 20, 2019.

1.2 ORBIS S.A.

Orbis S.A. with its corporate seat in Warsaw, at 16 Bracka Street, 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, 2018, the Company operated a network of 47 hotels (9 563 rooms) in 12 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 end of the reporting period, 42 hotels offering a total of 4 632 rooms operated under franchise agreements and 18 hotels with a total of 2 658 rooms operated under management agreements.

Moreover, Orbis S.A., as the general franchisee, was granted the right to operate and expand the network of aparthotels under the following Adagio brands: Aparthotels Adagio, Aparthotels Adagio Access and Aparthotels Adagio Premium. Orbis S.A. is authorised to develop the Adagio network both in the form of owned hotels and by granting such rights to third parties under management, subfranchise or franchise agreements. The General Franchise Agreement was executed in October 2017 for a term of 15 years with the option of renewal for subsequent five-year terms; it covers the following eight countries: Poland, Czech Republic, Hungary, Romania, Serbia, Estonia, Latvia, and Lithuania. As at the end of the reporting period, Orbis S.A. did not have any owned, franchised or managed hotels under the Adagio brands.

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, including the entry into force of new accounting standards, namely IFRS 15 and IFRS 9. The description of the impact of these new standards is described in Note 2.7.1 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 2.8 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 POSITION OF THE MANAGEMENT BOARD OF ORBIS S.A. RELATED TO THE QUALIFIED CONCLUSION RAISED BY THE AUDIT FIRM IN THE REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS OF ORBIS S.A.

The report of the licensed auditor KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. on the audit of the separate financial statements of Orbis S.A. for 2018 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 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.

Problems and doubts associated with the classification of the right to perpetual usufruct of land for the purpose of their presentation in the statement of financial position have so far originated not only from a subjective assessment of Orbis S.A. Management Board, but also had an objective dimension, manifested, amongst others, in the absence of uniform approach to this classification during the effective term of IAS 17 application both amongst issuers listed on regulated markets and amongst leading auditing companies.

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, 2018, amounted to PLN 58 539 thousand (which accounts for 2.1% of total assets), compared to PLN 59 324 thousand (2.2% of total assets) as at December 31, 2017.

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 246 313 thousand (8.6% of total assets) as at December 31, 2018, and PLN 251 764 thousand (9.2% of total assets) as at December 31, 2017. The value of the related deferred tax liabilities amounted to PLN 46 799 thousand (1.6% of total equity and liabilities) as at December 31, 2018, and PLN 47 835 thousand (1.7% of total equity and liabilities) as at December 31, 2017.

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, 2018, and for the period of 12 months ended December 31, 2017, taking into account deferred tax, would have been higher by, respectively, PLN 4 415 thousand (3.1% of net profit) and PLN 6 707 thousand (5.3% of net profit) and the previous years' profit/loss as at December 31, 2018, and 2017 would be lower by, respectively, PLN 203 929 thousand (7.2% of total equity and liabilities) and PLN 210 636 thousand (7.7% of total equity and liabilities).

When evaluating the financial statements of Orbis S.A. for the year 2018, alike in the past years, the Supervisory Board of Orbis S.A. 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.

In the opinion of the Management Board and Supervisory Board of the parent company, treatment of rights to perpetual usufruct of land as a form of operating lease and their off-balance sheet recognition would not reflect the economic nature of these rights and would distort the information on the actual value of assets held by the Company, that is significantly understate this value.

This approach to the presentation of rights to perpetual usufruct of land was consistently applied by the Management Board of Orbis S.A. throughout the entire effective term of IAS 17 application. In connection with the entry of IFRS 16 Leases into force, the Management Board has analysed this standard and assessed that based on the literal wording of paragraph 9 of IFRS 16, which defines a lease as *any contract that conveys to the customer the right to control the use an identified asset for a specific period of time in exchange for consideration*, the right to perpetual usufruct of land may be recognised as a lease. In the opinion of the Management Board, given the specific nature of this right (as described above), it is difficult to indisputable classify it as a lease. However, taking into account the fact that in accordance with IFRS 16, assets under usufruct rights are recognised for the purpose of their presentation in the statement of financial position (which is consistent with the approach applied by the Company so far), as of January 1, 2019, the right to perpetual usufruct of land will be treated by the Company as a lease and recognised in accordance with IFRS 16 (more information on the impact of IFRS 16 is presented in Note 2.7.2 of these financial statements).

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 revenue is recognized at the moment and to the degree reflecting the fulfilment by the Company of its obligation to provide the service or to deliver goods. The obligation is deemed fulfilled at the moment when the customer takes over the control over the delivered asset. Sales revenue is recognised at transaction price that is the amount expected to be paid.

Depending on the criteria specified in IFRS 15 “Revenue from Contracts with Customers”, revenue may be recognized at a point in time (when the control over goods and services is passed to the customer) or over time to depict the performance of the service.

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 to the extent depicting the provision of the service by the Company.
- 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. These revenues are recognised at a point in time and to the extent depicting the provision of the service.
- Revenue from franchise fees – 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 its franchisees the following fees:
  - One-off entrance fees (charged for affiliation with the hotel network). The fee is non-refundable and is usually calculated as the product of the number of rooms at a given hotel and a rate per room specified in the agreement. Revenue from one-off entrance fees should be recognised over time during the whole term of the agreement giving rise to a certain fee (i.e. during the term of operation of a hotel, which usually equals 10 years). The fee is connected with other franchise fees and is not separate from the other services, hence the revenue from such fees should be recognised gradually, over the period when the obligations under these agreements are performed.
  - 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. Revenue from flexible charges are recognised at a point in time of the provision of the service for franchised hotels by the Company.

- 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 management 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. Moreover, under management agreements, the Company charges variable fees (fee for using the trademark, marketing fee, distribution fee) calculated as contractually-determined percentages of the revenue from the hotel services provided by the managed hotels.

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 Liabilities arising from contracts

Liabilities arising from contracts reflect the Company's obligation to deliver goods or services for which the customer has already paid or when the payment from a customer is due. Liabilities arising from contracts mainly include advances and prepayments received by the Company for a provision of service to a customer in the future. Moreover, fees for affiliation with the hotel network (i.e. the Entrance Fee), payable under franchise agreements, are also recognised as liabilities arising from contracts. These fees are usually invoiced at the beginning of the agreement and payable over the term of the given agreement (i.e. during the term of operation of the hotel).

2.4.4 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 2.4.18).

2.4.5 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.

2.4.6 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.

2.4.6.1 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.

2.4.6.2 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 28.

2.4.7 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.

2.4.8 Intangible assets

2.4.8.1 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 acquired entity as the date when control was assumed over it.

Goodwill is carried in the statement of financial position at cost less impairment losses.

2.4.8.2 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.

2.4.9 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.

2.4.10 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.

2.4.11 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.

2.4.12 Financial assets

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

Financial assets' initial value is measured at fair value less transaction costs (which can be directly attributed to these financial assets), 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 fair value of a financial asset at initial recognition is usually equal to its transaction price, i.e. the fair value of the payment made.

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expired, or when contractual rights to receive the cash flows of the financial asset 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 given financial asset.

Financial assets are classified into the following categories: financial assets measured at amortised cost, financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income. Classification of financial assets in accordance with IFRS 9 depends on the business model of financial asset management and the contractual cash flow characteristics of the financial asset. Financial assets are classified at the time of initial recognition and the classification may be modified only in case of change of the business model of financial asset management.

2.4.12.1 Financial assets measured at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:
- the Company aims to hold those financial assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI: solely payment of principal and interest).

The following are recognised as financial assets measured at amortised cost: trade receivables, loans granted, bank balances and funds in accounts, and other receivables with fixed or negotiable payments, as well as acquired debt securities with specified maturities.

At the end of the reporting period, the aforementioned assets 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 (including trade receivables) when the recognised interest would be immaterial.

Measurement at amortised cost is recognised through profit or loss.

2.4.12.2 Financial assets at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is one measured at amortised cost or at fair value through other comprehensive income. Moreover, at the time of initial recognition, the Company can make an irrevocable choice in respect of individual **investments in equity instruments** whether to recognise future changes in fair value through other comprehensive income (otherwise they are measured at fair value through profit or loss).

The group of financial assets measured at fair value through profit or loss includes financial assets held for trading. 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 (accounting mismatch); 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 9 "Financial Instruments" 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.

2.4.12.3 Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the Company aims to hold the financial asset both to collect contractual cash flows and to sell the financial asset; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI: solely payment of principal and interest).

Investments in shares and interests in companies, both unlisted ones and ones not traded in an active market, are classified as financial assets measured at fair value. Gains and losses arising from changes in fair value are recognised directly in equity (other comprehensive income), 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, it is likely that the company will obtain the economic benefits linked to dividend, while the amount of dividend can be reliably estimated. The fair value of 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.

2.4.13 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, short-term bank deposits with maturity 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.

For the purposes of the cash flow statement, bank overdrafts are recognized in the cash flows from financing activities. For the purposes of presentation in the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.4.14 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.

2.4.15 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.

2.4.15.1 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 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.

With respect to property, plant & equipment, as at the end of each reporting period, the Company evaluates whether there are any indications of the need to recognise impairment loss or to change its value. The Company assumes that one of the indications that impairment loss in respect of a given hotel may have to be recognised or its value needs to be changed is the change in EBITDA by +/- 20% on the previous reporting period.

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 valuation surveys in its possession, up-to-date purchase offers or analyses of average transaction prices on 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.

2.4.15.2 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. If the Company finds there are indicators of impairment, it commences the procedures of determining the amount of impairment loss in respect of assets.

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.

For receivables, the Company recognises impairment loss on the basis of individual analyses. At the time of implementation of IFRS 9, the Company analysed the history of recognised impairment loss and reached the conclusion that the possible application of the expected credit loss model would not have a significant influence on the amounts of impairment loss recognised by the Company. Therefore a decision was made to continue the previous approach based on an individual analysis of allowances, on the basis of the collected information and estimated credit risks.

The Company has a 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. This approach applies in particular to:

- receivables from debtors in liquidation or bankruptcy,
- receivables challenged by debtors and overdue receivables, where according to assessment of the debtor's assets and financial condition, the repayment of the contractual value of receivables is not likely,
- other overdue receivables as well as receivables which are not overdue, where the risk of their non-recovery is significant.

In such cases as described above, 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.

The carrying amount of trade receivables is reduced by the impairment loss through the use of an allowance account to adjust their original value. 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 recognised in the income statement, in Impairment of receivables item.

The gross carrying amount of a financial asset (other than trade receivables) is reduced by the impairment loss directly when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Except for equity securities measured at fair value through other comprehensive income, 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 case of unlisted shares, classified as financial assets at fair value through other comprehensive income, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

In respect of equity securities measured at fair value through other comprehensive income, 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.

2.4.15.3 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.

2.4.16 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.

2.4.16.1 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.

2.4.16.2 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.

2.4.16.3 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 measured at amortised cost or financial liabilities at fair value through profit or loss.

2.4.16.4 Financial liabilities at fair value through profit or loss

The group of Financial liabilities measured at fair value through profit or loss includes financial assets held for trading.

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 ("accounting mismatch"); 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.

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, except for the possible change in the fair value assigned to the change in credit risk (related to insolvency of the issuer), which is presented in other comprehensive income.

Financial liabilities at fair value through profit or loss include, among others, derivative liabilities. Financial liabilities at fair value through profit or loss are designated as such at initial recognition. Such a designation is irrevocable.

2.4.16.5 Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost 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 (on the income statement), 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 over the expected life of the financial liability, or (where appropriate) a shorter period.

2.4.16.6 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 expected credit loss allowance; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of income recognition.

2.4.17 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.

2.4.17.1 Embedded derivative instruments

In case of derivative instruments embedded in a hybrid contract where the host contract is a financial asset (covered by the scope of IFRS 9), requirements concerning classification and measurement apply to the whole hybrid contract, depending on the business model and contractual cash flows.

Derivatives embedded in a hybrid contract where the host contract is not a financial asset (covered by the scope of IFRS 9) are treated as separate derivatives when the risks and characteristics of the embedded derivative are not closely related to those of the host contract; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid contract is 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 EUR.

2.4.18 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.

2.4.19 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.

2.4.20 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:
    - the possibility of an outflow of resources to satisfy the obligation is remote; or
    - the amount of the obligation cannot be measured with sufficient reliability.

2.4.21 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.

2.4.21.1 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 2018 the Company calculated its corporate income tax liability at the rate of 19% of taxable income.

2.4.21.2 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 tax result nor the accounting result.

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.

2.4.21.3 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.

2.4.22 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.

2.4.23 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.

2.4.24 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.

2.5 CHANGES IN ACCOUNTING POLICIES AND CHANGES IN PRESENTATION OF DATA

In 2018, the accounting policies did not change as compared to the financial statements published as at December 31, 2017, 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 new standards, amendments to the existing standards and interpretation, issued by the International Accounting Standards Board (IASB) and adopted by the European Union, came into force in 2018:

- **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),

- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** - clarifications to IFRS 15 "Revenue from Contracts with Customers" - adopted by the EU on 31 October 2017 (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" - adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),

- **Amendments to IFRS 2 “Share-based Payment”** - Classification and measurement of share-based payment transactions – adopted by the EU on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property - adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 1 and IAS 28 due to “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 - adopted by the EU on 7 February 2018 (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”** - adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The above listed standards, amendments to standards and interpretation have not exerted any substantial impact on the entity's financial statements for the year 2018, except the new standard IFRS 15.

The impact of the application of the new standards, i.e. IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments”, effective as of 1 January 2018, is presented in Note 2.7.1.

As at February 20, 2019, the following new standard, amendments to the existing standards and interpretation have been issued by the International Accounting Standards Board (IASB) and adopted by the European Union but have not become effective yet:

- **IFRS 16 "Leases" -** adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation - adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** - adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019).

The Company decided not to take advantage of the possibility of earlier application of the above new standards or amendments to existing standards

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. The influence of applying IFRS 16 "Leases" on the financial statements of the Company is presented in Note 2.7.2.

Moreover, the following new standards and amendments to standards have been adopted by the International Accounting Standards Board but not yet approved by the European Union as at February 20, 2019:

- **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 full version of the IFRS 14 standard to be published,

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

- **Amendments to IFRS 3 "Business Combinations"** - definition of a business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),

- **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 IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - definition of materiality (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IAS 19 "Employee Benefits"** - plan amendment, curtailment or settlement (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

According to the entity's estimates, the above listed new standards and amendments to standards 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.

2.7 THE IMPACT OF THE NEW ACCOUNTING STANDARDS ON THE FINANCIAL STATEMENTS OF THE COMPANY

2.7.1 Standards which came into force in 2018

Since January 1, 2018, the Company has modified its accounting principles in connection with the entry into force of the new accounting standards, i.e. IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments".

The impact of the new accounting principles on individual areas of the accounting policy and the restatement of data as at the date of the first application of the new standards, i.e. January 1, 2018, is described below. Furthermore, to ensure comparability of data for particular periods, the impact of IFRS 15 application on the results of the Orbis company for 12 months of 2018 and on items of the statement of financial position as at December 31, 2018, was presented.

IFRS 15 "Revenue from Contracts with Customers"

Based on the analysis performed, the area where changes introduced by the new standard appear is the one-off entrance fees (charged for affiliation with hotel network), payable on the franchise agreements. The fee is non-refundable and is usually calculated as the product of the number of rooms at a given hotel and a rate per room specified in the agreement. Pursuant to the accounting principles applicable till the end of 2017, entrance fees were recognised under revenue as a single transaction, at the time when the agreement requires them to be paid. In the light of the new standard, revenue from one-off entrance fees should be recognised over time during the whole term of the agreement giving rise to a certain fee (i.e. during the term of operation of a hotel, which usually equals 10 years). The fee is connected with other franchise fees and is not separate from the other services, hence the revenue from such fees should be recognised gradually, over the period when the obligations under these agreements are performed. Other accounting principles that regulate the recognition of sales revenues remained unchanged.

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

IFRS 15 introduced a new category of liabilities in the statement of financial position, namely liabilities arising from contracts. Liabilities arising from contracts reflect Company's obligation to deliver goods or services for which the customer has already paid or when the payment from a customer is due. Liabilities under the contract include the above-mentioned fees for affiliation with the hotel network (i.e. the Entrance Fee), which, under IAS 18, were recognised in revenue on a one-off basis, while under IFRS 15, they are recognized over the term of the related franchise agreement (i.e. during the term of operation of the hotel). Moreover, liabilities arising from contracts also include advances and prepayments for a provision of service to a customer in the future (previously recognised as deferred income).

The Company chose the approach of retrospective application of IFRS 15 "Revenues from Contracts with Customers" with the aggregate effect of the new standard's first application recognised on the date of its first application, i.e. on January 1, 2018 (in accordance with paragraph C3 (b) of the above-mentioned standard). The total impact of the first application of the new standard was recognized as an adjustment to the initial balance of retained earnings, i.e. as an adjustment of retained earnings as at January 1, 2018. The Company did not deploy fully retrospective application of IFRS 15 (and did not restate comparative data).

The Company used full historical data in order to determine the influence of IFRS 15 on the opening balance of Orbis financial statements for 2018. The tables below present the impact of applying the new accounting principles resulting from the implementation of IFRS 15 and IFRS 9 on the restatement of individual items of the statement of financial position as at January 1, 2018. Furthermore, to ensure comparability of data for particular periods, the subsequent tables present the impact of the IFRS 15 application on the results of the Orbis company for 12 months of 2018 and on the items of the statement of financial position as at December 31, 2018.

Data restatement as at the date of the first application of IFRS 15 and IFRS 9, i.e. January 1, 2018

	January 1, 2018 (no IFRS 15 impact)	IFRS 15 impact	IFRS 9 impact	January 1, 2018 (restated)
Non-current assets	**2 517 115**	**273**	**(558)**	**2 516 830**
Derivative financial instruments	885	-	(885)	0
Deferred tax assets	6 637	273	327	7 237
Current assets	**195 240**	**-**	**(837)**	**194 403**
Derivative financial instruments	837	-	(837)	0
Assets classified as held for sale	**23 514**	**-**	**-**	**23 514**
TOTAL ASSETS	**2 735 869**	**273**	**(1 395)**	**2 734 747**
Equity	**2 056 754**	**(1 163)**	**(1 395)**	**2 054 196**
Retained earnings	1 405 728	(1 163)	(1 395)	1 403 170
Non-current liabilities	**538 551**	**1 436**	**-**	**539 987**
Liabilities arising from contracts	-	1 436	-	1 436
Current liabilities	**140 564**	**-**	**-**	**140 564**
Liabilities arising from contracts	-	13 951	-	13 951
Deferred revenue	14 142	(13 951)	-	191
TOTAL EQUITY AND LIABILITIES	**2 735 869**	**273**	**(1 395)**	**2 734 747**

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

The impact of IFRS 15 application on the financial statements for 12 months of 2018

	2018 (no IFRS 15 impact)	IFRS 15 impact	2018 (as reported)
Net sales	900 695	(550)	900 145
EBITDAR	**292 990**	**(550)**	**292 440**
Operating EBITDA	**285 394**	**(550)**	**284 844**
Operating profit without the effects of one-off events	**158 258**	**(550)**	**157 708**
Operating profit	**157 376**	**(550)**	**156 826**
Profit before tax	**175 715**	**(550)**	**175 165**
Income tax expense	(33 368)	104	(33 264)
Net profit for the period	**142 347**	**(446)**	**141 901**
Total comprehensive income/(loss) for the period	**141 436**	**(446)**	**140 990**

	December 31, 2018 (no IFRS 15 impact)	IFRS 15 impact	December 31, 2018 (as reported)
Non-current assets	**2 271 226**	**377**	**2 271 603**
Deferred tax assets	5 603	377	5 980
Current assets	**567 489**	**-**	**567 489**
Assets classified as held for sale	**8 690**	**-**	**8 690**
TOTAL ASSETS	**2 847 405**	**377**	**2 847 782**
Equity	**2 123 072**	**(1 609)**	**2 121 463**
Retained earnings	1 471 985	(1 609)	1 470 376
Non-current liabilities	**541 156**	**1 854**	**543 010**
Liabilities arising from contracts	0	1 854	1 854
Current liabilities	**183 177**	**132**	**183 309**
Liabilities arising from contracts	0	16 822	16 822
Deferred revenue	17 606	(16 690)	916
TOTAL EQUITY AND LIABILITIES	**2 847 405**	**377**	**2 847 782**

IFRS 9 "Financial Instruments"

According to the new standard, financial assets are classified into three categories only: financial assets measured at amortised cost, financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI) or financial assets measured at Fair Value Through Profit or Loss (FVTP&L). The classification of financial assets depends on the business model of financial assets management and the characteristics of the contractual cash flows of the financial asset. Classification of financial assets is made at the inception and may be changed only if the business model of managing the financial assets has changed.

The accounting principles (policy) in respect of classification and measurement of financial assets is described in Note 2.4.12.

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

The tables below present changes in the classification of financial assets at date of the first application of IFRS 9. Application of the new standard, in place of IAS 39, did not affect the approach to financial assets valuation. The amortised cost method remains to be the measurement approach.

	Classification according to:		As at January 1, 2018 according to:	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables (amortised cost)	Amortised cost	76 973	76 973
Loans granted	Loans and receivables (amortised cost)	Amortised cost	398 366	398 366
Derivative embedded in loans granted	Financial assets at Fair Value Through Profit or Loss	Not subject to separation and separate valuation	1 722	0
Other financial assets	Loans and receivables (amortised cost)	Amortised cost	6 944	6 944
Trade receivables and other current receivables	Loans and receivables (amortised cost)	Amortised cost	37 420	37 420

IFRS 9 did not change the classification of financial liabilities.

IFRS 9 also implements changes in the loss impairment model by replacing the incurred loss model with the expected loss model. At the time of adoption of IFRS 9, the Company analysed the history of impairment losses recognised in respect of receivables and concluded that applying the standard was not justifiable in the Company due to the insignificant amounts of allowances determined using the expected credit loss model, as required by IFRS 9. Consequently, the existing individual approach to impairment of receivables based on the information collected and credit risks estimations is still applied. A detailed description of the methodology of calculating impairment loss on financial assets is presented in Note 2.4.15.2.

IFRS 9 also changed the way derivative instruments embedded in a hybrid contract are recognized. In accordance with IAS 39, a derivative instrument embedded in other financial instruments or contracts that themselves are not financial instruments were treated as non-embedded derivative instruments (if the requirements specified in the standard have been met). However, according to IFRS 9, if a host contract of a hybrid instrument (with an embedded derivative) is a financial asset (falling under the scope of IFRS 9), then the classification and measurement requirements dependant on the business model and contractual cash flows are applied to such a contract. The derivative instrument embedded in a hybrid instrument is not separable.

In the field of hedge accounting, the Company decided to continue using the methods of classification and measurement according to IAS 39 “Financial Instruments: Recognition and Measurement”, as permitted by paragraph 7.2.21 of IFRS 9.

When implementing IFRS 9 “Financial Instruments”, the Company chose the option provided for in paragraph 7.2.15 of the standard, i.e. it did not restate the figures for preceding periods. In the retained earnings the Company included, as at January 1, 2018, the adjustment for recognition of a floor derivative embedded in loans granted to subsidiaries and deferred tax. Unlike IAS 39, according to IFRS 9, a derivative is not accounted for separately. The amounts of asset impairment losses calculated as at January 1, 2018 applying the expected credit loss model introduced by IFRS 9 did not materially differ from the amounts of impairment already recognised in the financial statements as at December 31, 2017, hence a decision was made not to adjust the opening balance of the Company’s retained earnings with the difference.

Moreover, IFRS 9 also changed a provision of IAS 1 (para. 82 ba), i.e. the requirement since January 1, 2018 has been to present impairment loss as a separate item of the statement of comprehensive income. Before, impairment was included in other costs by nature. The Company also restated appropriately the comparable figures for 2017. These change affect solely the presentation, not the various levels of result. The change in presentation did not affect the statement of financial position.

2.7.2 Standards due to enter into force in 2019

IFRS 16 "Leasing"

Adoption of the new standard on leases will have a significant influence on the Company's financial statements when the standard is first applied, i.e. in the period starting on January 1, 2019.

IFRS 16 introduces significant changes in the lessee's settlements, including elimination of the differentiation between financial leases (recognised in the statement of financial position) and operating leases (an off-balance sheet item), as required until now by IAS 17. Instead, it introduces a single model of lease recognition, consistent with the nature of financial leases. The new standard defines lease as a contract or part of a contract that conveys a right to control the use of an asset for a period of time in exchange for consideration.

If the contract qualifies as a lease, then the lessee recognises the right to use an asset and the liability arising from the lease in the statement of financial position.

The right to use an assets is initially recognised in the amount equal to the lease liability plus the unrecognised lease payments made prior to the commencement of the contract term and initial direct costs of the lessee connected with the given contract, less any lease incentives received and the estimated costs to be borne by the lessee at the end of the contract. The right to use an asset is depreciated using the straight-line method (considering the estimated residual value of a given asset) and tested for impairment, just like the acquired non-current assets. The right to use assets is also remeasured as at subsequent reporting days to reflect changes in lease liabilities, as specified in the standard.

The lease liability is initially measured at the present value of future lease payments over the lease term, discounted at the interest rate implicit in the lease contract (where it is impossible to determine this rate, the lessee's marginal borrowing rate should be determined). The lease payments to be recognised in the measurement of the lease liability on the date of initial recognition of the lease include: fixed payments and essentially fixed payments (i.e. ones that depend only on an index or a rate), guaranteed residual value, price of the option to purchase and penalties for lease cancellation (if the lease provides for the option to purchase or a penalty for cancellation and if exercising the option to purchase or contract cancellation is reasonably certain). The measurement of lease liability does not include variable lease payments. In subsequent reporting periods, the liability is measured similarly to financial liabilities using the effective interest rate; discount is remeasured only in special cases specified in IFRS 16.

The Company chose the method of retrospective application of IFRS 16 with the aggregate effect of the first application of the new standard recognised as an adjustment to the opening balance of the Company's retained earnings on the day of first application, i.e. January 1, 2019.

The Company selected the practical solution permitted in paragraph C3 (a) of IFRS 16, i.e. it did not reclassify the contracts classified as leases in accordance with IAS 17. Contracts which, by the day of implementation of the new standard, were classified as operating leases as per IAS 17, are recognised as of January 1, 2019 as lease liabilities measured at the present value of lease payments outstanding as of that day, using the lessee's incremental borrowing rate valid as at the first day of application of the standard. On the other hand, right-of-use assets arising under contracts classified as operating leases are measured by the Company as at the day of first application of the new standard at the amount of lease liability on that day plus the amounts of prepayments made, but not accounted for before January 1, 2019, less the accrued lease payments recognised in the statement of financial position as at December 31, 2018.

The Company distinguished the following types of material contracts, which have so far been recognised as operating leases (off-balance sheet): hotel lease agreements, office space lease agreements and motorcar lease agreements. As at December 31, 2018, the Company was a party to an operating lease agreement concerning the Sofitel hotel in Wrocław, lease of the office in Warsaw and lease agreements concerning 81 motorcars. Disclosures currently required by IAS 17, including information about the future minimum lease payments under those agreements, are presented in Note 28.

The Company decided to apply the simplified solution provided for in paragraph 5 of IFRS 16, i.e. not to recognise lease liabilities and right-of-use assets arising under short-term leases and leases of low-value assets. Payments under such leases will continue to be recognised in outsourced services item of expenses.

The Company also analysed the remaining existing contracts to see whether they qualifies as leases as per IFRS 16.

Despite certain doubts relating to the particular nature of titles to perpetual usufruct of land (described in Note 2.3), relying on the literal wording of paragraph 9 of IFRS 16, the Company decided to treat titles to perpetual usufruct of land as leases starting from January 1, 2019. One of the major reasons that induced the Management Board of Orbis to take such a decision was the fact that, in accordance with the model introduced by IFRS 16, titles to perpetual usufruct of land will be recognised on the balance sheet, which is consistent with the approach the Company has adopted so far.

As at the day of implementation of IFRS 16, the Company made certain estimates and assumptions which significantly affect the value of lease liabilities and right-of-use assets as at that day. The major ones include:

- discount rates used for measurement of lease liabilities; and
- lease terms, taking into account the option of renewal of lease agreements or their earlier cancellation (termination).

The estimates that will affect the value of right-of-use assets recognised in subsequent periods include also depreciation rates and residual values adopted for individual assets.

For the purposes of measuring the lease liability we applied discount using the lessee's incremental borrowing rate as at January 1, 2019, which rate reflects the anticipated cost of financing the object of lease. The Company analysed various methodologies that could be applied to determining the lessee's incremental borrowing rate.

Finally, discount rate was determined for each contract individually (except for titles to perpetual usufruct of land and leases of motorcars). While determining discount rates, the Company considered the specific parameters of each lease: the contract term, the currency, etc. The discount rate takes into account the risk-free rate determined individually for each contract, depending on the aforementioned parameters and the current margin the Company would pay if it borrowed funds from a financial institution to finance the purchase of the object of lease. In the case of EUR-denominated lease of the Sofitel Wrocław Old Town hotel, the adopted discount rate is 1.52%.

In case of titles to perpetual usufruct of land as well as leases of motorcars, the practical solution permitted by the standard was adopted: a single discount rate was used in respect of a portfolio of leases with fairly similar features. For titles to perpetual usufruct of land whose original useful life ends, in most of the cases, in 2089, an interest rate of 5.03% was adopted. This rate reflects the risk-free rate plus the current margin that the Company would pay in case it took out debt. Meanwhile, for motorcars leased by the Company, the usual lease term being 3 years, discount rate of 3.11% was adopted (i.e. ones corresponding to the risk-free rate plus Orbis S.A. margin).

It should be noted that the value of assets/liabilities under leases as at the date of first application of IFRS 16 is affected by both the discount rate applicable on that date as well as the current foreign exchange rates. The value of lease liabilities as at subsequent reporting dates will take into account changes in foreign exchange rates on those days, which will be reflected in the income statement in finance costs/income.

The Company decided to apply the practical solutions permitted by paragraph C10 of IFRS 16, i.e. excluded the initial direct costs from the measurement of right-of-use assets on the day of first application.

In case of leased motorcars, considering the fact that a lease instalment comprises both the lease-related element and other elements, such as warranty service, insurance and other services, the Company recognises the aforementioned non-lease elements separately, i.e. in costs of outsourced services (as they were presented previously). Both lease-related and other elements are stated separately in lease contracts and invoices.

Presented below is the estimated influence of applying IFRS 16 on the statement of financial position as at January 1, 2019. As for presentation of leases in the statement of financial position, right-of-use assets will be presented in the same line items in which the corresponding assets would be presented if they were owned by the Company, i.e. in property, plant and equipment or investment property. Lease liabilities will be presented on the statement of financial position separately from other liabilities. Additionally, titles to perpetual usufruct of land, due to the possibility of being transferred to third parties (which is a particularity that distinguishes them from other lease contracts), if the conditions specified in IFRS 5 are met, will be presented in assets classified as held for sale. Lease liabilities concerning these rights will be recognised in liabilities concerning assets classified as held for sale.

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

	January 1, 2019 (no IFRS 16 impact)	adjustment due to recognition of titles to perpetual usufruct of land		adjustment due to recognition of lease of hotel	adjustment due to recognition of leases of motorcars	January 1, 2019 (restated)
		a)	b)			
Non-current assets	**2 271 603**	**(192 762)**	**240 167**	**20 684**	**667**	**2 340 359**
Property, plant and equipment	1 660 408	(238 056)	230 588	20 684	667	1 674 291
of which Right-of-use assets	-	-	*230 588*	*20 684*	*667*	*251 939*
Investment property	4 483	(1 505)	9 579	-	-	12 557
of which Right-of-use assets	-	-	*9 579*	-	-	*9 579*
Deferred tax assets	5 980	46 799	-	-	-	52 779
Current assets	**567 489**	**-**	**-**	**-**	**-**	**567 489**
Assets classified as held for sale	**8 690**	**(6 752)**	**5 455**	**-**	**-**	**7 393**
of which Right-of-use assets	-	-	*5 455*	-	-	*5 455*
TOTAL ASSETS	**2 847 782**	**(199 514)**	**245 622**	**20 684**	**667**	**2 915 241**
Equity	**2 121 463**	**(199 514)**	**-**	**-**	**-**	**1 921 949**
Retained earnings	1 470 376	(199 514)	-	-	-	1 270 862
Non-current liabilities	**543 010**	**-**	**239 710**	**13 262**	**233**	**796 215**
Lease liabilities	-	-	239 710	13 262	233	253 205
Current liabilities	**183 309**	**-**	**457**	**7 422**	**434**	**191 622**
Lease liabilities	-	-	457	7 422	434	8 313
Liabilities associated with assets classified as held for sale	**-**	**-**	**5 455**	**-**	**-**	**5 455**
TOTAL EQUITY AND LIABILITIES	**2 847 782**	**(199 514)**	**245 622**	**20 684**	**667**	**2 915 241**

a) elimination from the statement of financial position of titles to perpetual usufruct of land, which were so far recognised in accordance with IAS 16 "Property, plant and equipment" (more information about the earlier recognition of titles to perpetual usufruct of land is presented in Note 2.3).

b) recognition in accordance with IFRS 16 “Leases”.

The aggregate impact of the first-time application of the new IFRS 16 on the Company’s total assets is PLN 67 459 thousand. The difference between the value of the future minimum operating lease payments stated in Note 28 of these statements (PLN 32 158 thousand) and lease liabilities recognised in the statement of financial position as of the day of the first application (PLN 266 973 thousand) results from:

- recognition of titles to perpetual usufruct of land, which the Company did not treat as operating leases under IAS 17,
- failure to recognise as at January 1, 2019, assets and liabilities resulting from lease of an office in Warsaw, because it will be consigned for use only in the first half of 2019,
- discount applied in the measurement of other lease liabilities.

The application of the new standard will also have material influence on the statement of comprehensive income and the statement of cash flows. 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. On the other hand, titles to perpetual usufruct of land that were so far recognised in the Company's assets and depreciated, while the related fees (in nominal values) were included in expenses in the income statement as Taxes and charges will - after the implementation of the new standard, IFRS 16 (that is, recognition of the related assets and liabilities) - recognised as interest costs and depreciation costs (when the residual value of titles to perpetual usufruct of land is lower than the present value of future cash flows from the use of a given asset).

In the statement of cash flows, lease payments concerning agreements previously classified as operating leases as well as titles to perpetual usufruct of land classified as leases as per IFRS 16 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, just as cash payments in respect of interest on this liability.

2.8 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 2.4.15.1.

(c) *Impairment of goodwill*
The goodwill impairment test is performed once a year or 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) *Impairment of receivables*
As at each day of the reporting period, the Company assesses whether there exists any objective evidence of receivables impairment. Should such circumstances arise, the Company launches the procedure of determining the value of receivables impairment according to the principles described in the Note 2.4.15.2.

(e) *Provision for employee benefits*
Provisions for jubilee awards as well as retirement and disability benefits are measured using actuarial methods. The change 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.

(f) *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 2018 AFFECTING THE COMPANY'S FINANCIAL INFORMATION

The most important events of 2018 which affected the financial information of Orbis S.A. include:

Finalisation of the Mercure Cieszyn and the ibis Styles Bielsko-Biała hotels sale transaction

On July 31, 2018, Orbis S.A. executed the preliminary conditional sale agreement of February 8, 2018, and sold organised parts of the enterprise in the form of the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biała hotel for a total net price of PLN 8 100 thousand.

Both the hotels continue operations under their brands on the basis of long-term franchise agreements.

Transaction of real property purchase in Cracow and execution of a preliminary purchase agreement of adjacent real estate for construction of a new hotel

On February 20, 2018, Orbis S.A. purchased real property (plot of land) of a total area of 771 square meters, located in Cracow, at 8, Worcella Street, for a net price of PLN 13.0 million.

On the other hand, on September 28, 2018, Orbis S.A. executed a preliminary purchase agreement based on which Orbis intends to purchase a real property (plot of land) with a total area of 595 square meters, located in Krakow at 6, Worcella Street for a net price of PLN 9.2 million. The final sale and purchase agreement of the real property will be executed by September 30, 2020 at the latest, subject to fulfilment of conditions laid down in the agreement. In order to secure the transaction, after fulfilment of each particular condition, Orbis shall gradually pay an earnest money *(zadatek)* to the seller, the total sum of which will be equal to 30% of the sale price.

Both properties were purchased in order to implement an investment project (hotel construction). At the moment Orbis continues conducting the study of the technical and operational details of the investment, which will determine the choice of the best brand under which the hotel will operate. The purchase of the adjacent real property (given that Orbis already holds the title to the real property at 8, Worcella Street), will allow expanding the size of the property (the hotel) and greater flexibility in the selection of the brand.

Execution of a general contracting agreement for construction of ibis Styles hotel located in Szczecin

On December 18, 2018, Orbis S.A. and Mota-Engil Central Europe S.A. with its registered office in Kraków (the "General Contractor") executed a General Contractor Agreement for the construction of an ibis Styles hotel (161 rooms) located at 10, Panieńska Street in Szczecin. The parties agreed that the General Contractor's net fee will total PLN 41.5 million. Construction works should be completed by the General Contractor in Q3 2020.

Execution of Wrocław real property sale agreement

On December 20, 2018, Orbis S.A. and a developer company (the "Buyer") executed a conditional sale agreement of non-hotel real property located in Wrocław with a total area of 7 919 square meters. No hotel business is conducted on the property. The parties agreed that the net sale price of the real property was to be PLN 44 000 thousand. The sale agreement was conditional due to the pre-emptive rights vested in the lessee of the real property. The ownership title to the property passed upon the Buyer upon payment of the sale price on February 1, 2019.

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 within which 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, 2018, the individual operating segments included:
- the Up&Midscale segment: 3 Sofitel hotels, 13 Novotel hotels and 8 Mercure hotels,
- the Economy segment: 13 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel.

As at December 31, 2017, the individual operating segments included:
- the Up&Midscale segment: 3 Sofitel hotels, 13 Novotel hotels and 9 Mercure hotels,
- the Economy segment: 12 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 figures presented include the results of owned and leased hotels.

Unallocated operations comprise revenues and expenses of the Head Office (franchise and management revenue, 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.

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

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

Operating segment revenues and results in 2018 and 2017 are as follows:

Figures for 2018	Operating segments		Unallocated operations and exclusions	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**690 708**	**185 126**	**24 311**	**900 145**
Sale to external clients	690 708	185 126	24 311	900 145
EBITDAR	**282 686**	**89 066**	**(79 312)**	**292 440**
Operating EBITDA	**275 090**	**89 066**	**(79 312)**	**284 844**
Depreciation and amortisation	(94 826)	(28 897)	(3 413)	(127 136)
Operating profit/(loss) without the effects of one-off events	**180 264**	**60 169**	**(82 725)**	**157 708**
Result of one-off events	0	0	(882)	(882)
Operating profit/(loss) (EBIT)	**180 264**	**60 169**	**(83 607)**	**156 826**
Finance income/(costs)	(2 410)	(353)	21 102	18 339
Income tax expense	0	0	(33 264)	(33 264)
Net profit/(loss)	**177 854**	**59 816**	**(95 769)**	**141 901**

Figures for 2017	Operating segments		Unallocated operations and exclusions	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**680 572**	**188 298**	**19 405**	**888 275**
Sale to external clients	680 572	188 298	19 405	888 275
EBITDAR	**273 969**	**90 945**	**(77 598)**	**287 316**
Operating EBITDA	**266 280**	**90 885**	**(77 598)**	**279 567**
Depreciation and amortisation	(91 595)	(29 774)	(3 795)	(125 164)
Operating profit/(loss) without the effects of one-off events	**174 685**	**61 111**	**(81 393)**	**154 403**
Result of one-off events	0	0	16 925	16 925
Operating profit/(loss) (EBIT)	**174 685**	**61 111**	**(64 468)**	**171 328**
Finance income/(costs)	(1 598)	(368)	(13 080)	(15 046)
Income tax expense	0	0	(29 679)	(29 679)
Net profit/(loss)	**173 087**	**60 743**	**(107 227)**	**126 603**

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

The table below present other financial figures of operating segments in 2018 and 2017:

Figures for 2018	Operating segments		Unallocated operations	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 215 674	531 229	524 700	2 271 603
- goodwill	37 803	69 449	0	107 252
- investments in subsidiaries	0	0	467 529	467 529
- financial assets	0	0	22 815	22 815
- deferred tax assets	0	0	5 980	5 980
Current assets, of which:	21 071	4 106	542 312	567 489
- cash and cash equivalents	0	0	359 170	359 170
Assets classified as held for sale	8 690	0	0	8 690
Investment expenditure	134 282	55 672	4 669	194 623

Figures for 2017	Operating segments		Unallocated operations	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 186 046	496 816	834 253	2 517 115
- goodwill	37 803	69 449	0	107 252
- investments in subsidiaries	0	0	467 529	467 529
- financial assets	0	0	337 329	337 329
- deferred tax assets	0	0	6 637	6 637
Current assets, of which:	23 819	3 986	167 435	195 240
- cash and cash equivalents	0	0	76 973	76 973
Assets classified as held for sale	2 131	16 759	4 624	23 514
Investment expenditure	63 262	28 340	1 952	93 554

In 2018 and 2017, Orbis S.A. 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. and revenue from major operating segments per type of service is presented in Note 4.1.

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

4.1 OPERATING SEGMENT REVENUE PER TYPE OF SERVICE

The tables below present the revenues of Orbis S.A. for the year 2018 and 2017 per type of services with their reconciliation to the operating segments presented in Note 4.

Figures for 2018	Operating segments		Unallocated operations and exclusions	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Revenue per type of service:	**690 708**	**185 126**	**24 311**	**900 145**
Room revenue	467 573	144 380	0	611 953
Food & beverage revenue	196 989	34 157	0	231 146
Franchise and management revenue	0	0	14 674	14 674
Other revenue	26 146	6 589	9 637	42 372

Figures for 2017	Operating segments		Unallocated operations and exclusions	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Revenue per type of service:	**680 572**	**188 298**	**19 405**	**888 275**
Room revenue	459 444	147 263	0	606 707
Food & beverage revenue	195 344	34 105	0	229 449
Franchise and management revenue	0	0	11 154	11 154
Other revenue	25 784	6 930	8 251	40 965

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

5. INCOME AND EXPENSE

5.1 NET SALES

NET SALES	2018	2017
Room revenue	611 953	606 707
Food & beverage revenue	231 146	229 449
Franchise and management revenue	14 674	11 154
Other revenue	42 372	40 965
including revenue from rental of real properties	*14 714*	*14 634*
Total net sales	**900 145**	**888 275**
of which: revenue from related parties	*4 561*	*3 634*

The information concerning the Company's revenue per type of services with their reconciliation to the operating segments is presented in Note 4.1.

5.2 EXPENSES BY NATURE

EXPENSES BY NATURE	2018	2017
Depreciation and amortisation	(127 136)	(125 164)
Rental expense	(7 596)	(7 749)
Outsourced services	(199 313)	(196 658)
Employee benefit expense	(238 968)	(229 075)
Raw materials and energy used	(131 037)	(137 394)
Taxes and charges	(29 484)	(30 574)
Other expenses by nature, of which:	(6 971)	(6 878)
business trips	(3 172)	(2 906)
insurance premiums	(1 694)	(1 911)
royalties	(1 424)	(1 441)
other	(681)	(620)
Impairment of receivables	(919)	(299)
Total expenses by nature	**(741 424)**	**(733 791)**

5.3 EMPLOYEE BENEFIT EXPENSE

EMPLOYEE BENEFIT EXPENSE	2018	2017
Wages and salaries	(192 528)	(183 820)
Provision for unused and overdue holidays	442	(966)
Provision for wages and salaries as well as related expenses	2 050	1 214
Provision for jubilee and retirement benefits	(950)	839
Employee benefits	(47 982)	(46 342)
Total employee benefit expense	**(238 968)**	**(229 075)**

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, NET	2018	2017
Gain on disposal of non-financial non-current assets	76	17
Costs refund	243	165
Compensation received	378	879
Reversal of provision for costs of fees for perpetual usufruct of land	0	774
Other	335	791
Total other operating income	**1 032**	**2 626**
Exchange rate differences underpayment	(847)	(988)
Indemnities, fines and penalties paid	(159)	(183)
Losses arising from fortuitous events	(168)	(53)
Costs of hotel closing and assets liquidation	(192)	(607)
Other	(679)	(876)
Total other operating expenses	**(2 045)**	**(2 707)**
Other operating income/(expenses), net	**(1 013)**	**(81)**

5.5 RESULT ON SALE OF REAL PROPERTY

RESULT ON SALE OF REAL PROPERTY	2018	2017
Net proceeds from disposal of real properties	12 622	54 608
Net value of real properties disposed of	(10 454)	(42 591)
Additional costs related to disposal	(116)	(283)
Total result on sale of real property	**2 052**	**11 734**

Orbis S.A. achieved the following results on sale of real properties in 2018:

- proceeds from sale of **non-hotel property** including the right to perpetual usufruct of land and buildings located in **Karpacz**, at Konstytucji 3 Maja Street totalled PLN 2 000 thousand, and the profit on this transaction (incl. additional costs) totalled PLN 882 thousand;
- Sale of an organised part of the enterprise of the **Mercure Cieszyn** hotel and the **ibis Styles Bielsko Biała** hotel generated a net sum of PLN 8 100 thousand, and the profit on this transaction (incl. additional cost) totalled PLN -183 thousand;
- Revenue from transfer of the real property located i**n Gdynia**, at Armii Krajowej Street, to the municipality of Gdynia totalled PLN 1 053 thousand;
- Sale of **non-hotel real property** located **in Warsaw, at 1 Sierpnia Street** and in a garage **in Katowice** generated an additional profit of a total value of PLN 272 thousand for the Company in 2018.

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

5.6 REVALUATION OF NON-CURRENT ASSETS

REVALUATION OF NON-CURRENT ASSETS	2018	2017
Recognised impairment loss on tangible assets	0	(1 416)
Recognised impairment loss on assets under construction	(1 521)	0
Recognised impairment loss on investment property	(252)	0
Recognised impairment loss on assets held for sale	0	(1 084)
Reversed impairment loss on tangible assets	0	4 690
Reversed impairment loss on assets held for sale	0	4 550
Reversed impairment loss on investments in subsidiaries	0	1 608
Total revaluation of non-current assets	**(1 773)**	**8 348**

Information on impairment losses is provided in Notes 9, 10, 12 and 19.

5.7 RESTRUCTURING COSTS

RESTRUCTURING COSTS	2018	2017
Costs of employment restructuring	(1 636)	(2 520)
(Recognised)/released provisions for employment restructuring	1 038	(637)
Total restructuring costs	**(598)**	**(3 157)**

5.8 RESULT OF OTHER ONE-OFF EVENTS

RESULTS OF OTHER ONE-OFF EVENTS	2018	2017
Advisory and consultancy costs	(563)	0
Total results of other one-off events	**(563)**	**0**

In 2018 the Company incurred advisory and consultancy costs of PLN 563 thousand in connection with the tender offer for the sale of the Company’s shares, announced by Accor S.A. on November 26, 2018.

5.9 FINANCE INCOME

FINANCE INCOME	2018	2017
Dividends and share of profits *	12 360	13 412
Interest on deposits	1 689	1 680
Foreign exchange gains **	12 607	0
Interest income on loans and receivables	7 380	9 574
Measurement of derivative instrument	0	1 722
Total finance income	**34 036**	**26 388**

** In 2018, the Company recognised income from dividends from its subsidiary Orbis Kontrakty Sp. z o.o. in the amount of PLN 12 360 thousand and in 2017 in the amount of PLN 13 412 thousand.*

*** Exchange rate gains in the amount of PLN 15 789 thousand in 2018 result from the measurement, as at the date of the statement of financial position, of loans granted in foreign currencies (EUR and RON) to foreign subsidiaries. In 2017, the Company recognized exchange rate losses of PLN 20 486 thousand from this measurement.*

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

5.10 FINANCE COSTS

FINANCE COSTS	2018	2017
Interest and debt service costs accrued on credit facilities	0	(3 982)
Interest and debt service costs accrued on bonds	(14 423)	(14 596)
Interest expense arising from provisions for employee benefits	(713)	(725)
Actuarial gains/(losses) arising from valuation of provisions for jubilee awards	(467)	(292)
Forex exchange losses **	0	(21 610)
Other	(94)	(229)
Total finance costs	**(15 697)**	**(41 434)**

In presented financial figures for 2018 and in comparable figures for 2017, the Company recognised all borrowing costs in the profit or loss during the period in which the costs were incurred. In 2018 and 2017, there were no borrowing costs that would be eligible for capitalisation.

In 2018, Orbis paid PLN 14 015 thousand as interest on issued bonds as well as PLN 75 thousand as interest payments under the IRS transaction (please refer to Note 31.4).

6. CURRENT AND DEFERRED TAX

Major components of tax charge are as follows:

	2018	2017
Current tax	**(31 806)**	**(33 712)**
- current tax charge	(32 170)	(35 382)
- adjustments of current tax from previous years	364	1 670
Deferred tax	**(1 458)**	**4 033**
- related to recognised and reversed temporary differences	(1 458)	4 033
Tax charge in the income statement	**(33 264)**	**(29 679)**

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

	2018	2017
Profit before tax	**175 165**	**156 282**
Tax calculated at the statutory rate of 19%	(33 281)	(29 694)
Adjustments of current income tax from past years	131	0
Tax effect of non-taxable revenue and non-deductible expenses	(2 404)	(2 533)
Tax effect of dividends received	2 348	2 548
Other	(58)	0
Tax charge at the effective tax rate	**(33 264)**	**(29 679)**

As a result of amendments to the Corporate Income Tax Act, beginning from 2018, the corporate income tax (CIT) is charged on the sum of revenues earned from two sources: capital gains and other operations. It is not admissible to offset losses incurred from one source against income obtained from other sources of revenues. In 2018, the Company incurred a loss from one source (capital gains) and income from the other source (operating revenues).

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

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

INCOME TAX RECEIVABLE/LIABILITIES	as at December 31, 2018	as at December 31, 2017
Income tax receivables	0	506
Income tax payables	(11 455)	0
Income tax receivables (payables) total	**(11 455)**	**506**

In 2018, the Company chose the simplified form of corporate income tax payments. The amount of the monthly payment was set at the amount of the tax due, as disclosed in the 2016 tax return, in proportion per each month of the tax year.

The deferred tax results from the following temporary differences:

DEFERRED TAX	as at December 31, 2018	as at December 31, 2017
Deferred tax assets, of which:	**19 472**	**21 628**
Posted to profit or loss	18 910	21 267
- provision for wages and salaries, bonuses as well as for unused holidays	5 645	6 367
- provision for retirement benefits and similar obligations	4 054	3 796
- other provisions and accrued expenses	5 985	6 470
- utilised tax losses	1 043	0
- loan granted	669	3 660
- revaluation of receivables	543	439
- revaluation of interests in related parties	11	9
- valuation of liabilities arising from bonds issued at amortised cost	485	491
- fees for affiliation with the Accor network	377	0
- other	98	35
Posted to equity	562	361
- valuation of derivative instruments to hedge future cash flows	0	14
- actuarial gains/losses arising from the defined benefit plan	562	347
Deferred tax liabilities, of which:	**13 492**	**14 991**
Posted to profit or loss	13 401	14 900
- difference between tax value and book value of non-financial non-current assets	13 150	14 232
- non-invoiced revenue	23	116
- foreign exchange differences	214	214
- measurement of derivative instrument	0	327
- other	14	11
Posted to equity	91	91
- long term investments	91	91
Net deferred tax assets/(liabilities)	**5 980**	**6 637**

As at December 31, 2018 and December 31, 2017 deferred tax is presented according to the net balance, under deferred tax assets items.

(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:

	2018	2017
Net profit for the period	141 901	126 603
Weighted average number of ordinary shares issued (in thous.)	46 077	46 077
Earnings per share (in PLN)	**3.08**	**2.75**

8. DIVIDEND PAID OR PROPOSED TO BE PAID

By virtue of resolution of the General Meeting of Shareholders dated June 12, 2018, the net profit generated by Orbis S.A. in the year 2017, was allocated for payment of dividend totalling PLN 73 723 thousand, i.e. PLN 1.60 per share. The dividend was paid on August 3, 2018. A decision was made to keep the remaining portion of profit, i.e. PLN 52 880 thousand, in the Company as retained earnings.

No decision concerning distribution of the net profit for 2018 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, 2018	as at December 31, 2017
Tangible assets	1 572 031	1 543 561
Assets under construction	88 377	44 159
Total	**1 660 408**	**1 587 720**

The table below presents property, plant and equipment (tangible assets) as at **December 31, 2018:**

	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, 2018						
Opening gross book amount	**109 543**	**296 677**	**2 409 586**	**620 092**	**344**	**3 436 242**
Accumulated depreciation and impairment	(11 283)	(50 841)	(1 436 917)	(393 305)	(335)	(1 892 681)
Opening net book amount	**98 260**	**245 836**	**972 669**	**226 787**	**9**	**1 543 561**
Additions	**13 007**	**2 577**	**93 540**	**59 585**	**0**	**168 709**
purchase	13 007	0	64 996	48 487	0	126 490
transfer from investments in progress	0	0	23 228	2 999	0	26 227
transfer from assets held for sales	0	2 577	5 316	2 033	0	9 926
other	0	0	0	6 066	0	6 066
Disposals	**0**	**(6 752)**	**(8 034)**	**(446)**	**0**	**(15 232)**
sale	0	0	0	(44)	0	(44)
liquidation	0	0	(36)	(90)	0	(126)
other	0	0	(6 066)	0	0	(6 066)
transfer to assets held for sale	0	(6 752)	(1 932)	(312)	0	(8 996)
Depreciation charge for the period	(785)	(3 605)	(77 962)	(42 653)	(2)	(125 007)
Closing net book amount	**110 482**	**238 056**	**980 213**	**243 273**	**7**	**1 572 031**
As at December 31, 2018						
Closing gross book amount	**122 550**	**291 664**	**2 490 392**	**667 039**	**109**	**3 571 754**
Accumulated depreciation and impairment	(12 068)	(53 608)	(1 510 179)	(423 766)	(102)	(1 999 723)
Closing net book amount	**110 482**	**238 056**	**980 213**	**243 273**	**7**	**1 572 031**

Additions due to purchase of PP&E in 2018 were described in detail in section 3.8 of the Directors' Report on the Operations of the Orbis Group and Orbis S.A. for 2018.

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

Transfer from investments reported in 2018 include primarily expenditures related to the division of the Novotel Poznań Centrum hotel and its partial rebranding into ibis. Completion of the investment project, which has been in progress since 2016, and the opening of floors of the ibis Poznań Centrum hotel took place in the last quarter of 2018. Other transfers from investments concerned, among others, the ibis Styles Warszawa Centrum hotel, as well as recognition as non-current assets of capital expenditures incurred in recent years for modernization and upgrading of, among others, the following hotels: Novotel Kraków City West, Sofitel Victoria in Warsaw, Novotel Warszawa Airport and Mercure Gdańsk Stare Miasto.

Addition due to reclassification of assets held for sale was caused by submission by the buyer of a letter of withdrawal from the purchase agreement of a non-hotel real property located in Poznań, Prusimska Street, as well as lack of certainty as to the finalisation of the sale transaction of the ibis budget Toruń hotel with its adjacent real property. Disposal due to reclassification to assets held for sale concerns mainly to the transfer of a non-hotel real property located in Wrocław in connection with the signing of a preliminary sale agreement of this property.

The table below presents property, plant and equipment (tangible assets) as at **December 31, 2017:**

	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, 2017			
Opening 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)
Opening net book amount	**101 617**	**253 336**	**1 053 636**	**223 970**	**4**	**1 632 563**
Additions	**0**	**0**	**24 239**	**48 836**	**17**	**73 092**
purchase	0	0	19 003	32 864	17	51 884
transfer from investments in progress	0	0	5 236	8 941	0	14 177
other	0	0	0	7 031	0	7 031
Disposals	**(2 573)**	**(3 793)**	**(30 771)**	**(5 723)**	**(9)**	**(42 869)**
sale	(2 573)	(741)	(13 854)	(1 316)	0	(18 484)
liquidation	0	(469)	(22)	(116)	0	(607)
other	0	0	(7 031)	0	0	(7 031)
transfer to assets held for sale	0	(2 369)	(9 780)	(4 291)	(9)	(16 449)
transfer to investments	0	(214)	(84)	0	0	(298)
Increase in impairment	0	0	(1 416)	0	0	(1 416)
Decrease in impairment	0	0	4 690	0	0	4 690
Depreciation charge for the period	(784)	(3 707)	(77 709)	(40 296)	(3)	(122 499)
Closing net book amount	**98 260**	**245 836**	**972 669**	**226 787**	**9**	**1 543 561**
			As at December 31, 2017			
Closing gross book amount	**109 543**	**296 677**	**2 409 586**	**620 092**	**344**	**3 436 242**
Accumulated depreciation and impairment	(11 283)	(50 841)	(1 436 917)	(393 305)	(335)	(1 892 681)
Closing net book amount	**98 260**	**245 836**	**972 669**	**226 787**	**9**	**1 543 561**

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

The table below presents assets under construction and impairment losses thereon as at December 31, 2018, and December 31, 2017.

ASSETS UNDER CONSTRUCTION	as at December 31, 2018	as at December 31, 2017
Gross value of assets under construction	96 711	44 159
Impairment loss on assets under construction	(8 334)	0
Total	**88 377**	**44 159**

Change in the value of assets under construction during the period from December 31, 2017, to December 31, 2018, is the result of capital expenditure incurred in the amount of PLN 194 623 thousand, reclassification of real property located in Toruń with an uncompleted building of the ibis hotel in the amount of PLN 4 550 thousand, additions of PLN 153 478 thousand to non-current assets, as well as the creation of an impairment loss of PLN 1 521 thousand.
Capital expenditure incurred in 2018 were allocated primarily for the construction of the ibis Styles Warszawa Centrum hotel, purchase of a plot of land in Kraków at Worcella Street for the construction of a new hotel, as well as modernisation of the Novotel Poznań Centrum hotel related to the division of that hotel and its partial rebranding into ibis. The remaining investment expenditures were allocated on refurbishing the hotels operating within the network, including the Sofitel Warsaw Victoria hotel, the Novotel Kraków City West hotel, the Novotel Katowice Centrum hotel, the Mercure Poznań Centrum hotel, the Novotel Warszawa Airport hotel, the Novotel Warszawa Centrum hotel and the Novotel Gdańsk Marina hotel (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. for 2018).

Detailed information on collaterals established on property, plant and equipment is provided in Note 29 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 to the financial statements.

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, 2018	as at December 31, 2017
Opening balance	**(14 941)**	**(42 359)**
recognised impairment loss on tangible assets	0	(1 416)
recognised impairment loss on assets under construction	(1 521)	0
reversed impairment loss on tangible assets	0	4 690
decrease in impairment losses in connection with sale	0	5 231
impairment loss on tangible assets not subject to reversal *	763	755
reclassification to assets held for sale	0	18 158
reclassification from assets held for sale	(9 911)	0
Closing balance	**(25 610)**	**(14 941)**

** 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 (owned hotels of the Company) as well as other tangible assets and assets under construction in the context of on-going operations and growth prospects on the individual markets.

The Company analysed, as at the end of the reporting period, whether there are any grounds for an impairment loss to be recognised or changed. The Company assumes that one of such indications is a change in the hotel's EBITDA by +/- 20% as compared to the previous period. Out of the 47 hotels, 5 hotels met the criteria for impairment testing.
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 independently for each hotel 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 rate of growth in the value of cash flows following the 5-year projection period was estimated at 1.0%. The adopted discount rate of 7.4% was calculated based on the weighted average cost of capital (WACC) of the Company. In the case of one of the impairment-tested hotels, its recoverable amount was determined by estimating the fair value based on property purchase offers received by the Company. This valuation is classified under Level 3 of the fair value hierarchy (fair value is determined on the basis of unobservable inputs).

Based on the test, the Company did not recognize any significant impairment of the tested hotels.

The recoverable amount of individual cash-generating units is sensitive primarily to the discount rate applied in the discounted cash flow model as well as to the growth rate applied to estimate cash flows beyond the forecast period. The Company performed sensitivity analysis of these two key parameters change. The analysis has shown that:
- if the discount rate increases by 0.5 percentage points for three out of the four tested hotels, an additional impairment loss of a total of PLN 3 643 thousand would have to be recognised;
- assumption of a long-term growth rate of 0.5% would require recognizing an additional impairment loss for two of the four tested hotels in a total value of PLN 2 450 thousand.

In addition, as at the end of the reporting period, the Company made an assessment of assets under construction impairment. As a result, impairment loss of PLN 1 521 thousand was recognized.
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. All the impairments recognised/reversed in 2018 and in 2017 were immaterial.

The value of impairment loss increased due to the impairment loss on tangible assets and assets in construction, totalling PLN 9 911 thousand, related to the ibis budget Toruń hotel and the adjacent real property with an uncompleted hotel building, which was reclassified from Assets held for sale due to lack of certainty as to the finalisation of their sale transaction.

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

10. INVESTMENT PROPERTY

The table below presents investment properties as at **December 31, 2018:**

	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Total investment property
As at January 1, 2018				
Opening gross book amount	**1 828**	**13 492**	**1 066**	**16 386**
Accumulated depreciation and impairment	(302)	(8 919)	(1 066)	(10 287)
Opening net book amount	**1 526**	**4 573**	**0**	**6 099**
Disposals	**0**	**(1 164)**	**0**	**(1 164)**
sale	0	(1 164)	0	(1 164)
Increase in impairment	0	(252)	0	(252)
Depreciation charge for the period	(21)	(179)	0	(200)
Closing net book amount	**1 505**	**2 978**	**0**	**4 483**
As at December 31, 2018				
Closing gross book amount	**1 828**	**11 388**	**1 016**	**14 232**
Accumulated depreciation and impairment	(323)	(8 410)	(1 016)	(9 749)
Closing net book amount	**1 505**	**2 978**	**0**	**4 483**

Investment property disposal of PLN 1 164 thousand due to sale in 2018 is predominantly the result of sale of a residential property and non-residential property located in Warsaw, at 1 Sierpnia Street, together with two car park spaces.

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

The table below presents investment properties as at **December 31, 2017:**

	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Total investment property
As at January 1, 2017				
Opening gross book amount	**4 026**	**19 127**	**1 068**	**24 221**
Accumulated depreciation and impairment	(632)	(12 461)	(1 067)	(14 160)
Opening net book amount	**3 394**	**6 666**	**1**	**10 061**
Additions	**214**	**84**	**0**	**298**
transfer from tangible assets	214	84	0	298
Disposals	**(2 033)**	**(1 904)**	**0**	**(3 937)**
sale	0	(418)	0	(418)
transfer to assets held for sale	(2 033)	(1 486)	0	(3 519)
Depreciation charge for the period	(49)	(273)	(1)	(323)
Closing net book amount	**1 526**	**4 573**	**0**	**6 099**
As at December 31, 2017				
Closing gross book amount	**1 828**	**13 492**	**1 066**	**16 386**
Accumulated depreciation and impairment	(302)	(8 919)	(1 066)	(10 287)
Closing net book amount	**1 526**	**4 573**	**0**	**6 099**

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 its current operations. The recoverable amount of each property was determined by estimating its fair value principally based on property purchase offers received by the Company. As a result of the review in 2018, an impairment loss of PLN 252 thousand was recognised.

In accordance with the accounting policy, all the recognitions and reversals of impairment losses on investment property are reported in the statement of financial position under the Revaluation of non-current assets.

Detailed information concerning impairment of investment property is as follows:

IMPAIRMENT OF INVESTMENT PROPERTY	as at December 31, 2018	as at December 31, 2017
Opening balance	**(578)**	**(592)**
recognised impairment loss	(252)	0
decrease in impairment losses in connection with sale/liquidation	571	0
impairment loss on investment property not subject to reversal	7	14
Closing balance	**(252)**	**(578)**

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

No valuation of investment property based on a valuation by an independent expert was made as at December 31, 2018.

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, 2018, the fair value of investment property was estimated at approx. PLN 18.1 million.
In terms of procedures applied, measurement of investment property is classified under Level 3 of the fair value hierarchy (fair value is determined on the basis of un-observable inputs).

The following amounts were recognised in profit or loss:

	2018	2017
Income from rent on investment property	1 688	1 720
Direct operating expenses of investment property which generates income from rent	(593)	(798)
Direct operating expenses of investment property which does not generate income from rent	(50)	(743)

As at December 31, 2018, investment property included:
- in Bielsko-Biała – ownership title to office premises,
- in Gdańsk – building and right to perpetual usufruct of land,
- in Katowice – cooperative ownership title to a garage,
- 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 Szczecin – right to perpetual usufruct of land, ownership title to buildings,
- in Włocławek – cooperative ownership title to two premises,
- in Zakopane – building of the Giewont hotel and right to perpetual usufruct of land,
- in Zegrze - building 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, 2018:**

	Goodwill	Permits, patents, licenses and similar	Computer software	Other intangible assets	Total intangible assets
			As at January 1, 2018		
Opening gross book amount	**108 153**	**36**	**13 540**	**0**	**121 729**
Accumulated depreciation and impairment	(901)	(11)	(10 329)	0	(11 241)
Opening net book amount	**107 252**	**25**	**3 211**	**0**	**110 488**
Additions	**0**	**0**	**569**	**715**	**1 284**
purchase	0	0	46	715	761
other	0	0	523	0	523
Disposals	**0**	**0**	**0**	**(523)**	**(523)**
other	0	0	0	(523)	(523)
Depreciation charge for the period	0	(4)	(1 925)	0	(1 929)
Closing net book amount	**107 252**	**21**	**1 855**	**192**	**109 320**
			As at December 31, 2018		
Closing gross book amount	**108 153**	**36**	**12 057**	**192**	**120 438**
Accumulated depreciation and impairment	(901)	(15)	(10 202)	0	(11 118)
Closing net book amount	**107 252**	**21**	**1 855**	**192**	**109 320**

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

The table below presents intangible assets as at **December 31, 2017:**

	Goodwill	Permits, patents, licenses and similar	Computer software	Other intangible assets	Total intangible assets
			As at January 1, 2017		
Opening gross book amount	**108 153**	**36**	**14 656**	**22**	**122 867**
Accumulated depreciation and impairment	(901)	(8)	(10 080)	0	(10 989)
Opening net book amount	**107 252**	**28**	**4 576**	**22**	**111 878**
Additions	**0**	**0**	**1 068**	**1 013**	**2 081**
purchase	0	0	33	1 013	1 046
other	0	0	1 035	0	1 035
Disposals	**0**	**0**	**(94)**	**(1 035)**	**(1 129)**
sale	0	0	(65)	0	(65)
other	0	0	0	(1 035)	(1 035)
reclassification to assets held for sale	0	0	(29)	0	(29)
Depreciation charge for the period	0	(3)	(2 339)	0	(2 342)
Closing net book amount	**107 252**	**25**	**3 211**	**0**	**110 488**
			As at December 31, 2017		
Closing gross book amount	**108 153**	**36**	**13 540**	**0**	**121 729**
Accumulated depreciation and impairment	(901)	(11)	(10 329)	0	(11 241)
Closing net book amount	**107 252**	**25**	**3 211**	**0**	**110 488**

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 2018 nor in 2017 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 annually for impairment. For testing purposes, goodwill was allocated to hotels of 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.

The recoverable amount assigned to a group of assets belonging to both of the above mentioned operating 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 7.4% 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 1.0%. The discount rate was calculated based on the weighted average cost of capital (WACC) of the Company.

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

No impairment was found in the case of the group of assets belonging to separate segments within Hekon – Hotele Ekonomiczne S.A. as at December 31, 2018.

The Company carried out a sensitivity analysis of two key parameters, based on which the recoverable value was determined, i.e. the adopted discount rate and the long-term growth rate. The analysis showed that:

- impairment of goodwill of hotels belonging to the up&midscale segment would occur, if the discount rate increased by 9 percentage points,
- impairment of goodwill of hotels belonging to the economy segment would occur, if the discount rate increased by 6.5 percentage points,
- in the case of both the above segments, their carrying value would not exceed the recoverable amount even if the long-term growth rate of 0% was assumed.

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 Kontrakty Sp. z o.o.	directly 100.00%	directly 100.00%	Poland	organisation of purchasing	100	0	100
Orbis Corporate Sp. z o.o.	directly 100.00%	directly 100.00%	Poland	tourism, transport, hotel and F&B services	55	(55)	0
UAB Hekon	directly 100.00%	directly 100.00%	Lithuania	hotel and F&B services	13 688	0	13 688
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
Total					**467 584**	**(55)**	**467 529**

All investments in subsidiaries are recognised at cost.

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
Accor-Pannonia Slovakia s.r.o.	indirectly 99.92%	indirectly 99.92%	Slovakia	hotel and F&B services
5 Hotel Kft.	indirectly 99.92%	indirectly 99.92%	Hungary	real property rental

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

On May 31, 2018, a subsidiary company of Orbis S.A., i.e. Accor Pannonia Hotels Zrt. with its registered address in Budapest (the seller) and two subsidiaries of the Starwood Capital Group (the buyer) finalised the sale transaction of a representing 100% of share capital of 5 Star Hotel Kft., the owner of the Sofitel Budapest Chain Bridge. As a result of this transaction, as from June 1, 2018, Orbis S.A. is no longer the indirect owner of 99.92% stake in the share capital of 5 Star Hotel Kft.

The merger of subsidiaries, **Business Estate Entity a.s.** and **H-DEVELOPMENT CZ a.s.** (the merged companies) with the subsidiary Katerinska Hotel s.r.o. (the merging company) was registered on December 12, 2018. Katerinska Hotel s.r.o. held a 100% stake in the merged companies. The merger took place at the beginning of 2018 and was effective as from January 1, 2018.

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, 2018	as at December 31, 2017
Opening balance	**467 529**	**465 921**
Additions	**10**	**1 608**
Additional payment to the capital	10	0
Reversed share impairment	0	1 608
Disposals	**(10)**	**0**
Recognised share impairment	(10)	0
Closing balance	**467 529**	**467 529**

In 2018 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.

Increase in the item investment in subsidiaries in 2017 is the result of reversal of the share impairment relating to the Lithuanian subsidiary UAB Hekon. The improvement of that company's performance in 2017 made it possible to reverse the impairment.

Change in investments in other entities

As at December 31, 2018, 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 2018 and 2017, no changes in investments in other entities occurred.

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

IMPAIRMENT OF INTERESTS IN SUBSIDIARIES AND OTHER COMPANIES	as at December 31, 2018	as at December 31, 2017
Opening balance	**(47)**	**(1 655)**
recognised impairment loss	(10)	0
reversed impairment loss	0	1 608
Closing balance	**(57)**	**(47)**

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

13. LOANS GRANTED

As at December 31, 2018 and as at December 31, 2017, Orbis S.A. had the following receivables under loans granted to its subsidiaries:

Date of agreement	Amount and the currency of the loan (in thous.)		Interest rate	Last instalment	as at December 31, 2018	as at December 31, 2017
Accor Pannonia Hotels Zrt.					**131 150**	**377 511**
Feb. 16, 2016	16 000	EUR	EURIBOR 6M + margin 2.5%	Dec. 31, 2019	131 150	325 375
Dec. 20, 2016	65 000	EUR				
May 25, 2017	12 500	EUR	EURIBOR 6M + margin 2.5%	Mar. 31, 2018	-	52 136
UAB Hekon					**28 810**	**20 855**
Jun. 1, 2017	1 000	EUR	EURIBOR 6M + margin 2.5%	Dec. 31, 2018	-	4 171
Jul. 27, 2018	1 000	EUR	EURIBOR 6M + margin 2.5%	Feb. 28, 2019 *	4 300	4 171
Oct. 31, 2017	3 000	EUR	EURIBOR 6M + margin 2.5%	May 31, 2019 **	12 900	12 513
May 9, 2018	1 500	EUR	EURIBOR 6M + margin 2.5%	Dec. 31, 2019 ***	4 300	-
Jun. 26, 2018	1 700	EUR	EURIBOR 6M + margin 2.5%	Dec. 31, 2020	7 310	-
Accor Hotels Romania s.r.l.					**19 381**	**-**
Jun. 28, 2018	21 000	RON	ROBOR 6M + margin 2.2%	Jun. 30, 2022	19 381	-
TOTAL LOANS GRANTED					**179 341**	**398 366**
Long-term loans granted					22 815	329 500
Short-term loans granted					156 526	68 866

* the date of loan repayment was rescheduled by an annex dated February 8, 2019, to December 31, 2019
** the date of loan repayment was rescheduled by an annex dated February 8, 2019, to December 31, 2020
*** the date of repayment of the remaining EUR 1 000 was rescheduled by an annex dated December 31, 2018, from December 31, 2018, to December 31, 2019

Loans granted to Accor Pannonia Hotels Zrt.

In 2016, a loan was granted to the Hungarian company Accor Pannonia Hotels Zrt. for a total of EUR 81.0 million (by virtue of an annex to the agreement dated June 30, 2017, it was divided into two loans with a value of EUR 35.0 million and EUR 46.0 million.)

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

Accor Pannonia Hotels Zrt. repaid EUR 46.0 million in June 2018 and EUR 1.5 million in December 2018.

At the end of 2017, Orbis S.A. had also receivables under loan granted on May 25, 2017 to the Hungarian subsidiary in the amount of EUR 12.5 million. The loan was granted in order for Accor Pannonia Hotels Zrt. to finance the agreement of buy-back of the Sofitel Budapest Chain Bridge hotel, operated by the Hungarian company under lease agreements. The Hungarian company repaid the loan in full on June 4, 2018.

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

Loans granted to UAB Hekon

As at December 31, 2018, Orbis S.A. had also four loans granted to the Lithuanian subsidiary UAB Hekon. These loans were granted to finance by the Lithuanian company the acquisition of a hotel building located in Vilnius, including the ownership title to the land and parking places.

In 2018 UAB Hekon repaid in full the loan granted on June 1, 2017 in the amount of EUR 1.0 million and repaid in part the loan of May 9, 2018 (EUR 0.5 million).

Loans granted to Accor Hotels Romania s.r.l.

At the end of 2018, Orbis S.A. had also receivable under loan granted on June 28, 2018 to the subsidiary Accor Hotels Romania s.r.l. in the amount of RON 21.0 million. The loan was granted in order to finance the purchase of the Mercure Unirii hotel by the Romanian company.

Pursuant to the signed agreements, interests are payable for 6-month periods, at the end of June and December of each year, and if the variable rate (EURIBOR 6M or ROBOR 6M) is lower than zero, the loan interest rate equals the interest rate margin indicated in the agreement.
In 2018, Orbis S.A. received total PLN 7 392 thousand as interest on loans granted, of which PLN 6 119 thousand from Accor Pannonia Hotels Zrt. (equivalent to EUR 1 417 thousand), PLN 736 thousand from UAB Hekon (equivalent to EUR 171 thousand) and PLN 537 thousand from Accor Hotels Romania s.r.l. (equivalent to RON 582 thousand).

Furthermore, the total proceeds of Orbis S.A. from repayment of loans by subsidiaries in 2018 amounted to PLN 265 254 thousand, including PLN 258 829 thousand (EUR 60.0 million) from the Hungarian company and PLN 6 425 thousand from the Lithuanian company (EUR 1.5 million)

14. OTHER FINANCIAL ASSETS

In 2017, the item "Other financial assets" included receivables on account of disposal of the Mercure Mrągowo Resort & SPA hotel (PLN 3 000 thousand) and the Mercure Kasprowy w Zakopane (PLN 3 944 thousand). In 2018, receivables on account of sale of the above mentioned hotels were presented in "Other short-term receivables" item. More information about receivables on account of hotels disposals are presented in Note 17 to the financial statements.

15. OTHER LONG-TERM ASSETS

OTHER LONG-TERM ASSETS	as at December 31, 2018	as at December 31, 2017
Long-term prepayments - insurance costs	666	855
Other long-term investments - works of art	402	458
Total other long-term assets	**1 068**	**1 313**

16. INVENTORIES

INVENTORIES	as at December 31, 2018	as at December 31, 2017
Raw materials	3 765	3 790
Merchandise	55	49
Total inventories	**3 820**	**3 839**

The Company did not have any reasons to recognise any impairment of inventories in 2018 and 2017.

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, 2018	as at December 31, 2017
Trade receivables	26 268	28 995
of which: receivables from related parties	*1 839*	*1 850*
Impairment loss on receivables	(1 136)	(745)
Net trade receivables	**25 132**	**28 250**

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

OTHER SHORT-TERM RECEIVABLES	as at December 31, 2018	as at December 31, 2017
Short-term receivables	**21 214**	**14 510**
Taxes, social insurances and other benefits receivables	13 512	5 340
Disputed receivables	1 969	2 324
Amounts receivable on account of sale of tangible assets	5 944	7 944
Other receivables	1 758	1 226
Impairment of receivables	(1 969)	(2 324)
Short-term prepayments	**1 627**	**1 459**
Net other short-term receivables	**22 841**	**15 969**

The item of “Amounts receivable on account of sale of tangible assets” includes among others 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 Resort & 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, PLN 4 500 thousand was settled in 2017, PLN 5 000 thousand was paid in December 2018, and the date of payment of the remaining PLN 2 000 thousand is in 2019 (according to the agreement).

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.

Moreover, the item of “Amounts receivable on account of sale of tangible assets” comprises 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 was transferred into Orbis' account on January 2, 2018,
- 7% of the price, i.e. PLN 3 944 thousand will be transferred into Orbis’ account by December 31, 2019.

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

Changes in impairment losses on receivables are presented below:

IMPAIRMENT LOSS ON RECEIVABLES	as at December 31, 2018	as at December 31, 2017
Opening balance	**(3 069)**	**(2 846)**
recognised impairment loss	(1 635)	(959)
reversed impairment loss	890	660
utilised impairment loss	709	76
Closing balance	**(3 105)**	**(3 069)**

Recognised and reversed impairment losses on receivables are reported in the "Impairment of receivables" 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 receivables at risk are covered by an impairment loss. The Company recognizes impairment on receivables based on their individual analysis. As at the IFRS 9 implementation date, the Company analysed the history of recognised impairment losses and came to the conclusion that due to the immateriality of the impairment loss amounts resulting from the potential application of the expected credit loss model required under IFRS 9, there are no reasons for it to be applied by the Company. Accordingly, the existing individual approach to impairment losses on receivables will be continued based on information gathered and credit risk estimates.

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 30.2.3. in these financial statements.

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

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

RECEIVABLES AGEING	as at December 31, 2018	as at December 31, 2017
Non-overdue receivables	40 809	35 643
Overdue receivables, of which:	10 269	11 645
- overdue for up to 1 month	4 538	5 835
- overdue for a period from 1 to 3 months	2 323	2 255
- overdue for a period from 3 to 6 months	1 081	679
- overdue for a period from 6 months to 1 year	191	225
- overdue for more than 1 year	2 136	2 651
Total gross short-term receivables	**51 078**	**47 288**
Impairment loss on non-overdue receivables	0	0
Impairment loss on overdue receivables, of which:	(3 105)	(3 069)
- overdue for up to 1 month	0	0
- overdue for a period from 1 to 3 months	(119)	0
- overdue for a period from 3 to 6 months	(659)	(207)
- overdue for a period from 6 months to 1 year	(191)	(211)
- overdue for more than 1 year	(2 136)	(2 651)
Total impairment loss on receivables	**(3 105)**	**(3 069)**
Net short-term receivables	**47 973**	**44 219**

As at December 31, 2018, receivables amounting to PLN 7 164 thousand were overdue but not impaired. Ageing of these receivables is presented below:

RECEIVABLES AGEING	as at December 31, 2018	as at December 31, 2017
Overdue non-impaired receivables, of which:	**7 164**	**8 576**
- overdue for up to 1 month	4 538	5 835
- overdue for a period from 1 to 3 months	2 204	2 255
- overdue for a period from 3 to 6 months	422	472
- overdue for a period from 6 months to 1 year	0	14
- overdue for more than 1 year	0	0

No collaterals were established to secure the Company’s receivables, except for the above-mentioned receivables from the sale of the Mercure Mrągowo Resort & SPA hotel, which is secured with a collective contractual mortgage on the above mentioned hotel.

Information on currency risk is provided in Note 30.2.2 in these financial statements.

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

18. CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	as at December 31, 2018	as at December 31, 2017
Cash at bank and in hand	78 807	53 738
Short-term bank deposits	279 223	21 786
Other cash and cash equivalents	1 140	1 449
Total cash and cash equivalents	**359 170**	**76 973**

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. At the end of 2018, the balance of cash included cash deposits of PLN 141 623 thousand and savings of EUR 32 000 thousand (i.e. PLN 137 600 thousand).

19. ASSETS CLASSIFIED AS HELD FOR SALE

As at December 31, 2018, the Assets classified as held for sale includes non-hotel real property located in Wrocław, including the right of perpetual usufruct of land, buildings and equipment.

The table below presents changes in assets classified as held for sale in 2018 and 2017:

ASSETS CLASSIFIED AS HELD FOR SALE	as at December 31, 2018	as at December 31, 2017
Opening balance	**23 514**	**23 631**
Additions	**8 996**	**24 591**
transfer from tangible assets and assets under construction	8 996	16 493
transfer from intangible assets	0	29
transfer from investment property	0	3 519
reversed impairment loss	0	4 550
Disposals	**(23 820)**	**(24 708)**
sale	(9 290)	(23 624)
recognised impairment loss	0	(1 084)
transfer to tangible assets and assets under construction	(14 520)	0
other	(10)	0
Closing balance	**8 690**	**23 514**

Additions of assets classified as held for sale in 2018 resulted from the execution of preliminary sale agreements of non-hotel real property located in Wrocław, including the right of perpetual usufruct of land, buildings and facilities.

On the other hand, the disposals due to sale result from the finalisation, as at the end of March 2018, of non-hotel real property located in Karpacz, as well as from the signing, on July 31, 2018, of a joint agreement for the sale of the Mercure Cieszyn and ibis Styles Bielsko-Biała hotels in the form of organised parts of the enterprise.

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

On the other hand, the disposal due to reclassification was caused by submission, by the buyer, of a letter of withdrawal from the purchase agreement of a non-hotel real property located in Poznań, Prusimska Street, as well as lack of certainty as to the finalisation of the sale transaction of the ibis budget Toruń hotel with its adjacent real property. Lack of certainty as to whether completion of the transaction will occur is related to the buyer's difficulties in obtaining financing necessary to purchase these properties.

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 LOSS ON ASSETS CLASSIFIED AS HELD FOR SALE	as at December 31, 2018	as at December 31, 2017
Opening balance	**(14 692)**	**(17 882)**
recognised impairment loss	0	(1 084)
reversed impairment loss	0	4 550
decrease in impairment losses in connection with sale/liquidation	4 781	17 882
transfer from tangible assets	0	(18 158)
transfer to tangible assets and assets under construction	9 911	0
Closing balance	**0**	**(14 692)**

As at December 31, 2018, the Company did not have any impairment loss in respect of assets classified as held for sale. As compared to the end of 2017, the impairment loss decreased by PLN 4 781 thousand due to the sale of the Mercure Cieszyn and the ibis Styles Bielsko-Biała hotels, while the impairment loss in the amount of PLN 9 911 thousand concerning the ibis budget Toruń hotel and the unfinished hotel on the adjacent plot was reclassified to property, plant and equipment item.

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, 2018	as at December 31, 2017
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**

On 26 November 2018, pursuant to Article 74 section 1 and Article 91 section 6 of the Act of July 29, 2005, on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, Accor S.A. (as the buyer) announced a tender offer for the sale of Orbis S.A. shares.

As at the date of the tender offer, Accor S.A. and its subsidiary Accor Polska Sp. z o.o. held a total of 24 276 415 shares in the share capital of Orbis S.A., representing 52.69% of the total number of shares in the share capital of Orbis and carrying the same number of votes at the General Meeting of Shareholders. As a result of the tender offer, Accor S.A. intended to acquire the remaining 21 800 593 shares in Orbis S.A., representing 47.31% of the total number of shares in Orbis S.A. share capital and carrying the same number of votes at the General Meeting Orbis S.A. Shareholders.

According to the tender offer announcement, the subscription for Orbis S.A. shares lasted from December 17, 2018, till January 18, 2019. The purchase price of Orbis S.A. shares announced in the tender offer on November 26, 2018, equalled PLN 87 per share. On January 11, 2019, this price was raised to PLN 95 per share.

In response to the tender offer, shareholders of Orbis S.A. subscribed for the sale of Orbis S.A. shares representing in total 33.15% of the total number of Orbis S.A. shares (15 274 116 shares). Accor S.A. purchased the subscribed shares on January 23, 2019.

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

As a result of the tender offer, as at February 20, 2019, Accor S.A. held a total of 85.84% of Orbis S.A. shares (39 550 531 shares). As at February 20, 2019, the shareholders of Orbis S.A. holding, directly or indirectly, at least 5% of the total number of votes at the General Meeting, determined on the basis of notifications referred to in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, as well as the change in the shareholding status of these shareholders during the period from January 1, 2018, till February 20, 2019, has been presented below:

Shareholder (description)	Number of shares held as at Feb. 20, 2019	Percentage share of share capital as at Feb. 20, 2019	Change in the structure of ownership of major blocks of shares from Jan. 1, 2018 till Feb. 20, 2019
	(no. of voting rights at the GM)	(percentage share of total number of voting rights at the GM)	
Accor S.A.	39 550 531	85.84%	+33.15 p.p.
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	-	-	-9.94 p.p.
Metlife Otwarty Fundusz Emerytalny and Metlife Dobrowolny Fundusz Emerytalny managed by Metlife Powszechne Towarzystwo Emerytalne S.A.	-	-	-5.12 p.p.
Nationale-Nederlanden Otwarty Fundusz Emerytalny	4 710 265	10.22%	+5.03 p.p.

20.2 RESERVES

As at December 31, 2018, reserves comprise amounts received over and above the nominal value of shares sold above nominal value (share premium) and effects of valuation of works of art disclosed in the other long-term assets line of the statement of financial position. As at December 31, 2017, the item comprised also accumulated gains/(losses) relating to the instrument hedging cash flows.

	as at December 31, 2018			as at December 31, 2017		
	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	0	0	0	(76)	15	(61)
Total reserves	**133 424**	**(91)**	**133 333**	**133 348**	**(76)**	**133 272**

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, 2018, and December 31, 2017, profits subject to limited distribution under the Code of Commercial Companies and Partnership 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 2018, return on equity remained at past year's level.

	2018	2017
Net profit	141 901	126 603
Equity - opening balance	2 056 754	2 004 319
Equity - closing balance	2 121 463	2 056 754
Return on equity	**6.79%**	**6.23%**

The equity-to-non-current assets ratio is calculated as a quotient of the Company's equity and non-current assets, and demonstrates the relation between sources of financing and the Company's assets. In 2018, the equity to non-current assets ratio increased by 11.7 percentage points as compared to the past year. This is mainly attributable to a decrease in the value of non-current assets (mainly due to the repayment of a loan granted to the Hungarian subsidiary Accor Pannonia Hotels Zrt.) with equity slightly higher than in the past year.

	as at December 31, 2018	as at December 31, 2017
Equity	2 121 463	2 056 754
Non-current assets	2 271 603	2 517 115
Equity-to-non-current assets ratio	**93.39%**	**81.71%**

The analysis of equity is supplemented by the debt-to-equity ratio presented in Note 30.2.4 to the financial statements.

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

21. 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 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%**. The interest shall be payable in 6-month interest periods. The bonds will be redeemed on June 26, 2020 at their nominal value.

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

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

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

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

In 2018, Orbis S.A. paid PLN 14 015 thousand as interest on issued bonds and PLN 75 thousand as interest payments under the IRS transaction (please refer to Note 31.4).

BONDS	as at December 31, 2018	as at December 31, 2017
Proceeds from the bond issue	500 000	500 000
Valuation of bonds at amortised cost	2 111	1 778
Total liabilities under bonds	**502 111**	**501 778**

Information on securities established in connection with the issue of bonds is provided in Note 29.1 to the financial statements.

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

22. LIABILITIES ARISING FROM CONTRACTS

Liabilities arising from contracts reflect Company's obligation to deliver goods or services for which the customer has already paid or when the payment from a customer is due. As at December 31, 2018, the liabilities arising from contracts were as follows:

LIABILITIES ARISING FROM CONTRACTS	as at December 31, 2018	as at December 31, 2017
Fees for affiliation with a hotel network	1 854	0
Liabilities arising under contracts - long-term	**1 854**	**0**
Fees for affiliation with a hotel network	132	0
Prepayments and advance payments received	16 690	0
Liabilities arising under contracts - short-term	**16 822**	**0**
Total liabilities arising from contracts	**18 676**	**0**

Liabilities arising from contracts mainly include advances and prepayments received for a provision of service to a customer in the future. The nature of the goods and services nature of the goods and services that the Company commits to provide to its customers is described under Note 2.4.2. The Company meets its obligations to provide the services at the time and to the degree reflecting the performance of the service or the delivery of goods. The obligation arises at the moment of making a reservation and advance payment by the customer.

Bookings

Clients can book rooms for their own personal purposes (private reservations) as well as for corporate stays. Reservations of hotel services can be made via website at: www.accorhotels.com, by e-mail or by fax directly at the hotel, or by telephone through the call center. Services can be booked also through the Company's partners, that is travel agencies, car rental companies, air and train ticket providers as well as through OLTAs and external travel websites. Through these various distribution channels customers of the Orbis Group can book rooms in hotels of various AccorHotels brands

Reservations are deemed accepted by the customer at the end of the booking process. Reservations are deemed to have been made when the booking form, the reservation request or advance payment/credit card details (in the case of a guaranteed reservation, as described below) are received.

Reservations are confirmed depending on room availability. The client receives confirmation of the reservation and the reservation number. The reservation confirmation is a binding obligation of both the parties to provide mutual services.

The customer can make either a guaranteed or non-guaranteed reservation. The non-guaranteed reservation is valid until 18:00 (6 p.m.) of date of the planned arrival. The guaranteed reservation is valid until the end of the first hotel night, i.e. until 12:00 (noon) on the next day. To make a guaranteed reservation, the hotel requires a financial security to cover any potential charges related to late cancellation or no-show. The following forms of providing a security are accepted:

- Credit card – credit card data is entered to pre-authorise payment,
- Prepayment – the amount corresponding to the rate for one hotel night should be paid by bank transfer to the hotel's bank account or directly at the reception of the hotel prior to arrival.

Cancellation and modification of the reservation

The terms and conditions of sale at the given price category define the admissibility and the terms and conditions of reservation cancellation and modification.

In the case of private customers, reservations paid in advance cannot be modified or cancelled in any way, and the amounts paid in advance (as advance payments) are not refunded, unless the terms and conditions of sale at the given price category provide for such a solution. Reservations can be cancelled via the website or directly at the hotel, if the terms and conditions of sale at the given price category so permit. In the case of the customer's early departure (before the end of the booked stay), the agreed price will be paid in full, while if an advance payment was made, no refund will be due.

For corporate customers, guaranteed and non-guaranteed reservations can be cancelled directly at the hotel where the reservation is made (by phone or e-mail) or via the www.accorhotels.com website. In both the cases, cancellation before 18:00 (6 p.m.) will have no financial consequences. Non-guaranteed reservations that have not been cancelled before 18:00 (6 p.m.) on the day of arrival will be automatically cancelled after 18:00 (6 p.m.). In the case of guaranteed bookings, the customer's no-show by 12:00 (noon) on the following day will result in a charge being collected for the first hotel night for each room booked, as per the terms and conditions (rates) laid down in the contract.

Invoices for hotel services are issued by the hotel after the end of the stay. The payment for services not prepaid either fully or partially is made by the customer at the hotel reception desk upon check-out, by cash or by credit card. Depending on the agreed terms and conditions of signed contracts, corporate customers may also be able to pay the invoices at a later date.

Conference packages apply to comprehensive services provided to clients, including meetings organized by the client in the Company's hotels. Once a contract for the provision of services under the so-called conference package is executed, the client makes an advance payment, the percentage value of which is specified in the contract. The contract regulates in detail the deadlines for the payment of advance payments under the conference package as well as the deadlines for the final payment, once the service has been provided by the Company. The client may cancel all or a part of the Conference Package on the terms and conditions laid down in the contract, provided that the client's obligation to pay the fees for the cancellation of all/part of the reservation is guaranteed.

In addition, **fees for affiliation with the hotel network** (i.e. the Entrance Fee), payable under franchise agreements, are also recognised as liabilities arising from contracts as at December 31, 2018. These fees are usually invoiced at their full value at the beginning of the agreement and payable over the term of the given franchise agreement (i.e. during the term of operation of the hotel). This fee is related to other franchise fees and is not separate from other services, hence revenue from this fee is recognized evenly throughout the period the obligations under the aforementioned agreements are being performed.

In 2018, the received fees for affiliation with a hotel chain were recognized as an increase in liabilities arising under contracts in the total amount of PLN 676 thousand, while PLN 126 thousand was recognized in the statement of financial position as revenue from franchising and management.

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

23. DEFERRED REVENUE

NON-CURRENT DEFERRED REVENUE	as at December 31, 2018	as at December 31, 2017
Advance payments received	10 928	12 202
Total non-current deferred revenue	**10 928**	**12 202**

Advance payments received in the amount of PLN 10 928 thousand are a result of a preliminary sale and purchase agreement concerning the Giewont hotel in Zakopane and the accompanying rental contract, executed 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 in 2012 and PLN 9 500 thousand in 2017. Also, rent for the first three years of the hotel lease was paid in advance on the date of execution of the contract of lease. Pursuant to the executed contract, starting from the fourth year, i.e. from April 2015, the rent of PLN 1 000 thousand per year will be covered from the received advance payment towards the sale.

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

CURRENT DEFERRED REVENUE	as at December 31, 2018	as at December 31, 2017
Advance payments towards the sale of real property	916	191
Other prepayments and advances	0	13 951
Total current deferred revenue	**916**	**14 142**

As at December 31, 2018, the deferred revenues from sale of real property include earnest money *(zadatek)* received in connection with the sake of non-hotel real properties located in Szczecin, at 3-go Maja Street (PLN 500 thousand) and real property in Szczecin, at Panieńska Street, which is a part of the former Arkona hotel (PLN 400 thousand).

Other prepayments and advance payments in 2017 are mainly prepaid hotel services, included under liabilities arising from contracts in 2018 in connection with the implementation of IFRS 15.

24. OTHER NON-CURRENT LIABILITIES

OTHER NON-CURRENT LIABILITIES	as at December 31, 2018	as at December 31, 2017
Liabilities associated with tangible assets	6 601	5 199
Deposits received	599	578
Total other non-current liabilities	**7 200**	**5 777**

The balance of non-current liabilities associated with tangible assets comprises deposits received by the Company by way of security for any claims resulting from faulty performance of agreements for repair and construction services. Other non-current liabilities comprise 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, 2018	**777**	**1 318**	**2 095**
Provision recognised in the period	0	768	768
Provision utilised in the period	0	(1 145)	(1 145)
Provision released in the period	(3)	(661)	(664)
As at December 31, 2018	**774**	**280**	**1 054**
Short-term provisions	774	280	1 054
Long-term provisions	0	0	0
Total provisions as at December 31, 2018	**774**	**280**	**1 054**

MOVEMENTS IN PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Total provisions for liabilities
As at January 1, 2017	**777**	**681**	**1 458**
Provision recognised in the period	0	1 642	1 642
Provision utilised in the period	0	(957)	(957)
Provision released in the period	0	(48)	(48)
As at December 31, 2017	**777**	**1 318**	**2 095**
Short-term provisions	777	1 318	2 095
Long-term provisions	0	0	0
Total provisions as at December 31, 2017	**777**	**1 318**	**2 095**

Description of major disputes in which the Company is involved is provided in Note 29.4.

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, 2018	as at December 31, 2017
Trade payables	48 387	52 486
of which: liabilities towards subsidiaries	*10 567*	*8 478*
Total trade payables	**48 387**	**52 486**

LIABILITIES ASSOCIATED WITH TANGIBLE ASSETS	as at December 31, 2018	as at December 31, 2017
Liabilities associated with tangible assets	53 907	18 024
Total liabilities associated with tangible assets	**53 907**	**18 024**

As at 31 December 2018, the value of liabilities associated with tangible assets increased as compared to the past year. The investment expenditure incurred in 2018 was much higher than in the past year and amounted to PLN 194.6 million (93.6 million in 2017), but the expenditures in Q4 2018 and 2017 accounted for almost half of the annual expenses accounted for almost half of the annual expenses (PLN 95.9 million in the 4Q 2018 and PLN 41.1 million in 4Q 2017 respectively).

As at December 31, 2018, Orbis S.A. was bound by future capital commitments under executed contracts amounting in total to PLN 82.1 million. The largest amounts relate to the construction of new hotel ibis Styles Szczecin (PLN 42.5 million), general modernisation works in the Novotel Gdańsk Marina hotel (PLN 14.1 million), hotel investment project on a plot of land at Worcella Street in Kraków purchased in 2018 as well as renovation works related to, amongst others, the division and partial rebranding of the Novotel Poznań Centrum hotel (PLN 5.1 million).

Other current liabilities are composed of the following items:

OTHER CURRENT LIABILITIES	as at December 31, 2018	as at December 31, 2017
Current liabilities	**7 814**	**6 814**
Taxes, social insurance and other benefits payable	6 603	6 285
Settlements with employees	114	115
Deposits received	407	414
Other liabilities	690	0
Accrued expenses	**39 568**	**43 915**
Obligations towards employees	29 650	33 516
Public law liabilities	9 337	8 582
Other	581	1 817
Total other current liabilities	**47 382**	**50 729**

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

As at December 31, 2018, and as at December 31, 2017, the Company does not have any finance lease liabilities.

Minimum operating lease liabilities are described in Note 28 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.

Provision for retirement benefits and similar obligations

As at December 31, 2018, 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, 2018. 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 pttz2017 table.

Provision for jubilee awards

As at December 31, 2018, 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, 2018. 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	2017	2018	2019	2020 - 2029	successive years
- discount rate	3.20%	2.80%	2.80%	2.80%	2.80%
- projected future growth in the benefit assessment			5.50%	4.00%	3.50%

Principal actuarial assumptions for jubilee awards	2017	2018	2019	2020 - 2027	successive years
- discount rate	3.20%	2.80%	2.80%	2.80%	2.80%
- projected future growth in the benefit assessment			7.14%	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:

2018	Jubilee awards	Retirement & disability benefits	Total liabilities
Service cost:			
current service cost	1 093	310	1 403
past service cost and (gain)/loss from settlements	(347)	(106)	(453)
Net interest expense	493	220	713
Remeasurement on the net future employee benefit liability:			
actuarial gains and losses arising from changes in demographic assumptions	(45)	9	(36)
actuarial gains and losses arising from changes in financial assumptions	467	692	1 159
actuarial gains and losses arising from experience adjustments	1 750	486	2 236
Components of future employee benefit plan costs recognised in profit of loss	**3 411**	**424**	**3 835**
Components of future employee benefit plan costs recognised in other comprehensive income	**0**	**1 187**	**1 187**
Total	**3 411**	**1 611**	**5 022**

2017	Jubilee awards	Retirement & disability benefits	Total liabilities
Service cost:			
current service cost	987	275	1 262
past service cost and (gain)/loss from settlements	(1 483)	(618)	(2 101)
Net interest expense	510	215	725
Remeasurement on the net future employee benefit liability:			
actuarial gains and losses arising from changes in demographic assumptions	(47)	3	(44)
actuarial gains and losses arising from changes in financial assumptions	292	484	776
actuarial gains and losses arising from experience adjustments	1 221	77	1 298
Components of future employee benefit plan costs recognised in profit of loss	**1 480**	**(128)**	**1 352**
Components of future employee benefit plan costs recognised in other comprehensive income	**0**	**564**	**564**
Total	**1 480**	**436**	**1 916**

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 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, 2018	**15 017**	**6 791**	**21 808**
Current service cost	1 093	310	1 403
Past service cost and (gain)/loss from settlements	(347)	(106)	(453)
Interest cost	493	220	713
Remeasurement (gains)/losses:			
actuarial gains and losses arising from changes in demographic assumptions	(45)	9	(36)
actuarial gains and losses arising from changes in financial assumptions	467	692	1 159
actuarial gains and losses arising from experience adjustments	1 750	486	2 236
Benefits paid	(2 178)	(349)	(2 527)
Present value of obligation - as at December 31, 2018	**16 250**	**8 053**	**24 303**
Short-term provisions	2 001	1 385	3 386
Long-term provisions	14 249	6 668	20 917
Total present value of obligation - as at December 31, 2018	**16 250**	**8 053**	**24 303**

	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2017	**15 446**	**6 554**	**22 000**
Current service cost	987	275	1 262
Past service cost and (gain)/loss from settlements	(1 483)	(618)	(2 101)
Interest cost	510	215	725
Remeasurement (gains)/losses:			
actuarial gains and losses arising from changes in demographic assumptions	(47)	3	(44)
actuarial gains and losses arising from changes in financial assumptions	292	484	776
actuarial gains and losses arising from experience adjustments	1 221	77	1 298
Benefits paid	(1 909)	(199)	(2 108)
Present value of obligation - as at December 31, 2017	**15 017**	**6 791**	**21 808**
Short-term provisions	2 005	1 009	3 014
Long-term provisions	13 012	5 782	18 794
Total present value of obligation - as at December 31, 2017	**15 017**	**6 791**	**21 808**

(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, 2018. 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 937 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 872 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 855 thousand, whereas if the base were increased by 0.5 percentage point, the amount of the provision would go up by PLN 1 120 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, 2018, is 6 years (5 years in 2017).

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
2019	2 045	1 363	3 408
2020	1 591	760	2 351
2021	2 163	706	2 869
2022	2 399	719	3 118
2023	2 737	656	3 393
years 2024 - 2028	15 427	3 074	18 501
Total	**26 362**	**7 278**	**33 640**

The cash flows forecasts in the table above are not discounted.

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

28. OPERATING LEASE AGREEMENTS

As at December 31, 2018, the Company had operating lease liabilities resulting from the operating lease of the Sofitel Wrocław Old Town hotel, office in Warsaw and cars.

The monthly fee for the lease of the Sofitel Wrocław Old Town hotel amounts to EUR 148.7 thousand. The agreement expires in September, 2021. The current agreement does not provide for the buyout of the hotel building. On the other hand, the Company may extend the term of the lease agreement twice, each time for a term of 5 years.
In September 2018, the Company signed an office lease agreement in Warsaw for a term of 5 years. The office is to be accessible for occupancy in H1 2019. Office lease payments are dominated in euro. According to the agreement, the Company may extend the term of the lease for another 3 to 5 years. The agreement does not provide for a buyout option.

Moreover, as at December 31, 2018, the Company held 81 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, 2018	as at December 31, 2017
Future minimum operating lease payments, due in:		
one year	9 003	8 143
from 1 to 5 years	22 423	20 941
above 5 years	732	0
Total future minimum operating lease payments*	**32 158**	**29 084**

** 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 8 322 thousand, of which PLN 7 596 thousand was presented under real property rent costs, while PLN 726 thousand in respect of car leases was presented under outsourced services. In 2017 the Company incurred a cost of PLN 7 749 thousand in respect of lease of the Sofitel Wrocław Old Town hotel and PLN 785 thousand in respect of car leases.

The impact of the application of the new IFRS 16 “Leases” standard on the Company’s financial statements during the period of its first-time application, i.e. as from January 1, 2019, is presented in Note 2.7.2.

29. CONTINGENT ASSETS AND LIABILITIES

29.1 LIABILITIES ARISING FROM BOND ISSUE

The issued bonds have been secured by a joint contractual mortgage established on the Mercure Warszawa Grand hotel (KW No. WA4M/00159685/9), the Novotel Warszawa Centrum hotel (KW No. WA4M/00072550/0) and the Mercure Warszawa Centrum hotel (KW No. WA4M/00097244/3) up to the sum of PLN 625 000 thousand. The mortgage was established for the benefit of the mortgage administrator that is Bank Polska Kasa Opieki S.A. with its corporate seat in Warsaw, which will act in its own name, but for the account of bondholders. The total market value of the above-mentioned mortgaged hotels, determined by independent property values as at May 19, 2017, by the valuation survey dated June 1, 2017, was PLN 773 176 thousand. The book value of these real properties as at December 31, 2018, is PLN 220 779 thousand.

29.2 LIABILITIES ARISING UNDER GUARANTEE AGREEMENTS

Upon request of Orbis S.A., on October 8 and on November 5, 2018, Société Générale Spółka Akcyjna Branch in Poland provided Bank Guarantees for Złote Tarasy Warsaw III S.Á.R.L., a registered company with its registered office in Warsaw (the beneficiary). The guarantees were issued to secure payments under the lease agreement executed on September 27, 2018, between Orbis S.A. and Złote Tarasy Warsaw III S.Á.R.L. spółka jawna, concerning lease of office space and car park spaces located in the commercial combo named Złote Tarasy w Warsaw.

The Bank guarantees were granted up to the sum of EUR 224.7 thousand for the lease of office space and EUR 8.6 thousand for the lease of car park spaces. The guarantees expire on October 7 and November 4, 2019, respectively.

29.3 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.

29.4 LEGAL CLAIMS

The Company has not identified any proceedings of major value pending before any courts, arbitration bodies or public administration authorities concerning the Company's liabilities or receivables, except for those described below.

As at December 31, 2018, nine (9) proceedings were pending before the Self-Government Appellate Board concerning revaluation of annual rates of fees for perpetual usufruct of land located in the following cities:

- Warsaw (ibis & ibis budget Reduta, ibis Warszawa Centrum, plot of land in Łopuszańska street - concerning the fees up to the day of sale of the real property);
- Sopot (Sofitel Grand);
- Gdańsk (Novotel Centrum, ibis Gdańsk Stare Miasto and adjacent area, Novotel Marina);
- Zegrze (built-up plot of land);
- Łódź (Novotel Łódź Centrum).

In the Company's opinion, fee revaluations made by Presidents of respective cities are either unjustified or calculations should be based on different rates. As at the end of the reporting period, accumulated value of the fees challenged by the Company, which can potentially be payable in the future, totals PLN 8 582 thousand and is disclosed in other current liabilities.

Two cases concerning the revaluation of the fee for perpetual usufruct of land for the Mercure Gdańsk Stare Miasto hotel and the Mercure Gdańsk Poseidon hotel ended in 2018. In both cases the court has ruled that the revaluation of the annual perpetual usufruct fee is justified, but in amounts different from those stated in the notice of termination.
As a result of these final and enforceable judgments, Orbis S.A. disclosed the difference between the unjustifiably revalued fee and the fee resulting from the final and enforceable judgment in the item Taxes and fees for the period from the time when the increased fee was applicable until the receipt of the final and enforceable judgment.

30. RISK AREAS

30.1 BUSINESS RISK

30.1.1 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.

30.1.2 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 the Company 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.

30.1.3 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.

30.2 FINANCIAL RISK

The main areas of risk to which Orbis S.A. is exposed include credit risk, currency 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.

30.2.1 Interest rate risk

The Company is exposed to the interest rate risk since it has obtained financing at variable interest rates, i.e. issued bonds, as well as granted loans to its subsidiaries - Accor Pannonia Hotels Zrt., UAB Hekon and Accor Hotels Romania s.r.l.

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

As at December 31, 2018, Orbis S.A.'s had liabilities arising from the bond issue in the amount of PLN 502.1 million with variable interest rates. 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 interest 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 interest rate margin of 1.05 p.p.

In 2018, the WIBOR 6M on which the bond rate is based ranged from 1.78 to 1.81.

An analysis of sensitivity to the interest rate risk arising from bonds issued was performed on the basis of the balance of bonds issued as at the balance sheet closing date. 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 the case of bonds, the cash flow volatility was compensated until the end of June 2018 by an interest rate swap (IRS) transaction. The maturity date of the IRS transaction executed in 2015 for 50% of the first tranche of bonds issued was June 26 (for more information, see Note 31.4).

As at December 31, 2018, the Company also had receivables under loans granted to its subsidiaries: Accor Pannonia Hotels Zrt., UAB Hekon and Accor Hotels Romania s.r.l. Loans granted to Hungarian and Lithuanian subsidiaries bear interest at a variable interest rate equal to EURIBOR 6M plus interest rate margin of 2.5%, while the loan granted to the Romanian subsidiary bear interest at ROBOR 6M interest rate plus interest margin of 2.2%. As per the agreements, if EURIBOR 6M or ROBOR 6M rates are below zero, the loan interest rates will be equal to the interest rate margin. In case of each agreement, interest is payable for 6-month periods, at the end of June and December of each year.

In 2018, EURIBOR 6M, on which rate the interest rate on the loans granted to the subsidiaries Accor Pannonia Hotels Zrt. and UAB Hekon 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 loan in EUR. Moreover, ROBOR 6M ranged from 2.21 to 3.58 in 2018. A 0.5 percentage point change in the interest rate of the loan granted to Accor Hotels Romania s.r.l. would result in an increase/decrease of financial income by PLN 96 thousand (the analysis was conducted on the basis of the balance of loans as at the reporting date).

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

30.2.2 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 rental costs and fees to companies belonging to the Accor Group 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, 2018, the Company held cash and had loans granted to the subsidiaries 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 December 31, 2018	as at December 31, 2017
Cash and cash equivalents			
foreign currency	EUR	35 697	4 420
Polish currency equivalent	PLN	153 497	18 435
Loans granted (short- and long-term)			
foreign currency	EUR	37 200	95 511
Polish currency equivalent	PLN	159 960	398 366
foreign currency	RON	21 000	0
Polish currency equivalent	PLN	19 381	0
Receivables			
foreign currency	EUR	852	445
Polish currency equivalent	PLN	3 664	1 856
Payables			
foreign currency	EUR	2 687	2 499
Polish currency equivalent	PLN	11 554	10 423
foreign currency	GBP	13	6
Polish currency equivalent	PLN	62	28

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	
	2018 result	2017 result
Cash and cash equivalents	15 350	1 844
Loans granted	17 934	39 837
Receivables/Payables	(795)	(860)
Total effect of exchange rate fluctuations on result	**32 489**	**40 821**

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.

30.2.3 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 and high credibility.

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)

30.2.4 Liquidity risk

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

As at December 31, 2018, and as at December 31, 2017, the Company had unused credit lines amounting to PLN 20 000 thousand under an overdraft facility available at Bank Handlowy w Warszawie S.A.

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 2018, the debt-to-equity ratio remained at the level close to that as at December 31, 2017.

	as at December 31, 2018	as at December 31, 2017
Total debt	726 319	679 115
Total equity and liabilities	2 847 782	2 735 869
Debt-to-equity ratio	**25.5%**	**24.8%**

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 loans granted and the balance of cash, accompanied by an increase in the balance of current liabilities (predominantly due to an increase in the balance of liabilities associated with tangible assets).

	as at December 31, 2018	as at December 31, 2017
Current assets and assets classified as held for sale	576 179	218 754
Current liabilities	183 309	140 564
Current ratio	**3.14**	**1.56**

Net working capital as at the end of 2018 amounted to PLN 410 608 thousand, compared to net working capital at the end of the preceding year (PLN 92 332 thousand). The increase in net working capital is in particular a result of high cash balance at the end of 2018 (due to, amongst others, repayment of a loan by the Hungarian subsidiary), as well as loans granted reclassification from non-current assets to current assets due to their maturity date in 2019.

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

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, 2018, are assumed for future interest periods. Interest as well as bonds instalments 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 10 years
Bonds	2 854	0	11 086	515 488	0
Trade payables	47 681	706	0	0	0
Other payables*	51 583	1 378	2 157	6 142	1 058
Total expenditure on account of payables	**102 118**	**2 084**	**13 243**	**521 630**	**1 058**

** 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 real property rentals as well as contracts for refurbishment and construction services.*

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

30.3 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.

30.4 REPUTATIONAL RISK

Brands under which hotels of Orbis S.A. operate and their reputation are among the Company's most important values. 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.

30.5 RISK FACTORS RELATED TO THE BONDS

30.5.1 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)

31. FINANCIAL INSTRUMENTS

31.1. CATEGORIES OF FINANCIAL INSTRUMENTS

As at December 31, 2018, all financial assets and liabilities of the Company are measured at amortised cost. At the end of the previous year, the only financial instruments that were subject to measurement at fair value through profit and loss were derivative instruments, i.e. the floor derivative instrument and interest rate swap. As at December 31, 2018, the Company no longer holds any derivative instruments, neither as assets nor liabilities (description in Note 31.3 and Note 31.4).

The following table presents the main categories of financial instruments:

	as at December 31, 2018	as at December 31, 2017
Financial assets		
Cash and cash equivalents	359 170	76 973
Loans and receivables (including trade receivables)	212 175	442 730
Derivative financial instruments (assets)	0	1 722
Financial liabilities		
Amortised cost (including trade payables)	612 816	578 594
Derivative instruments in designated hedge accounting relationships	0	74

31.2. FAIR VALUE OF FINANCIAL INSTRUMENTS

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, 2018		as at December 31, 2017	
	The carrying amount	The fair value	The carrying amount	The fair value
Financial assets				
Cash and cash equivalents	359 170	359 170	76 973	76 973
Loans granted	179 341	179 341	398 366	398 366
Derivative financial instruments (assets)	0	0	1 722	1 722
Other financial assets	0	0	6 944	6 944
Trade receivables and others short-term receivables	32 834	32 834	37 420	37 420
Financial liabilities				
Debt securities - bonds issued	502 111	503 380	501 778	504 500
Derivative financial instruments (liabilities)	0	0	74	74
Trade payables and other long-term and short-term payables	110 705	110 705	76 816	76 816

According to the Management Board, as at December 31, 2018, and December 31, 2017, the carrying amount of financial instruments of the Company, with the exception of liabilities arising from issued bonds, was close to their fair value.

In the case of cash and cash equivalents and short-term receivables and short-term payables, the carrying amount is close to fair value due to their cash-like liquidity, short maturity and the fact that the carrying amount of receivables includes impairment.

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 instruments was determined as at December 31, 2017, as the present value of estimated future cash flows on the basis of monitoring of yield curves. As at December 31, 2018, the Company did not hold any derivative instruments.

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.

31.3. EMBEDDED DERIVATIVE INSTRUMENT

As at December 31, 2017, the floor derivative instrument embedded into loans granted to subsidiaries was measured. This instrument is triggered when the base rate for calculating interest on loans granted, i.e. EURIBOR 6M, is lower than 0%. Then, according to the loan agreements, a base equal to 0% applies (see Note 13 for more information on loans granted). As a result of the measurement as at December 31, 2017, the sum of PLN 1 722 thousand was recognized in the Company's financial result (in financial income).

In connection with the implementation of IFRS 9 "Financial Instruments" as from January 1, 2018, the Company withdrew the floor instrument because, unlike under IAS 39, derivatives are no longer separated from their host according to IFRS 9.

31.4. HEDGE ACCOUNTING

The interest rate swap (IRS) executed to hedge against the risk of interest rate fluctuations and to secure cash flows related to the issued bonds matured on June 26, 2018. The value of the instrument was PLN 150 million, which accounted for 50% of the first tranche of issued bonds (PLN 300 million). In 2018, the Company paid PLN 75 thousand of interest payments on the interest rate swap (IRS) transaction. In the reporting periods the swap's fair value was disclosed in the Company's equity under other comprehensive income. In 2018, 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)

32. 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.

32.1. 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 2018	for 2017
Management Board		
Gilles Stephane Clavie	2 281	2 226
Ireneusz Andrzej Węgłowski	1 083	1 081
Dominik Sołtysik	1 496	1 416
Marcin Szewczykowski	1 043	1 030
Supervisory Board		
Franck Gervais (Member of the Supervisory Board from April 4, 2018, Chairman from 12 June, 2018)	0	0
Pierre Boisselier (Member of the Supervisory Board from April 7, 2018)	0	0
Jean-Jacques Dessors (Member of the Supervisory Board until March 2, 2018)	0	0
Artur Gabor	107	98
Christian Karaoglanian	73	62
Jacek Kseń	107	94
Jean-Jacques Morin	0	0
Jan Ozinga (Chairman of the Supervisory Board until April 6, 2018)	0	0
Laurent Francois Picheral	0	0
Andrzej Procajło	81	81
Andrzej Przytuła	81	81
Jarosław Szymański	81	81
Bruno Coudry (Member of the Supervisory Board until March 31, 2017)	0	17

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.

32.2. 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.

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

Revenue from the sale of services to subsidiaries comprise mainly franchise fees from UAB Hekon, management fees from Orbis Kontrakty Sp. z o.o. as well as revenue from IT services rendered for companies from Orbis Group.

Purchases from subsidiary companies comprise predominantly mutually provided services.

Finance income comprises dividends from related parties as well as interest on loans granted to subsidiaries: Accor Pannonia Hotels Zrt., UAB Hekon and Accor Hotels Romania s.r.l.

RELATED PARTY TRANSACTIONS - REVENUES	2018	2017
Net sales of services	**4 561**	**3 634**
- sale to parent company	1 508	1 545
- sale to other Accor Group companies	972	963
- sales to subsidiaries	2 081	1 126
Finance income	**19 707**	**22 974**
- from subsidiaries	19 707	22 974
Total revenue	**24 268**	**26 608**

RELATED PARTY TRANSACTIONS - EXPENSES	2018	2017
Purchases of services	**47 861**	**43 192**
- from parent company	35 839	30 570
- from other Accor Group companies	9 733	11 016
- from subsidiaries	2 289	1 606
Total expenses	**47 861**	**43 192**

RECEIVABLES AND PAYABLES	as at December 31, 2018	as at December 31, 2017
Trade receivables	**1 839**	**1 850**
- from parent company	779	778
- from other Accor Group companies	507	321
- from subsidiaries	553	751
Receivables under loans granted	**179 341**	**398 366**
- from subsidiaries	179 341	398 366
Total receivables	**181 180**	**400 216**
Trade payables	**10 567**	**8 478**
- to parent company	6 456	5 622
- to other Accor Group companies	19	963
- to subsidiaries	4 092	1 893
Total payables	**10 567**	**8 478**

As at December 31, 2018, and December 31, 2017, the Company did not have any loans received from related parties.

No impairment loss was recognised on the presented receivables.

Transactions with related companies are executed at arms' length.

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

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.

33. EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

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

	2018	2017
Change in receivables in the statement of financial position	**3 190**	**(1 062)**
change in other long-term receivables and prepayments	190	(426)
change in receivables on account of sale of tangible assets	(8 945)	(9 563)
Change in the statement of cash flows	**(5 565)**	**(11 051)**
Change in the statement of liabilities arising from contracts	**18 676**	**0**
adjustment under IFRS 15	(15 387)	0
Change in the statement of cash flows	**3 289**	**0**
Change in other liabilities, except borrowings, in the statement of financial position	**29 860**	**173**
change in investment liabilities	(30 943)	(1 020)
Change in the statement of cash flows	**(1 083)**	**(847)**
Change in deferred revenue in the statement of financial position	**(14 500)**	**7 828**
advance payments received towards the sale of real property	(725)	(7 616)
adjustment under IFRS 15	13 951	0
Change in the statement of cash flows	**(1 274)**	**212**
Change in provisions in the statement of financial position	**1 454**	**445**
actuarial gains and losses in respect of defined employee benefit plan recognised in other comprehensive income	(1 187)	(564)
Change in the statement of cash flows	**267**	**(119)**
Other adjustments	**1 783**	**(10 064)**
revaluation of non-current assets	1 773	(6 740)
revaluation of investments in subsidiaries	10	(1 608)
revaluation of financial assets	0	(1 722)
other	0	6
Change in the statement of cash flows	**1 783**	**(10 064)**

34. EVENTS AFTER THE REPORTING PERIOD

Performing the conditional sale agreement of December 20, 2018, on February 1, 2019, Orbis S.A. transferred the right of perpetual usufruct of non-hotel property located in Wrocław, with a total area of 7 919 square metres to a developer company against the originally agreed net price of PLN 44 000 thousand.

Furthermore, in February 2019 Orbis S.A. and Cube Sp. z o.o. resumed negotiations aimed at finalizing the sale of the ibis budget Toruń hotel, which was suspended in October of the past year.

(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. 20, 2019	Gilles Stephane Clavie	President of the Management Board	
Feb. 20, 2019	Ireneusz Andrzej Węgłowski	Vice-President of the Management Board	
Feb. 20, 2019	Dominik Sołtysik	Member of the Management Board	
Feb. 20, 2019	Marcin Szewczykowski	Member of the Management Board	

SIGNATURE OF THE MEMBER IN CHARGE OF BOOKKEEPING

Date	Name and Surname	Position/Function	Signature
Feb. 20, 2019	Marcin Szewczykowski	Member of the Management Board	