Orbis Group

Report for 2018

The Consolidated Financial Statements

February 21, 2019

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

CONSOLIDATED INCOME STATEMENT
for the year 2018

	Note	2018 *(under IFRS 15)*	2017 *(under IAS 18)*
Net sales	5.1	**1 440 028**	**1 458 073**
Outsourced services	5.2	(313 125)	(316 062)
Employee benefit expense	5.3	(362 247)	(354 914)
Raw materials and energy used	5.2	(181 474)	(202 110)
Taxes and charges	5.2	(42 622)	(42 905)
Other expenses by nature	5.2	(13 104)	(12 999)
Impairment of receivables	5.2	1 128	(797)
Net other operating income / (expenses)	5.4	8 488	4 104
EBITDAR		**537 072**	**532 390**
Rental expense	28	(57 724)	(64 041)
Operating EBITDA		**479 348**	**468 349**
Depreciation and amortisation	5.2	(170 600)	(164 067)
Operating profit without the effects of one-off events		**308 748**	**304 282**
Result on sale of real property	5.5	130 480	12 064
Revaluation of non-current assets	5.6	546	6 740
Restructuring costs	5.7	(899)	(4 028)
Result of other one-off events	5.8	(1 531)	(3 381)
Operating profit		**437 344**	**315 677**
Finance income	5.9	1 916	1 872
Finance costs	5.10	(18 190)	(30 987)
Profit before tax		**421 070**	**286 562**
Income tax expense	6	(57 712)	(54 121)
Net profit for the period		**363 358**	**232 441**
- attributable to owners of the parent		363 198	232 391
- attributable to non-controlling interests		160	50
Earnings per ordinary share			
Basic and diluted profit attributable to owners of the parent for the period (in PLN)	7	7.88	5.04

Definitions of individual result levels are provided under Note 2.4.4.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year 2018

	Note	2018 *(under IFRS 15)*	2017 *(under IAS 18)*
Net profit for the period		**363 358**	**232 441**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/losses arising from the defined benefit plan	27	(1 182)	(438)
Income tax relating to items that will not be reclassified subsequently		215	35
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	19.3	18 407	(28 148)
The effective portion of the gain or loss on the hedging instrument entered into for cash flow hedges	32.3	75	42
Income tax relating to items that may be reclassified subsequently		(14)	(8)
Other comprehensive income/(loss), net of income tax		**17 501**	**(28 517)**
Total comprehensive income for the period		**380 859**	**203 924**
- attributable to owners of the parent		380 699	203 885
- attributable to non-controlling interests		160	39

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

CONSOLIDATED 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		**2 546 642**	**2 392 340**
Property, plant and equipment	9	2 415 834	2 251 515
Investment property	10	3 538	5 088
Intangible assets, of which:	11	114 831	111 568
- goodwill	11	111 682	107 252
Assets arising under contracts	22	388	0
Other financial assets	12	0	6 944
Deferred tax assets	6	10 983	15 912
Other long-term assets	13	1 068	1 313
Current assets		**663 148**	**325 869**
Inventories	14	6 463	6 785
Trade receivables	15	69 707	68 579
Income tax receivables	6	4 385	541
Other short-term receivables	15	44 759	35 120
Cash and cash equivalents	17	537 834	214 844
Assets classified as held for sale	18	**8 690**	**201 093**
TOTAL ASSETS		**3 218 480**	**2 919 302**

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

CONSOLIDATED 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		**2 386 786**	**2 080 877**
Equity attributable to owners of the parent		**2 386 425**	**2 080 676**
Share capital	19.1	517 754	517 754
Reserves	19.2	133 333	133 272
Retained earnings	19.4	1 727 659	1 440 378
Foreign currency translation reserve	19.3	7 679	(10 728)
Non-controlling interests	19.5	**361**	**201**
Non-current liabilities		**545 411**	**548 571**
Bonds	21	502 111	501 778
Deferred tax liabilities	6	196	3 969
Liabilities arising under contracts	22	2 097	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	21 341	19 180
Provisions for liabilities	25	1 538	5 665
Current liabilities		**286 283**	**289 854**
Borrowings	20	0	40 873
Other financial liabilities	32.3	0	74
Trade payables	26	80 706	101 471
Liabilities associated with tangible assets	26	73 595	28 358
Current tax liabilities	6	13 603	1 758
Liabilities arising under contracts	22	30 779	0
Deferred revenue	23	6 735	23 623
Other current liabilities	26	76 124	88 251
Provision for retirement benefits and similar obligations	27	3 389	3 080
Provisions for liabilities	25	1 352	2 366
TOTAL EQUITY AND LIABILITIES		**3 218 480**	**2 919 302**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year 2018

	Note	Equity attributable to owners of the parent				Non-controlling interest	Total
		Share capital	Reserves	Retained earnings	Foreign currency translation reserve		
Twelve months ended December 31, 2017							
Balance as at January 1, 2017		**517 754**	**133 238**	**1 282 113**	**17 409**	**162**	**1 950 676**
- net profit for the period		0	0	232 391	0	50	**232 441**
- other comprehensive income/(loss)		0	34	(403)	(28 137)	(11)	**(28 517)**
Total comprehensive income/(loss) for the period		**0**	**34**	**231 988**	**(28 137)**	**39**	**203 924**
- dividends		0	0	(73 723)	0	0	**(73 723)**
Balance as at December 31, 2017	19	**517 754**	**133 272**	**1 440 378**	**(10 728)**	**201**	**2 080 877**
Twelve months ended December 31, 2018							
Balance as at January 1, 2018 (as reported)		**517 754**	**133 272**	**1 440 378**	**(10 728)**	**201**	**2 080 877**
- adjustment for IFRS 15	2.7.1	0	0	(1 227)	0	0	**(1 227)**
Balance as at January 1, 2018 (restated)*		**517 754**	**133 272**	**1 439 151**	**(10 728)**	**201**	**2 079 650**
- net profit for the period		0	0	363 198	0	160	**363 358**
- other comprehensive income/(loss)		0	61	(967)	18 407	0	**17 501**
Total comprehensive income for the period		**0**	**61**	**362 231**	**18 407**	**160**	**380 859**
- dividends	8	0	0	(73 723)	0	0	**(73 723)**
Balance as at December 31, 2018	19	**517 754**	**133 333**	**1 727 659**	**7 679**	**361**	**2 386 786**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year 2018

	Note	2018 (under IFRS 15)	2017 (under IAS 18)
OPERATING ACTIVITIES			
Profit before tax		**421 070**	**286 562**
Adjustments:		**19 903**	**150 479**
Depreciation and amortisation	5.2	170 600	164 067
Foreign exchange losses		11 560	8 596
Interest and other borrowing costs		12 532	17 141
Gain from investing activities		(144 563)	(9 727)
Change in receivables and assets arising under contracts	34	(13 693)	(12 217)
Change in liabilities arising from contracts	34	2 918	0
Change in other liabilities, excluding borrowings	34	(14 300)	(13 053)
Change in deferred revenue	34	(1 628)	2 908
Change in provisions	34	(3 809)	(723)
Change in inventories	34	822	221
Other adjustments	34	(536)	(6 734)
Cash generated from operations		**440 973**	**437 041**
Income taxes paid	6	(46 811)	(46 811)
Net cash generated by operating activities		**394 162**	**390 230**
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment, intangible assets and investment property		359 111	62 216
Interest received		1 831	1 776
Other investing cash inflows		4 860	14 881
Buyout of leased hotels		0	(468 056)
Hotel acquisition expense		(46 811)	0
Payments for property, plant and equipment and intangible assets		(266 576)	(146 584)
Increase in share capital of related parties		(10)	0
Loans granted		(607)	0
Net cash generated by/(used in) investing activities		**51 798**	**(535 767)**
FINANCING ACTIVITIES			
Proceeds from borrowings	20	0	41 706
Repayment of borrowings	20	(40 539)	(123 512)
Interest paid and other financing cash outflows resulting from received borrowings	20	(414)	(3 827)
Interest paid and other financing cash outflows resulting from bonds	21	(14 090)	(14 190)
Dividends and other payments to owners	8	(73 723)	(73 723)
Net cash used in financing activities		**(128 766)**	**(173 546)**
Change in cash and cash equivalents		**317 194**	**(319 083)**
Effects of exchange rate changes on the balance of cash held in foreign currencies		5 796	(6 867)
Cash and cash equivalents at the beginning of the period		**214 844**	**540 794**
Cash and cash equivalents at the end of the period	17	**537 834**	**214 844**

1. BACKGROUND

The attached consolidated financial statements present financial data in the consolidated statement of financial position as at December 31, 2018, and as at December 31, 2017, consolidated statement of changes in equity, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows, covering data for 2018 and 2017, as well as explanatory notes to the abovementioned financial statements. These consolidated financial statements of the Group for 2018 comprise the Parent Company and its subsidiaries (jointly referred to as the “Orbis Group” or the “Group”).

In the Parent Company and in the Companies forming the Group, a financial year corresponds to a calendar year. The term of all individual Companies is unlimited. The financial statements of the Parent Company as well as all its subsidiaries and associates have been prepared for the same reporting period using consistent accounting policies.

The financial statements of the Group Companies are recognised in the currency of the primary economic environment in which the Companies operate (in the “functional currency”). The consolidated financial statements are presented in Polish zloty (PLN) which is the presentation and functional currency of the Parent Company.

The consolidated financial statements were approved by the Management Board on February 20, 2019.

Items of statement of financial position of foreign subsidiary companies were translated into the Polish currency at the average exchange rate quoted by the National Bank of Poland as at December 31, 2018. Items of the income statement, statement of comprehensive income and statements of cash flows of foreign subsidiary companies were translated into the Polish currency at the exchange rates being the arithmetic mean of average rates quoted by the National Bank of Poland at the day ending each month of 2018 and of 2017. All resulting foreign exchange differences are recognised as a component of equity

Exchange rates used to translate statements of foreign subsidiary companies are presented in the table below:

CURRENCY	Average exchange rate in the reporting period		Exchange rate at the end of the reporting period	
	2018	2017	December 31, 2018	December 31, 2017
EUR/PLN	4.2669	4.2447	4.3000	4.1709
HUF/PLN	0.0133	0.0137	0.0134	0.0134
CZK/PLN	0.1663	0.1614	0.1673	0.1632
RON/PLN	0.9165	0.9282	0.9229	0.8953

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

1.1 ORBIS GROUP

1.1.1 Parent Company

The Group's Parent Company is Orbis S.A. with its corporate seat in Warsaw, at 16 Bracka Street, 00-028 Warsaw, Poland, entered into the Register of Business Operators maintained by the District Court in Warsaw, XII Commercial Division of the National Court Register under the number KRS 22622. According to the Polish Classification of Business Activity [PKD], the Company's business operations are classified under section I, item 5510Z. On the Warsaw Stock Exchange, the Company's operations are classified as hotels and restaurants.

The shareholding structure is presented in Note 19.1 to the financial statements.

1.1.2 The Group

Orbis S.A. is the Parent Company of **the Orbis Group** which is formed of companies from the hotel sector.

The Orbis Hotel Group is the largest hotel network in Poland and Central Europe. As at December 31, 2018, the Group's structure comprised 133 hotels located in twelve countries. Hotels of the Group operate under following Accor brands: Sofitel, Pullman, MGallery, Novotel, Mercure, ibis, ibis Styles, ibis budget.

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 bearing 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.

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

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

Companies forming the Orbis Group

SUBSIDIARIES	% share of equity	% share of votes at the GM	Core business
Orbis Kontrakty Sp. z o.o., Warsaw	directly 100%	directly 100%	organisation of purchasing
UAB Hekon, Vilnius	directly 100%	directly 100%	hotel, F&B services
Orbis Corporate Sp. z o.o., Warsaw*	directly 100%	directly 100%	tourism, transport, hotel, F&B services
Katerinska Hotel s.r.o., Prague	directly 100%	directly 100%	hotel, F&B services
Accor Pannonia Hotels Zrt., Budapest	directly 99.92%	directly 99.92%	hotel, F&B services
Accor Hotels Romania s.r.l., Bucharest	directly 100%	directly 100%	hotel, F&B services
5 Hotel Kft., Budapest	indirectly 99.92%	indirectly 99.92%	real property rental
Accor Pannonia Slovakia s.r.o., Bratislava	indirectly 99.92%	indirectly 99.92%	hotel, F&B services

** Company excluded from consolidation since it does not operate.*

1.1.3 Changes in the Group's structure and their effect, including business combinations, acquisition and disposal of subsidiaries as well as long-term investments

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 controlled subsidiaries of the Starwood Capital Group (the buyer) finalised the sale transaction of a stake representing 100% of share capital of 5 Star Hotel Kft., the owner of the Sofitel Budapest Chain Bridge

On December 12, 2018, H-DEVELOPMENT Cz a.s. merged with Katerinska Hotel s.r.o. As of that date, Katerinska Hotel s.r.o. assumed the rights and obligations of H-DEVELOPMENT CZ a.s., which was removed from the register of companies. The merger took place at the beginning of 2018 and was effective as from January 1, 2018.

On December 12, 2018, Business Estate Entity a.s. merged with Katerinska Hotel s.r.o. As of that date, Katerinska Hotel s.r.o. assumed the rights and obligations of Business Estate Entity a.s. which was removed from the register of companies. The merger took place at the beginning of 2018 and was effective as from January 1, 2018.

1.1.4 Non-consolidated companies

Certain subsidiaries that are not material to the total assets/equity and liabilities reported in the statement of financial position as well as profit or loss of the Group are not consolidated.

Interests in non-consolidated subsidiaries are recognised in the consolidated financial statements at cost less impairment losses, while results of valuation are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 STATEMENT OF COMPLIANCE

The consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS

The basic accounting policies applied in the preparation of consolidated 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 do 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 Group's accounting policies. The areas which are more complex or require a subjective judgment, as well as areas in which the assumptions and estimates are significant for the financial statements as a whole, are described in Note 2.8 to the financial statements.

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

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 CONSOLIDATED FINANCIAL STATEMENT

The report of the licensed auditor KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. on the audit of the consolidated financial statements of the Orbis Group 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 Group.

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

Despite different interpretations of IAS 17, including treatment of the lease of land as operating lease on account of the fact that land usually has an unlimited period of economic utility, in the assessment of the Management Board the specific nature of the title to perpetual usufruct of land 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 were 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 1.8% of total assets), compared to PLN 59 324 thousand (2.0% 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 on financial position, amounted to PLN 246 313 thousand (7.7% of total assets) as at December 31, 2018, and PLN 251 764 thousand (8.6% of total assets) as at December 31, 2017. The value of the related deferred tax liabilities amounted to PLN 46 799 thousand (1.5% of total equity and liabilities) as at December 31, 2018, and PLN 47 835 thousand (1.6% 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 (corresponding to 1.2% of net profit) and PLN 6 707 thousand (2.9% of net profit) and the previous years' profit/loss as at December 31, 2018, and December 31, 2017, would have been lower by, respectively, PLN 203 929 thousand (6.3% of total equity and liabilities) and PLN 210 636 thousand (7.2% of total equity and liabilities).

When evaluating the financial statements of Orbis Group for the year 2018, alike in the past years, the Supervisory Board has given due consideration to the arguments of the Management Board as well as to the auditor's position on the relevant issues. The Supervisory Board of Orbis S.A. agrees with and gives its positive opinion on the position of the Management Board of Orbis S.A. that the accepted accounting treatment of rights to perpetual usufruct of land contributes to transparent and fair presentation of information on the economic standing of the Group.

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 Group, 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 of the parent company 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 of Orbis S.A., 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 Group so far), as of January 1, 2019, the right to perpetual usufruct of land will be treated by the Group 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 THE GROUP

2.4.1 Related parties

2.4.1.1 Subsidiaries

Subsidiaries are all entities that are controlled by the Group. Control is achieved when the Group:
- has power over the investee,
- is exposed, or has rights, to variable returns from its involvement with the investee,
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights in an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to unilaterally direct the relevant activities of the investee. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:
- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are consolidated from the date on which the Group took control. They are de-consolidated from the date this control ceases.

Acquisitions of subsidiaries by the Group are recognised by using the purchase method. The cost of acquisition is set at fair value of transferred assets, issued equity instruments, and incurred or accepted liabilities as at the exchange date. Identifiable assets and liabilities, and contingent liabilities acquired by way of business combination are measured upon the initial recognition at their fair value as at the acquisition date regardless of any non-controlling interests. Any surplus of the cost of acquisition over the fair value of the Group's share of identifiable, acquired net assets is recognised as goodwill. If the cost of acquisition is lower than fair value of the Group's share of net assets of the acquired subsidiary, the difference is directly recognised in profit or loss.

In case of acquisitions under common control, the applied method is the one described in Note 2.4.3 to the Consolidated Financial Statements.

Financial statements of subsidiaries are adjusted, if necessary, in order to unify the subsidiaries' accounting policies with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains arising from transactions between the Group's Companies are eliminated. Unrealised losses are also eliminated unless a transaction causes impairment of a transferred asset.

The value of interests held by the Parent and other consolidated Companies in subsidiaries that represents the share of the Parent and other consolidated Companies of the Group in subsidiaries is also eliminated.

2.4.1.2 Associates

Associates include all entities over which the Group has significant influence but not control, i.e. usually the group holds 20% to 50% of associates' voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies.

Investments in associates are recognised using the equity method and are initially recognised at cost.

The results, assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at historical cost, as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the fair value of the identifiable net assets of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

Unrealised profits from transactions between the Group and its associates are eliminated proportionately to the amount of the Group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence that the transferred asset has been impaired.
Where necessary, accounting policies of associates were adjusted in order to maintain consistency with the Group's accounting policies.

2.4.2 Non-controlling interests and transactions with non-controlling interest holders

Non-controlling interests are identified separately from the equity attributable to owners of the parent therein. Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in the Group's equity.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any interest retained in the Group, and (ii) the previous carrying amount of the assets (including goodwill), and liabilities and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss. The fair value of any investment retained by the Group in the former subsidiary by the Group following disposal is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

2.4.3 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 Group uses the pooling of interests method, which assumes that:

- assets and liabilities of merging entities are valued at their book value and adjusted, where appropriate, for the purpose of applying uniform accounting principles by the given entity with those applied by the Group;
- 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 the net assets acquired is recognized in the Group's equity;
- 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 the parent company, 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 Group's profit or loss.

2.4.4 Statement of financial position

The Group 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 Management Board of the Parent Company, 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.

2.4.5 Revenue recognition

Sales revenue is recognized at the moment and to the degree reflecting the fulfilment by the Group 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 Group. 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 Group.
- Sales of food&beverage services – they include revenue from sales of food and beverages in hotels owned or leased by the Group. 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 Group receives franchise fees in connection with the licenses it grants for using brands owned by the Group, usually under long-term agreements with the hotel owners. The Group 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 Group.

- Management fees – these fees are paid by hotels managed by the Group, 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 Group 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.

2.4.6 Assets and liabilities arising from contracts

IFRS 15 introduced a new category of assets and liabilities in the statement of financial position.

Assets arising from contracts reflect the Group's right to be paid for goods or services that have already been delivered to a customer, if such right is subject to a condition other than the passage of time.

Liabilities arising from contracts reflect Group'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 Group 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).

2.4.7 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 years of service (jubilee) awards (see also Note 2.4.20).

2.4.8 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 free of charge as a result of administrative decisions were initially recognised in the consolidated 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.

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 Group 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.

2.4.9 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.

2.4.9.1 Finance lease

Assets used under a finance lease are treated as assets of the Group's Companies 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 Group's Companies 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.

2.4.9.2 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.

2.4.10 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 Group 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.

2.4.11 Intangible assets

2.4.11.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date when control was assumed over it. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the entity sold. Goodwill is carried in the statement of financial position at cost less impairment losses.

Goodwill arising on the acquisition of an associate is recognised in the statement of financial position in the line item investments in associates consolidated using the equity method. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

2.4.11.2 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 Group does not carry out any research or development. Costs of creation of WWW pages are recognised in expenses by nature, i.e. in costs by nature - outsourced services.

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.

2.4.12 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 Group 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.

2.4.13 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.

2.4.14 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 Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for the amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group 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.

2.4.14.1 Financial assets measured at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:

- the Group 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.

2.4.14.2 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 Group 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 Group 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 Group'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 Group 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.

2.4.14.3 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 Group 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.

2.4.15 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.

2.4.16 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 Group’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.

2.4.17 Impairment of assets

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

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

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

As regards measurement of goodwill, the cash-generating unit is an operating segment identified within the company to which goodwill relates and each hotel that, at the time of acquisition meets the definition of a venture IFRS 3. 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 Group evaluates whether there are any indications of the need to recognise impairment loss or to change its value. The Group 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 Group 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 Group 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.

2.4.17.2 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 Group 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 have been 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 Group recognises impairment loss on the basis of individual analyses. At the time of implementation of IFRS 9, the Group 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 Group. 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 Group has a adopted a policy to recognise an impairment loss covering 100% of receivables overdue for over 180 days. In case the Group 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.

2.4.17.3 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.

2.4.18 Financial liabilities and equity instruments issued by the Group

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

2.4.18.1 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 Group are recognised at the proceeds received, net of direct issue costs.

Own equity instruments repurchased by the Group are recognised in, or directly reported through equity.

In case of sale, purchase, issue or retirement of the Group’s own equity instruments no related gains or losses are recognised in the Company’s profit or loss.

2.4.18.2 Compound financial instruments

The component parts of compound instruments issued by the Group 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.

2.4.18.3 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 Group derecognises financial liabilities only when the relevant obligations of the Group 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.

2.4.18.4 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 Group 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 Group'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.

2.4.18.5 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.

2.4.18.6 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.

2.4.19 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 Group 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.

2.4.19.1 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.

2.4.20 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 Group, 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.

Remeasurement 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, comprising retirement and disability benefits, is 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. 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 Group 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 Group 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 Group can no longer withdraw the offer of the termination benefit and when the Group recognises all the related restructuring costs.

2.4.21 Provisions

Provisions are recognised when the Group Companies have 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 or they are recognized on the basis of agreements concluded with employees..

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 Group'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.

2.4.22 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 Group.

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 Group Companies; 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.

2.4.23 Income taxes

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.

2.4.23.1 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 consolidated 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 Companies calculated their corporate income tax liability at the rate of 19% of taxable income.

Foreign subsidiaries of the Group calculated their corporate tax liability based on the following tax rates:

- Czech Republic 19%
- Lithuania 15%
- Romania* 16%
- Slovakia 21%
- Hungary 9%

** In Romania part of the business activities are liable to tax at the rate of 16%, meanwhile business activities such as hotel and food&beverage services are liable to tax calculated depending on a number of specific factors, such as: importance of the city/town; utility of commercial and service space; number of beds; seasonality factor.*

2.4.23.2 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 by Group companies. 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 is not a business combination in the sense of IFRS 3 and does not affect the tax result or 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.

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.

2.4.23.3 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.

2.4.24 Payment of dividend

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

2.4.25 Foreign currency

Transactions in currencies other than the functional currency are recognised at the rates of exchange prevailing at the dates of the transactions.

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 regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in the foreign currency translation reserve and in gains or losses on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of foreign operations are translated into Polish currency using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the reporting period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. All exchange rate differences are recognised in other comprehensive income and accumulated value in capital (respectively, posted to non-controlling interests).

On the disposal of a foreign operation all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the parent are reclassified to profit or loss.

In addition, in relation to a partial disposal of a foreign subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals od associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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 interpretations, 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, interpretations and amendments to standards have not exerted any substantial impact on the Group'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 standards, amendments to the existing standards and interpretations have been issued 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 Group decided not to take advantage of the possibility of earlier application of the above new standards or amendments to existing standards.

According to the Group's estimates, the above listed standards, interpretations and amendments to the standards, with the exception of IFRS 16 "Leases" effective from January 1, 2019, would not exert any substantial impact on the financial statements if applied by the Group as at the end of the reporting period. The impact of the application of IFRS 16 on the financial statements of the Orbis Group is described in note 2.7.2

Moreover, the following new standards and amendments to the 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 Material (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 Group's estimates, the above listed standards, interpretations and amendments to standards, would not exert any substantial impact on the financial statements if applied by the Group as at the end of the reporting period.

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

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

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

2.7.1 Standards which came into force in 2018

Since January 1, 2018, the Group 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 Group 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.

IFRS 15 introduced a new category of assets and liabilities in the statement of financial position, namely assets arising from contracts and liabilities arising from contracts. Assets arising from contracts reflect the Group's right to be paid for goods or services that have already been delivered to a customer, if such right is subject to a condition other than the passage of time (for example, on future contractual performance of the Group). Liabilities arising from contracts reflect Group'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 Group for a provision of service to a customer in the future. 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 Group 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 Group did not deploy fully retrospective application of IFRS 15 (and did not restate comparative data).

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

The Group used full historical data in order to determine the influence of IFRS 15 on the opening balance of the Orbis Group financial statements for the first half of 2018. The tables below present the impact of applying the new accounting principles resulting from the implementation of IFRS 15 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 Group 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, i.e. January 1, 2018

	January 1, 2018 (no IFRS 15 impact)	IFRS 15 impact	January 1, 2018 (restated)
Non-current assets	**2 392 340**	**273**	**2 392 613**
Deferred tax assets	15 912	273	16 185
Current assets	**325 869**	**0**	**325 869**
Assets classified as held for sale	**201 093**	**0**	**201 093**
TOTAL ASSETS	**2 919 302**	**273**	**2 919 575**
Equity	**2 080 877**	**(1 227)**	**2 079 650**
Equity attributable to owners of the parent	**2 080 676**	**(1 227)**	**2 079 449**
Retained earnings	1 440 378	(1 227)	1 439 151
Non-controlling interests	**201**	**0**	**201**
Non-current liabilities	**548 571**	**1 500**	**550 071**
Liabilities arising from contracts	0	1 500	1 500
Current liabilities	**289 854**	**0**	**289 854**
Trade payables	101 471	(10 961)	90 510
Liabilities arising from contracts	0	28 390	28 390
Deferred revenue	23 623	(17 429)	6 194
TOTAL EQUITY AND LIABILITIES	**2 919 302**	**273**	**2 919 575**

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

The impact of IFRS 15 application on the financial statements for t12 months of 2018

	2018 (no IFRS 15 impact)	IFRS 15 impact	2018 (as reported)
Net sales	1 440 778	(750)	1 440 028
EBITDAR	**537 822**	**(750)**	**537 072**
Operating EBITDA	**480 098**	**(750)**	**479 348**
Operating profit without the effects of one-off events	**309 498**	**(750)**	**308 748**
Operating profit	**438 094**	**(750)**	**437 344**
Profit before tax	**421 820**	**(750)**	**421 070**
Income tax expense	(57 854)	142	(57 712)
Net profit for the period	**363 966**	**(608)**	**363 358**
- attributable to owners of the parent	363 806	(608)	363 198
- attributable to non-controlling interests	160	0	160
Total income/(loss) for the period	**381 467**	**(608)**	**380 859**

	December 31, 2018 (no IFRS 15 impact)	IFRS 15 impact	December 31, 2018 (as reported)
Non-current assets	**2 546 227**	**415**	**2 546 642**
Assets arising under contracts	0	388	388
Deferred tax assets	10 568	415	10 983
Other long-term assets	1 456	(388)	1 068
Current assets	**663 148**	**0**	**663 148**
Assets classified as held for sale	**8 690**	**0**	**8 690**
TOTAL ASSETS	**3 218 065**	**415**	**3 218 480**
Equity	**2 388 621**	**(1 835)**	**2 386 786**
Equity attributable to owners of the parent	**2 388 260**	**(1 835)**	**2 386 425**
Retained earnings	1 729 494	(1 835)	1 727 659
Non-controlling interests	**361**	**0**	**361**
Non-current liabilities	**543 314**	**2 097**	**545 411**
Liabilities arising from contracts	0	2 097	2 097
Current liabilities	**286 130**	**153**	**286 283**
Liabilities arising from contracts	0	30 779	30 779
Deferred revenue	37 361	(30 626)	6 735
TOTAL EQUITY AND LIABILITIES	**3 218 065**	**415**	**3 218 480**

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

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 2.4.14.

The tables below present changes in the classification of financial assets at 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:		Value according to IAS 39 and IFRS 9 as at January 1, 2018
	IAS 39	IFRS 9	
Financial assets			
Cash and cash equivalents	Loans and receivables (amortised cost)	Amortised cost	214 844
Other financial assets	Loans and receivables (amortised cost)	Amortised cost	6 944
Trade receivables and other non-current receivables	Loans and receivables (amortised cost)	Amortised cost	83 237

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 is still applied. A detailed description of the methodology of calculating impairment loss on financial assets is presented in Note 2.4.17.2.

In the field of hedge accounting, the Group 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 Group chose the option provided for in paragraph 7.2.15 of the standard, i.e. it did not restate the figures for preceding periods. 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 Group’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 Group 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.

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2.7.2 Standards due to enter into force in 2019

IFRS 16 "Leasing"

Adoption of the new standard on leases will not have a significant influence on the Group'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 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 (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 Group 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 Group's retained earnings on the day of first application, i.e. January 1, 2019.

The Group 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 marginal 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 Group 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 Group 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 Group was a party to an operating lease agreement concerning 10 hotels, lease of offices in Warsaw and Prague, and lease agreements concerning 121 motorcars. Disclosures currently required by IAS 17, including information about the future minimum lease payments under those agreements, are presented in Note 28.

The Group 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 Group 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 Group 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 Group has adopted so far.

As at the day of implementation of IFRS 16, the Group 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 marginal borrowing rate as at 1 January 2019, which rate reflects the anticipated cost of financing the object of lease. The Group analysed various methodologies that could be applied to determining the lessee's marginal 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 Group 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. When determining the discount rate for contracts entered into by Orbis SA, account was also taken of the current margin the Company would now pay if it borrowed funds from a financial institution to finance the purchase of the object of lease. Meanwhile, for foreign subsidiaries of the Orbis Group, considering the fact that as of the day of first application of IFRS 16 these companies would mainly rely on debt financing taken out by the parent company Orbis SA, the lessee's marginal borrowing rate was calculated on the basis of the current costs of debt taken out by Orbis SA plus the extra costs of potential guarantees to secure future payments.

As at January 1, 2019, discount rates adopted by the Group for the leased hotels and office spaces were within the following ranges:
- contracts in EUR: 1.52% - 3.76%,
- contracts in CZK: 4.36%.

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 Group would pay in case it took out debt. Meanwhile, for motorcars leased by the Group, the usual lease term being 3 years, discount rates ranging from 2.61% to 3.11% were adopted (i.e. ones corresponding to the risk-free rate plus Orbis SA 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 Group 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 addition, the Group had the benefit of hindsight concerning determination of lease terms and future purchases of the objects of leases. This approach is permitted by paragraph C10 e) of the standard.

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 Group 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 Group companies, 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 thousands, 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 leases of hotels and office space	adjustment due to recognition of leases of motorcars	January 1, 2019 (restated)
		a)	b)			
Non-current assets	**2 546 642**	**(192 762)**	**240 167**	**229 621**	**862**	**2 824 530**
Property, plant and equipment	2 415 834	(238 056)	230 588	230 011	862	2 639 239
of which Right-of-use assets	*0*	*0*	*230 588*	*230 011*	*862*	*461 461*
Investment property	3 538	(1 505)	9 579	0	0	11 612
of which Right-of-use assets	*0*	*0*	*9 579*	*0*	*0*	*9 579*
Deferred tax assets	10 983	46 799	0	(390)	0	57 392
Current assets	**663 148**	**0**	**0**	**(4 169)**	**0**	**658 979**
Other non-current receivables	44 759	0	0	(4 169)	0	40 590
Assets classified as held for sale	**8 690**	**(6 752)**	**5 455**	**0**	**0**	**7 393**
of which Right-of-use assets	*0*	*0*	*5 455*	*0*	*0*	*5 455*
TOTAL ASSETS	**3 218 480**	**(199 514)**	**245 622**	**225 452**	**862**	**3 490 902**
Equity	**2 386 786**	**(199 514)**	**0**	**(390)**	**0**	**2 186 882**
Retained earnings	1 727 659	(199 514)	0	(390)	0	1 527 755
Non-current liabilities	**545 411**	**0**	**239 710**	**193 516**	**253**	**978 890**
Lease liabilities	0	0	239 710	193 516	253	433 479
Current liabilities	**286 283**	**0**	**457**	**32 326**	**609**	**319 675**
Deferred revenue	6 735	0	0	(655)	0	6 080
Lease liabilities	0	0	457	32 981	609	34 047
Liabilities associated with assets classified as held for sale	**0**	**0**	**5 455**	**0**	**0**	**5 455**
TOTAL EQUITY AND LIABILITIES	**3 218 480**	**(199 514)**	**245 622**	**225 452**	**862**	**3 490 902**

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 Group’s total assets is PLN 272 422 thousand. The difference between the value of the future minimum operating lease payments stated in Note 28 of these statements (PLN 271 900 thousand) and lease liabilities recognised in the statement of financial position as of the day of the first application (PLN 472 981 thousand) results from:

- recognition of titles to perpetual usufruct of land, which the Group 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 Group'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 Group 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 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 Group 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 2.4.17.1.

(c) *Impairment of goodwill*

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

(d) *Impairment of receivables*

As at each day of the reporting period, the Group assesses whether there exists any objective evidence of receivables impairment. Should such circumstances arise, the Group launches the procedure of determining the value of receivables impairment according to the principles described in the Note 2.4.17.2.

(e) *Provision for employee benefits*

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

(f) *Deferred tax assets*

The Group 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 GROUP'S FINANCIAL INFORMATION

The most important events of 2018 which affected the financial information of Orbis Group 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 real estate in Krakow 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 13 000 thousand.

On the other hand, on September 28, 2018, Orbis S.A. executed a preliminary sale 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 9 200 thousand. 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 economy 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 Contractor Agreement for the construction of the ibis Styles hotel 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 41 500 thousand. 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.

Signing the sale and management agreement of the Novotel Szeged hotel in Hungary

On May 9, 2018, Accor Pannonia Hotels Zrt. sold the Novotel Szeged hotel for a price of HUF 757.6 million. The transaction involved the sale of real property and the business conducted by the hotel. After the sale, the hotel continues its operation under the Novotel brand based on a management agreement executed for a term of 15 years.

Finalisation of the Sofitel Budapest Chain Bridge hotel sale transaction, including the management back agreement

On May 31, 2018, a subsidiary company of Orbis S.A., i.e. Accor Pannonia Hotels Zrt. (the seller) and two subsidiaries of the Starwood Capital Group (the buyer) finalised the sale transaction of the Sofitel Budapest Chain Bridge hotel. The transaction was executed by selling a stake representing 100% of the share capital in 5 Star Hotel Kft. and transferring to the buyers of all the assets belonging to the hotel (including real estate and movables) as well as the business conducted by the hotel (including contracts and customers). The sale price was agreed at EUR 75.0 million. On the day of finalising the transaction, the parties entered into an agreement under which the management of the hotel was entrusted to Accor Pannonia Hotels Zrt. The hotel will continue to operate under the Sofitel brand. The management agreement was executed for an initial term of 30 years.

Signing of the sale and management agreement of the ibis Pilsen hotel in the Czech Republic

On June 21, 2018, Katerinska Hotel s.r.o. and Business Estate Entity a.s. (as the seller) signed an agreement for the sale of the ibis Pilsen hotel in the Czech Republic together for a price of CZK 72.0 million. The possession of the hotel was transferred at the end of July 2018. A hotel management agreement for a term of 10 years was signed together with the hotel sale agreement.

Acquisition of a hotel in Vilnius

On July 16, 2018, the Lithuanian subsidiary UAB Hekon and UAB Merko būstas executed a sale and purchase agreement under which UAB Hekon acquired a newly built ibis hotel located in Vilnius. The hotel has 164 rooms, a restaurant, a bar, two conference rooms and a car park. The net purchase price totalled EUR 8.7 million and was finalized from cash deposited at an escrow account.

Acquisition of the Mercure Unirii in Bucharest

On July 2, 2018, Accor Hotels Romania s.r.l. with its registered address in Bucharest executed an agreement with Baron-Service s.r.l. under which this subsidiary of Orbis S.A. acquired the Mercure Unirii hotel located in Bucharest (covering a plot of land with a building and other assets) together with the business of the hotel. The initial purchase price amounted to EUR 11.4 million (with an option of a final adjustment of the price on account of the financial and business standing of the hotel (including its working capital) at the date of closing of the transaction). The ownership title to the hotel was transferred to Accor Hotels Romania s.r.l. and the price paid on July 5, 2018.

As at the date of acquisition of the Mercure Bucharest Unirii hotel, the Orbis Group recognised the assets and liabilities of the acquired hotel at their fair value. As a result of the transaction, goodwill was recognised as the surplus between the fair value of the amount paid and the fair value of the acquired net assets of the hotel.

	in PLN '000
Fair value of net assets as at the date of acquisition	**45 218**
Non-current assets acquired	44 195
of which: property, plant and equipment	*44 128*
Current assets acquired	1 038
Current liabilities assumed	15
Purchase price	**49 729**
Goodwill	**4 511**

The fair value of the acquired net assets and the purchase price were translated from RON into PLN according to the exchange rate of 0.94 RON/PLN as at the date of transfer of the ownership title to the hotel, i.e. July 5, 2018.

Goodwill arose as a result of inclusion of future cash flows resulting from planned capital expenditures, changes in customer mix and potential synergies with the hotel network already existing in Romania in the purchase price. These gains have not been recognised separately from goodwill as they would not meet the conditions for their recognition as intangible assets.

The resulting goodwill is not expected to be deducted for tax purposes.

The payment for the acquisition of the hotel, which was made by December 31, 2018, totalled EUR 11 100 thousand and included a loan of EUR 142 thousand granted in April 2018 and cash payments of EUR 10 958 thousand made in July. A part of the purchase price, i.e. EUR 250 thousand, remains to be cleared until the end of the year after fulfilment of additional conditions laid down in the acquisition agreement.

Cash flow*	in PLN '000
Net cash flow resulting from the acquisition	**(47 418)**
- loan granted	(607)
- the remaining amount to be paid in cash or cash equivalents	*(46 811)*
- balance of cash and cash equivalents acquired	0

** The value of the payment was translated from RON to PLN according to the average exchange rate of the National Bank of Poland for 12 months of 2018, i.e. the fx rate of 0.9165 RON/PLN.*

The following results of the Mercure Bucharest Unirii from July 6, 2018, were recognised in the consolidated statement of comprehensive income for 2018:

- Sales revenues amounting to PLN 3 486 thousand,
- EBITDA at the level of PLN 616 thousand,
- Operating result (EBIT) amounting to PLN -1 018 thousand.

If the acquisition had taken place on January 1, 2018, net sales of the Orbis Group for 12 months of 2018 would have amounted to PLN 1 443.4 million, EBITDA would reach the value of PLN 480.4 million, while operating result (EBIT) would have totalled PLN 436.9 million.

The costs of the acquisition of the business of the Mercure Bucharest Unirii hotel incurred by the Orbis Group, including, amongst others, the costs of due diligence, valuations by experts, legal and tax advice, and notary fees, amounted to PLN 853 thousand and were included in the ”Results of other one-off events” item.

4. SEGMENT INFORMATION

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

4.1 OPERATING SEGMENTS

The Orbis Group distinguishes two reportable operating segments:
- Up&Midscale Hotels that comprise hotels of the Sofitel, MGallery, Novotel and Mercure,
- Economy Hotels that include ibis, ibis budget and ibis Styles hotels.

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

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

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

Unallocated operations comprise revenues and expenses of the Head Office (including 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 Group does not calculate income tax for the respective operating segments).

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

As at December 31, 2018, the individual operating segments included:
- the Up&Midscale segment: 3 Sofitel hotels, 20 Novotel hotels, 14 Mercure hotels and 1 MGallery hotel;
- the Economy segment : 23 ibis hotels, 9 ibis budget hotels and 3 ibis Styles hotels.

On the other hand, as at December 31, 2017, the individual operating segments included:
- the Up&Midscale segment: 4 Sofitel hotels, 21 Novotel hotels, 14 Mercure hotels and 1 MGallery hotel;
- the Economy segment : 22 ibis hotels, 9 ibis budget hotels and 3 ibis Styles hotels.

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

Operating segment revenues and costs/expenses are as follows:

Figures for 2018:

	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**1 069 835**	**319 663**	**50 530**	**1 440 028**
Sale to external clients	1 069 835	319 663	50 530	1 440 028
EBITDAR	**444 226**	**157 266**	**(64 420)**	**537 072**
Operating EBITDA	**397 601**	**147 820**	**(66 073)**	**479 348**
Depreciation and amortisation	(124 317)	(41 947)	(4 336)	(170 600)
Operating profit/(loss) without the effects of one-off events	**273 284**	**105 873**	**(70 409)**	**308 748**
Result of one-off events	0	0	128 596	128 596
Operating profit/(loss) (EBIT)	**273 284**	**105 873**	**58 187**	**437 344**
Finance income/(costs)	(2 049)	(694)	(13 531)	(16 274)
Income tax expense	0	0	(57 712)	(57 712)
Net profit/(loss)	**271 235**	**105 179**	**(13 056)**	**363 358**

Figures for 2017:

	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**1 104 173**	**317 898**	**36 002**	**1 458 073**
Sale to external clients	1 104 173	317 898	36 002	1 458 073
EBITDAR	**451 027**	**156 711**	**(75 348)**	**532 390**
Operating EBITDA	**397 438**	**147 718**	**(76 807)**	**468 349**
Depreciation and amortisation	(117 013)	(42 419)	(4 635)	(164 067)
Operating profit/(loss) without the effects of one-off events	**280 425**	**105 299**	**(81 442)**	**304 282**
Result of one-off events	0	0	11 395	11 395
Operating profit/(loss) (EBIT)	**280 425**	**105 299**	**(70 047)**	**315 677**
Finance income/(costs)	(2 245)	(1 114)	(25 756)	(29 115)
Income tax expense	0	0	(54 121)	(54 121)
Net profit/(loss)	**278 180**	**104 185**	**(149 924)**	**232 441**

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

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

Figures for 2018:

	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 734 635	755 542	56 465	2 546 642
- goodwill	42 233	69 449	0	111 682
- deferred tax assets	0	0	10 983	10 983
Current assets, of which:	47 227	10 023	605 898	663 148
- cash and cash equivalents	0	0	537 834	537 834
Assets classified as held for sale	8 690	0	0	8 690
Investment expenditure	236 225	105 153	7 615	348 993

Figures for 2017:

	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 635 439	704 140	52 761	2 392 340
- goodwill	37 803	69 449	0	107 252
- financial assets	0	0	6 944	6 944
- deferred tax assets	0	0	15 912	15 912
Current assets, of which:	57 879	9 251	258 739	325 869
- cash and cash equivalents	0	0	214 844	214 844
Assets classified as held for sale	179 710	16 759	4 624	201 093
Investment expenditure	483 776	123 998	14 326	622 100

4.2 GEOGRAPHICAL INFORMATION

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

The tables below present revenues, profits and assets of individual geographic segments of the Orbis Group for 2018 and 2017. The data present the results of owned and leased hotels.

As at December 31, 2018, the individual geographic segments included:

- Poland: 3 Sofitel hotels, 13 Novotel hotels, 8 Mercure hotels, 13 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel,
- Hungary: 4 Novotel hotels, 3 Mercure hotels, 5 ibis hotels and 2 ibis Styles hotels,
- The Czech Republic: one hotel of each of the Novotel, Mercure and MGallery brands and 3 ibis hotels,
- Other countries (Lithuania, Romania, Slovakia): 2 Novotel hotels, 2 Mercure hotel and 2 ibis hotel.

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

On the other hand, as at December 31, 2017, the individual geographic segments included:

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

Geographical segment revenues and costs/expenses are as follows:

Figures for 2018:

	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**900 020**	**321 446**	**121 807**	**100 985**	**(4 230)**	**1 440 028**
Sale to external clients	898 064	321 434	121 807	98 723	0	1 440 028
Sale to other segments	1 956	12	0	2 262	(4 230)	0
EBITDAR	**309 972**	**134 453**	**55 365**	**37 269**	**13**	**537 072**
Operating EBITDA	**302 376**	**117 041**	**41 042**	**18 876**	**13**	**479 348**
Depreciation and amortisation	(127 147)	(26 897)	(12 505)	(4 051)	0	(170 600)
EBIT without the effects of one-off events	**175 229**	**90 144**	**28 537**	**14 825**	**13**	**308 748**

Figures for 2017:

	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**888 157**	**356 268**	**122 139**	**93 687**	**(2 178)**	**1 458 073**
Sale to external clients	887 165	356 268	122 139	92 501	0	1 458 073
Sale to other segments	992	0	0	1 186	(2 178)	0
EBITDAR	**302 492**	**136 947**	**56 270**	**36 648**	**33**	**532 390**
Operating EBITDA	**294 743**	**112 501**	**42 515**	**18 557**	**33**	**468 349**
Depreciation and amortisation	(125 175)	(24 678)	(12 749)	(1 465)	0	(164 067)
Operating profit/(loss) without the effects of one-off events	**169 568**	**87 823**	**29 766**	**17 092**	**33**	**304 282**

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

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

Figures for 2018:

	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Non-current assets, of which:	2 270 792	551 276	136 989	101 981	(514 396)	2 546 642
- goodwill	107 252	0	0	4 430	0	111 682
- financial assets	22 815	0	0	0	(22 815)	0
- deferred tax assets	6 203	0	4 737	43	0	10 983
Current assets, of which:	587 435	110 997	87 194	38 677	(161 155)	663 148
- cash and cash equivalents	370 928	67 181	76 492	23 233	0	537 834
Assets classified as held for sale	8 690	0	0	0	0	8 690
Investment expenditure	194 631	55 142	5 649	93 571	0	348 993

Figures for 2017:

	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Non-current assets, of which:	2 513 511	539 842	153 421	6 746	(821 180)	2 392 340
- goodwill	107 252	0	0	0	0	107 252
- financial assets	336 444	0	0	0	(329 500)	6 944
- deferred tax assets	5 016	2 685	8 182	29	0	15 912
Current assets, of which:	211 120	56 516	43 101	86 661	(71 529)	325 869
- cash and cash equivalents	87 187	16 606	35 433	75 618	0	214 844
Assets classified as held for sale	23 514	177 579	0	0	0	201 093
Investment expenditure	93 559	516 039	9 675	2 827	0	622 100

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

4.3 OPERATING SEGMENT REVENUE PER TYPE OF SERVICE AND GEOGRAPHICAL AREA

The tables below present the Group's revenue for 2018 and 2017 per type of services and geographical areas with their reconciliation to the operating segments presented in Note 4.1.

Figures for 2018:

	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Revenue per type of service:	**1 069 835**	**319 663**	**50 530**	**1 440 028**
Room revenue	732 174	254 119	0	986 293
Food & beverage revenue	300 200	55 595	0	355 795
Franchise and management revenue	0	0	36 905	36 905
Other revenue	37 461	9 949	13 625	61 035
Revenue per geographical area:	**1 069 835**	**319 663**	**50 530**	**1 440 028**
Poland	690 708	185 126	22 230	898 064
Hungary	243 729	60 809	16 896	321 434
Czech Republic	58 392	62 380	1 035	121 807
Other countries	77 006	11 348	10 369	98 723

Figures for 2017:

	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Revenue per type of service:	**1 104 173**	**317 898**	**36 002**	**1 458 073**
Room revenue	746 056	252 146	0	998 202
Food & beverage revenue	315 198	55 045	0	370 243
Franchise and management revenue	0	0	23 762	23 762
Other revenue	42 919	10 707	12 240	65 866
Revenue per geographical area:	**1 104 173**	**317 898**	**36 002**	**1 458 073**
Poland	680 572	188 298	18 295	887 165
Hungary	292 501	55 905	7 862	356 268
Czech Republic	56 339	65 071	729	122 139
Other countries	74 761	8 624	9 116	92 501

4.4 REVENUE FROM MAJOR PRODUCTS AND SERVICES

Revenue from major products and services is presented in Note 5.1

4.5 INFORMATION ABOUT MAJOR CUSTOMERS

In 2018 and 2017, the Orbis Group did not identify any leading external customers with turnover exceeding 10% of total sales.

4.6 SEASONALITY OR CYCLICALITY OF OPERATIONS

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

The table below presents sales generated from continuing operations over the span of the two last years.

NET SALES	2018		2017		2016	
	PLN `000	% share in annual revenues	PLN `000	% share in annual revenues	PLN `000	% share in annual revenues
1st quarter	271 465	18.9%	265 951	18.2%	247 214	17.9%
2nd quarter	418 847	29.1%	413 579	28.4%	392 660	28.4%
3rd quarter	391 693	27.2%	421 924	28.9%	396 374	28.7%
4th quarter	358 023	24.8%	356 619	24.5%	346 631	25.0%
Total	**1 440 028**	**100.0%**	**1 458 073**	**100.0%**	**1 382 879**	**100.0%**

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

5. INCOME AND EXPENSE

5.1 NET SALES

NET SALES	2018	2017
Room revenue	986 293	998 202
Food & beverage revenue	355 795	370 243
Franchise and management revenue	36 905	23 762
Other revenue	61 035	65 866
Total net sales	**1 440 028**	**1 458 073**
of which: revenue from related parties	*4 682*	*4 724*

The information concerning the Group's revenue per type of services and geographical areas with their reconciliation to the operating segments is presented in Note 4.3

5.2 EXPENSES BY NATURE

EXPENSES BY NATURE	2018	2017
Depreciation and amortisation	(170 600)	(164 067)
Rental expense	(57 724)	(64 041)
Outsourced services	(313 125)	(316 062)
Employee benefit expense	(362 247)	(354 914)
Raw materials and energy used	(181 474)	(202 110)
Taxes and charges	(42 622)	(42 905)
Other costs by nature:	(13 104)	(12 999)
business trips	(4 266)	(4 072)
insurance premiums	(3 533)	(3 641)
royalties	(2 111)	(2 143)
other	(3 194)	(3 143)
Impairment of receivables	1 128	(797)
Total expenses by nature	**(1 139 768)**	**(1 157 895)**

5.3 EMPLOYEE BENEFIT EXPENSE

EMPLOYEE BENEFIT EXPENSE	2018	2017
Wages and salaries	(287 155)	(275 037)
Provision for unused and overdue holidays	92	(1 315)
Provision for wages and salaries as well as related expenses	997	400
Provision for jubilee awards and retirement benefits	(975)	931
Employee benefits	(75 206)	(79 893)
Total employee benefit expense	**(362 247)**	**(354 914)**

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

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

5.4 OTHER OPERATING INCOME/EXPENSES

OTHER OPERATING INCOME/EXPENSES, NET	2018	2017
Revenue from reconciliation of central purchases	5 864	4 319
Reversal of provision for costs of fees for perpetual usufruct of land	0	774
Reversal of provision for onerous contract	3 089	994
Reversal of provision for other liabilities	999	0
Indemnities received	456	1 007
Other	2 790	2 663
Total other operating income	**13 198**	**9 757**
Provision for other liabilities	0	(249)
Exchange rate differences underpayment	(847)	(1 075)
Indemnities, fines and penalties paid	(206)	(204)
Costs of hotel closing and assets liquidation	(1 779)	(2 710)
Other	(1 878)	(1 415)
Total other operating expenses	**(4 710)**	**(5 653)**
Total other operating income/(expenses)	**8 488**	**4 104**

5.5 RESULT ON SALE OF REAL PROPERTY

RESULT ON SALE OF REAL PROPERTY	2018	2017
Net proceeds from disposal of real properties	171 541	54 608
Net value of real properties and other assets and liabilities disposed of	(32 539)	(42 261)
Additional costs related to disposal	(8 522)	(283)
Total result on sale of real property	**130 480**	**12 064**

The Orbis Group achieved the following results on sale of real property in 2018:

- Proceeds from the sale of the Sofitel Budapest Chain Bridge hotel totalled PLN 315 793.4 thousand (EUR 73.9 million), and the profit on this transaction (incl. additional cost) totalled PLN 126 531.5 thousand;
- Proceeds from the sale of the Novotel Szeged hotel totalled PLN 10 105.6 thousand (HUF 757.6 million). The profit on this transaction (incl. additional costs of sale) totalled PLN 2 216.3 thousand;
- Proceeds from the sale of the ibis Plzeň hotel totalled PLN 11 975 thousand (CZK 72.0 million). The profit on this transaction (incl. additional costs of sale) totalled PLN -320 thousand;
- Proceeds from the sale of non-hotel real 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 including additional cost 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 in 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 thousands, 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	2 319	4 690
Reversed impairment loss on assets held for sale	0	4 550
Total revaluation of non-current assets	**546**	**6 740**

Information on impairment is provided in Note 9, 10, 11 and 18.

5.7 RESTRUCTURING COSTS

RESTRUCTURING COSTS	2018	2017
Costs of employment restructuring	(1 908)	(3 116)
(Recognised)/released provisions for employment restructuring	1 009	(912)
Total restructuring costs	**(899)**	**(4 028)**

5.8 RESULTS OF OTHER ONE-OFF EVENTS

RESULTS OF OTHER ONE-OFF EVENTS	2018	2017
Costs incurred in connection with hotel purchase	(853)	0
Leased hotels buyback costs	(99)	(3 381)
Advisory and consultancy costs	(579)	0
Total results of other one-off events	**(1 531)**	**(3 381)**

The advisory and consultancy costs incurred by the Group are mainly related to the tender offer for the sale of Orbis S.A. shares, announced by Accor S.A. on November 26, 2018.

5.9 FINANCE INCOME

FINANCE INCOME	2018	2017
Interest on deposits	1 844	1 797
Other	72	75
Total finance income	**1 916**	**1 872**

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

5.10 FINANCE COSTS

FINANCE COSTS	2018	2017
Interest and debt service costs accrued on credit facilities	(466)	(4 302)
Interest and debt service costs accrued on bonds	(14 423)	(14 596)
Interest expense arising from provisions for employee benefits	(719)	(735)
Actuarial gains/(losses) arising from valuation of provisions for jubilee awards	(467)	(292)
Foreign exchange	(1 992)	(10 794)
Other	(123)	(268)
Total finance costs	**(18 190)**	**(30 987)**

In presented financial figures for 2018 and in comparable figures for 2017, the Group recognised all borrowing costs in the profit or loss during the period in which the costs were incurred. In both the periods (years) under comparison there were no borrowing costs that would be eligible for capitalisation.

In 2018 the Hungarian subsidiary Accor Pannonia Hotels Zrt. paid PLN 414 thousand of interest on its overdraft facility. In 2017 Orbis paid PLN 3 409 thousand as interest on credit facilities and PLN 140 thousand of commissions and other debt service costs on credit facilities and the Hungarian subsidiary Accor Pannonia Hotels paid PLN 278 thousand of interest on its overdraft facility.

Moreover, in 2018 the Group 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 32.3).

6. CURRENT AND DEFERRED TAX

Major components of tax charge are as follows:

	2018	2017
Current tax	**(54 802)**	**(48 346)**
- current tax charge	(55 453)	(50 089)
- adjustments of current tax from previous years	651	1 743
Deferred tax	**(2 910)**	**(5 775)**
- related to recognised and reversed temporary differences	(2 910)	(5 775)
Tax charge recognised in the consolidated income statement	**(57 712)**	**(54 121)**

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

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

	2018	2017
Profit before tax	**421 070**	**286 562**
Tax calculated at the statutory rate of 19%	(80 003)	(54 451)
Adjustments of current income tax from past years	492	0
Tax effect of non-taxable revenue and non-deductible expenses	(3 247)	(5 041)
Tax effect of tax adjustments as well as posted deferred tax on tax losses and temporary differences from previous years	2 839	(3 938)
Tax effect of unrecognised tax losses	(137)	(64)
Utilised tax losses - tax effect	1 555	1 902
Impact of differing tax rates applicable to subsidiaries that operate in other legal systems	21 535	8 029
Other	(746)	(558)
Tax charge at the effective tax rate	**(57 712)**	**(54 121)**

In accordance with Polish regulations, in 2018 as well as in 2017, the Polish Companies calculated their corporate income tax liability at the rate of 19% of taxable income.

The foreign subsidiaries of the Group in 2018 and 2017 calculated their corporate tax liability based on the following tax rates:

- UAB Hekon Lithuania 15%
- Czech Republic 19%
- Romania 16%
- Slovakia 21%
- Hungary 9%

** In Romania part of the business activities are liable to tax at the rate of 16%, meanwhile business activities such as hotel and food&beverage services are liable to tax calculated depending on a number of specific factors, such as: importance of the city/town; size of the utility space used for commercial and service purposes; number of beds; seasonality factor.*

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

INCOME TAX RECEIVABLE/LIABILITIES	As at December 31, 2018	As at December 31, 2017
Income tax receivable	4 385	541
Income tax liabilities	13 603	1 758

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

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:	**24 814**	**32 254**
Posted to profit or loss	24 252	31 893
- provisions for wages and salaries bonuses as well as for unused holidays	5 720	7 086
- provision for retirement benefits and similar obligations	4 054	3 837
- other provisions and accrued expenses	6 306	7 260
- revaluation of receivables	561	631
- difference between tax value and book value of non-financial non-current assets	4 268	7 414
- valuation of liabilities arising from bonds issued at amortised costs	485	491
- utilised tax losses	1 043	2 583
- other	1 815	2 591
Posted to equity	562	361
- actuarial gains/losses arising from the defined benefit plan	562	347
- valuation of derivative instruments to hedge future cash flows	0	14
Deferred tax liabilities, of which:	**14 027**	**20 311**
Posted to profit or loss	13 936	20 220
- difference between tax value and book value of non-financial non-current assets	13 347	19 311
- non-invoiced revenue	361	357
- foreign exchange differences	214	214
- other	14	338
Posted to equity	91	91
- long-term investments	91	91

Deferred tax is presented according to the net balance of deferred tax assets and deferred tax liabilities in each company.

	As at December 31, 2018	As at December 31, 2017
Deferred tax assets	10 983	15 912
Deferred tax liabilities	196	3 969

As at December 31, 2018, the Group did not recognise the deferred tax asset on unused tax losses of PLN 11 728 thousand, because it is not probable that taxable income will be generated in future from which these unused tax losses could be deducted.

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

Information on unused tax losses as at December 31, 2018 in respective countries (amounts translated into PLN) is presented in the table below:

	Unused tax losses	Tax rate	Unrecognised deferred tax assets	Expiry date
Hungary	130 315	9%	11 728	2021-2025
Total	**130 315**		**11 728**	

In Hungary, tax losses incurred prior to 2015 may be used until 2025, while losses incurred in or after 2015 may be used within 5 years. Losses incurred between 2001 and 2003 can be used in full but losses incurred in 2004 or after can be utilized only up to 50% of the taxable profit of a given year. The tax loss reported in Hungary concerns 5 Hotel Kft, the subsidiary of Accor Pannonia Hotels Zrt.

The Group did not recognise deferred tax on temporary differences associated with investments in subsidiaries on the basis of the exception allowed under IAS 12.39 and 12.44. The value of temporary positive differences associated with investments in subsidiaries amounted to PLN 409 315 thousand as at December 31, 2018, and to PLN 209 534 thousand as at December 31, 2017. The value of temporary negative differences associated with investments in subsidiaries and associates amounted to PLN 135 304 thousand as at December 31, 2018, and to PLN 199 414 thousand as at December 31, 2017.

7. EARNINGS PER SHARE

Earnings per ordinary share are calculated by dividing the net profit for the financial year attributable to ordinary shareholders of the Parent Company 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 attributable to owners of the parent are presented below:

	2018	2017
Net profit attributable to owners of the parent	363 198	232 391
Weighted average number of ordinary shares issued (in thous.)	46 077	46 077
Earnings per share	**7.88**	**5.04**

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 2017, was appropriated for the dividend totalling PLN 73 723 thousand, i.e. PLN 1.60 per share. The dividend was paid on August 3, 2018. A decision was also made to keep the remaining part of profit, amounting to 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 thousands, 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	2 295 728	2 178 213
Assets under construction	120 106	73 302
Total	**2 415 834**	**2 251 515**

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	**248 218**	**296 677**	**2 846 711**	**1 164 087**	**465**	**4 556 158**
Accumulated depreciation and impairment	(11 283)	(50 841)	(1 589 077)	(726 315)	(429)	(2 377 945)
Opening net book amount	**236 935**	**245 836**	**1 257 634**	**437 772**	**36**	**2 178 213**
Additions	**29 066**	**2 577**	**165 518**	**122 593**	**0**	**319 754**
purchase	29 066	0	136 974	111 444	0	277 484
transfer from investments	0	0	23 228	2 999	0	26 227
transfer from assets held for sale	0	2 577	5 316	2 033	0	9 926
other	0	0	0	6 117	0	6 117
Disposals	**(2 375)**	**(6 752)**	**(20 881)**	**(8 970)**	**0**	**(38 978)**
sale	(2 375)	0	(12 597)	(7 191)	0	(22 163)
liquidation	0	0	(286)	(1 467)	0	(1 753)
other	0	0	(6 066)	0	0	(6 066)
reclassification to assets held for sale	0	(6 752)	(1 932)	(312)	0	(8 996)
Decrease in impairment loss	0	0	0	2 319	0	2 319
Depreciation charge for the period	(785)	(3 605)	(88 551)	(74 957)	(23)	(167 921)
Exchange differences on translation	(282)	0	1 864	759	0	2 341
Closing net book amount	**262 559**	**238 056**	**1 315 584**	**479 516**	**13**	**2 295 728**
As at December 31, 2018						
Closing gross book amount	**274 627**	**291 664**	**2 947 257**	**1 232 051**	**213**	**4 745 812**
Accumulated depreciation and impairment	(12 068)	(53 608)	(1 631 673)	(752 535)	(200)	(2 450 084)
Closing net book amount	**262 559**	**238 056**	**1 315 584**	**479 516**	**13**	**2 295 728**

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.

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 which was opened at the end of November 2018, 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 sale include the net value of tangible non-current assets of the Novotel Szeged hotel in Hungary, which was sold by the Hungarian subsidiary Accor Pannonia Hotels and the ibis Plzeň hotel in the Czech Republic sold by Katerinska s.r.o.

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.

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

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	**171 855**	**301 209**	**2 870 437**	**1 033 467**	**545**	**4 377 513**
Accumulated depreciation and impairment	(10 499)	(47 873)	(1 623 654)	(701 442)	(489)	(2 383 957)
Opening net book amount	**161 356**	**253 336**	**1 246 783**	**332 025**	**56**	**1 993 556**
Additions due to acquisition of subsidiaries	**74 501**	**0**	**105 668**	**111 460**	**0**	**291 629**
Additions	**11 896**	**0**	**32 075**	**81 491**	**17**	**125 479**
purchase	11 896	0	26 839	65 056	17	103 808
transfer from investments	0	0	5 236	8 941	0	14 177
other	0	0	0	7 494	0	7 494
Disposals	**(2 573)**	**(3 793)**	**(30 907)**	**(8 181)**	**(9)**	**(45 463)**
sale	(2 573)	(741)	(13 854)	(1 344)	0	(18 512)
liquidation	0	(469)	(158)	(2 546)	0	(3 173)
other	0	0	(7 031)	0	0	(7 031)
reclassification to assets held for sale	0	(2 369)	(9 780)	(4 291)	(9)	(16 449)
reclassification to investment property	0	(214)	(84)	0	0	(298)
Increase in impairment loss	0	0	(1 416)	0	0	(1 416)
Decrease in impairment loss	0	0	4 690	0	0	4 690
Depreciation charge for the period	(784)	(3 707)	(87 445)	(68 846)	(24)	(160 806)
Exchange differences on translation	(7 461)	0	(11 814)	(10 177)	(4)	(29 456)
Closing net book amount	**236 935**	**245 836**	**1 257 634**	**437 772**	**36**	**2 178 213**
As at December 31, 2017						
Closing gross book amount	**248 218**	**296 677**	**2 846 711**	**1 164 087**	**465**	**4 556 158**
Accumulated depreciation and impairment	(11 283)	(50 841)	(1 589 077)	(726 315)	(429)	(2 377 945)
Closing net book amount	**236 935**	**245 836**	**1 257 634**	**437 772**	**36**	**2 178 213**

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

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

ASSETS UNDER CONSTRUCTION	As at December 31, 2018	As at December 31, 2017
Gross value of assets under construction	128 440	73 302
Impairment loss on assets under construction	(8 334)	0
Total	**120 106**	**73 302**

The change in the balance of assets under construction between December 31, 2018, and December 31, 2017 results from incurred investment expenditure amounting to PLN 348 993 thousand and reclassification of real property located in Toruń with an uncompleted building of the ibis hotel in the amount of PLN 4 550 thousand and additions of PLN 305 218 thousand to non-current assets. In addition, the decrease in assets under construction was caused by the creation of an impairment loss of PLN 1 521 thousand.

In 2018, the Group incurred capital expenditure for the purchase of Mercure Bucharest hotels in Romania (approx. PLN 44 million) and ibis Vilnius hotel in Lithuania (approx. PLN 43.6 million). In addition, capital expenditures incurred by the Group have been allocated 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 for modernisation of the Novotel Poznań Centrum hotel in connection with its division and partial rebranding into ibis. The remaining capital expenditures were spent on renovation of hotels of the network, including, among others, the Sofitel Warszawa Victoria, Novotel Kraków City West, Novotel Katowice Centrum, Mercure Poznań Centrum, Novotel Warszawa Airport, Novotel Warszawa Centrum and Novotel Gdańsk Marina, Mercure Budapest Buda, Mercure Budapest Korona and Mercure Budapest City Center in Hungary (for more information on capital expenditures, see section 3.8 of the Directors' Report on the Operations of the Orbis Group and Orbis S.A. for 2018).

Information on collaterals established on property, plant and equipment is provided in Note 30. to the financial statements.

As at December 31, 2018, the Group does not have any tangible assets held under finance lease.

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

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

Detailed information about impairment losses on property plant and equipment is as follows :

IMPAIRMENT LOSS ON TANGIBLE ASSETS AND ASSETS UNDER CONSTRUCTION	As at December 31, 2018	As at December 31, 2017
Opening balance	**(49 241)**	**(87 987)**
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	2 319	4 690
reclassification to assets held for sale	0	18 158
decrease in impairment losses in connection with sale/liquidation	17 853	5 231
impairment loss on tangible assets not subject to reversal *	4 497	10 392
reclassification from assets held for sale	(9 911)	0
exchange differences on translation	(244)	1 691
Closing balance	**(36 248)**	**(49 241)**

** 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, investment property and intangible assets 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 Group reviewed the economic value of cash-generating units (i.e. the Group's subsidiary hotels) 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 Group analysed, as at the end of the reporting period, whether there are any grounds for an impairment loss to be recognised or changed. The Group 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 73 hotels belonging to the Group, 5 hotels met the criteria for impairment testing.

The economic value of the hotels tested for impairment was determined on the basis of their value in use, calculated using the discounted cash flow (DCF) method. The future cash flows were estimated separately for each hotel based on the projected change in the Occupancy Rates and the Average Room Rates for the following years with due regards for the location and the present standard of each hotel (including those that require capital expenditure to be made). The rate of cash flow increase after a 5-year forecast period was estimated at 1.0%. The discount rate of 7.4% was calculated based on the Group's weighted average cost of capital (WACC). 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 Group. 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 Group 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 Group 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.

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

In addition, as at the end of the reporting period, the Group made an assessment of assets under construction impairment. As a result, impairment loss of PLN 1 521 thousand was recognized.
In 2018, the impairment loss on property, plant and equipment in the amount of PLN 2 319 thousand was also reversed as a result of fair value measurement of assets held for sale.

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 sale of the Sofitel Budapest Chain Bridge hotel in Hungary and ibis Plzeň in the Czech Republic in 2018 also had a significant impact on the decrease of impairment losses (the decrease totalled PLN 17 853 thousand).

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.

10. INVESTMENT PROPERTY

The table below presents investment property **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**	**12 447**	**1 066**	**15 341**
Accumulated depreciation and impairment	(302)	(8 885)	(1 066)	(10 253)
Opening net book amount	**1 526**	**3 562**	**0**	**5 088**
Disposals	**0**	**(1 098)**	**0**	**(1 098)**
sale	0	(1 098)	0	(1 098)
Increase in impairment loss	0	(252)	0	(252)
Depreciation charge for the period	(21)	(179)	0	(200)
Closing net book amount	**1 505**	**2 033**	**0**	**3 538**
As at December 31, 2018				
Closing gross book amount	**1 828**	**10 409**	**1 016**	**13 253**
Accumulated depreciation and impairment	(323)	(8 376)	(1 016)	(9 715)
Closing net book amount	**1 505**	**2 033**	**0**	**3 538**

Investment property disposal of PLN 1 098 thousand due to sale in 2018 is 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 and the sale of a garage in Katowice.

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

The table below presents investment property **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	**4 027**	**17 752**	**1 068**	**22 847**
Accumulated depreciation and impairment	(633)	(12 426)	(1 068)	(14 127)
Opening net book amount	**3 394**	**5 326**	**0**	**8 720**
Additions	**214**	**84**	**0**	**298**
reclassification from tangible assets	214	84	0	298
Disposals	**(2 033)**	**(1 574)**	**0**	**(3 607)**
sale	0	(88)	0	(88)
reclassification to assets held for sale	(2 033)	(1 486)	0	(3 519)
Depreciation charge for the period	(49)	(274)	0	(323)
Closing net book amount	**1 526**	**3 562**	**0**	**5 088**
As at December 31, 2017				
Closing gross book amount	**1 828**	**12 447**	**1 066**	**15 341**
Accumulated depreciation and impairment	(302)	(8 885)	(1 066)	(10 253)
Closing net book amount	**1 526**	**3 562**	**0**	**5 088**

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

In the current accounting period, the Group 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 parent 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 consolidated statement of financial position under the Revaluation of non-current assets.

IMPAIRMENT LOSS ON INVESTMENT PROPERTY	2018	2017
Opening balance	**(578)**	**(592)**
recognised impairment loss	(252)	0
decrease in impairment losses in connection with sale/liquidation	571	0
impairment loss not subject to reversal	7	14
Closing balance	**(252)**	**(578)**

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

The fair value of this property is measured by the Group internally, on the basis of received offers to buy property and market analyses performed by the property management department of the Parent Company. As at December 31, 2018, the fair value of investment property was estimated at approx. PLN 18.1 million.

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

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 unobservable 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 – right to perpetual usufruct of land, building;
- in Katowice – cooperative ownership title to a garage;
- in Konin – right to perpetual usufruct of land and interest in an office building;
- 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 – right to perpetual usufruct of land, building.

(all amounts are quoted in PLN thousands, 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**	**1 038**	**28 409**	**559**	**138 159**
Accumulated depreciation and impairment	(901)	(986)	(24 189)	(515)	(26 591)
Opening net book amount	**107 252**	**52**	**4 220**	**44**	**111 568**
Additions	**4 399**	**45**	**1 139**	**813**	**6 396**
purchase	4 399	0	616	813	5 828
other	0	45	523	0	568
Disposals	**0**	**0**	**(123)**	**(568)**	**(691)**
sale	0	0	(119)	0	(119)
liquidation	0	0	(4)	0	(4)
other	0	0	0	(568)	(568)
Depreciation charge for the period	0	(39)	(2 424)	(16)	(2 479)
Exchange differences on translation	31	0	4	2	37
Closing net book amount	**111 682**	**58**	**2 816**	**275**	**114 831**
			As at December 31, 2018		
Closing net book amount	**112 583**	**1 115**	**25 549**	**821**	**140 068**
Accumulated depreciation and impairment	(901)	(1 057)	(22 733)	(546)	(25 237)
Closing net book amount	**111 682**	**58**	**2 816**	**275**	**114 831**

The addition of PLN 4.4 million was caused by the purchase of the Mercure Bucharest Unirii hotel, together with the business of the hotel, by the subsidiary Accor Hotels Romania s.r.l. (more detailed information on this transaction and its accounting is available in Note 3).

(all amounts are quoted in PLN thousands, 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**	**1 094**	**29 955**	**615**	**139 817**
Accumulated depreciation and impairment	(901)	(1 033)	(24 646)	(545)	(27 125)
Opening net book amount	**107 252**	**61**	**5 309**	**70**	**112 692**
Additions	**0**	**32**	**1 947**	**1 019**	**2 998**
purchase	0	32	912	1 013	1 957
other	0	0	1 035	6	1 041
Disposals	**0**	**0**	**(99)**	**(1 041)**	**(1 140)**
sale	0	0	(65)	0	(65)
liquidation	0	0	(5)	0	(5)
other	0	0	0	(1 041)	(1 041)
transfer to investment property	0	0	(29)	0	(29)
Depreciation charge for the period	0	(38)	(2 900)	0	(2 938)
Exchange differences on translation	0	(3)	(37)	(4)	(44)
Closing net book amount	**107 252**	**52**	**4 220**	**44**	**111 568**
			As at December 31, 2017		
Closing gross book amount	**108 153**	**1 038**	**28 409**	**559**	**138 159**
Accumulated depreciation and impairment	(901)	(986)	(24 189)	(515)	(26 591)
Closing net book amount	**107 252**	**52**	**4 220**	**44**	**111 568**

All intangible assets recognised by the Group, except for goodwill, have defined useful lives. The Group does not have any internally generated intangible assets.

The Group did not recognise any impairment losses on components of intangible assets as at December 31, 2018, and December 31, 2017.

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

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

Information concerning impairment loss relating to intangible assets:

IMPAIRMENT LOSS ON INTANGIBLE ASSETS	As at December 31, 2018	As at December 31, 2017
Opening balance	**(376)**	**(576)**
impairment loss not subject to reversal	39	170
exchange differences on translation	(10)	30
Closing balance	**(347)**	**(376)**

Goodwill impairment test

As at December 31, 2018, the goodwill of PLN 111 682 thousand included:
- goodwill of PLN 107 252 thousand arising from the purchase of interest in the subsidiary Hekon - Hotele Ekonomiczne S.A.
- goodwill of PLN 4 430 thousand arising from the purchase of the Mercure Unirii Bucharest hotel.

Goodwill is tested for impairment annually. For testing purposes, goodwill was allocated to hotels of the company Hekon Hotele Ekonomiczne S.A. (presently Orbis 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.

In the case of goodwill arising from the acquisition of the Mercure Uniria hotel, for testing purposes it has been assumed that the hotel is the cash-generating unit.

The recoverable amount assigned to cash-generating units was determined on the basis of usable value, 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 Group.

No impairment was identified with respect to the goodwill reported in the financial statements as at December 31, 2018.

The Group 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,
- impairment of goodwill of the Mercure Unirii hotel would occur, if the discount rate increased by 0.15 percentage points or if the long-term growth rate decreased by 0.25%.

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

12. OTHER FINANCIAL ASSETS

In 2017, the Other financial assets item included receivables from the sale of the Mercure Mrągowo Resort & SPA hotel (PLN 3 000 thousand) and the Mercure Kasprowy hotel in Zakopane (PLN 3 944 thousand). In 2018, receivables from the sale of the above-mentioned hotels were presented under other short-term receivables. More information on receivables from the sale of hotels can be found in Note 15 of these financial statements.

13. 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**

14. INVENTORIES

INVENTORIES	As at December 31, 2018	As at December 31, 2017
Raw materials	6 386	6 708
Merchandise	77	77
Total inventories	**6 463**	**6 785**

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

The Group has not pledged any inventories as collateral for liabilities.

15. SHORT-TERM RECEIVABLES

Trade receivables are presented in the table below:

SHORT-TERM RECEIVABLES	As at December 31, 2018	As at December 31, 2017
Trade receivables	72 675	73 189
of which: from related parties	*6 325*	*4 405*
Impairment loss on receivables	(2 968)	(4 610)
Net trade receivables	**69 707**	**68 579**

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

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	**37 161**	**27 239**
Public law receivables, excl. corporate income tax	25 263	12 581
Receivables claimed in court	2 031	2 387
Amounts receivable on account of sale of tangible assets	5 944	7 944
Prepayments	2 150	2 085
Other receivables	3 804	4 629
Impairment loss on other receivables	(2 031)	(2 387)
Short-term prepayments and advances	**7 598**	**7 881**
Prepayments, of which:	7 598	7 881
rent	4 754	5 526
other	2 844	2 355
Net other short-term receivables	**44 759**	**35 120**

The item “Other financial assets” includes receivables on account of sale of real properties on which the Mercure Mrągowo Resort & SPA hotel is located. An organised part of the enterprise [OPE] formed by the Mercure Mrągowo Resort & SPA hotel was sold on February 29, 2016, whereas sale of the real property where the 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 paid in 2017, PLN 5 000 thousand was paid in 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 Resort & SPA hotel.

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

- 6% of the sale price, i.e. PLN 3 381 thousand was paid into the bank account of Orbis S.A. on January 4, 2016,
- 7% of the price, i.e. PLN 3 944 thousand was paid into the bank account of Orbis S.A. on January 2, 2018,
- 7% of the price, i.e. PLN 3 944 thousand will be paid by December 31, 2019.

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	**(6 997)**	**(6 532)**
recognised impairment loss	(1 815)	(1 956)
reversed impairment loss	3 141	1 159
utilised impairment loss	709	76
exchange differences	(37)	256
Closing balance	**(4 999)**	**(6 997)**

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

Recognised and reversed impairment losses on receivables are reported in Impairment of receivables item (Note 5.2) of the income statement.

The maximum credit risk related to the Group's loans and 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 the total turnover.

All receivables at risk are covered by an impairment loss. The Group recognizes impairment on receivables based on their individual analysis. As at the IFRS 9 implementation date, the Group 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 Group. Accordingly, the existing individual approach to impairment losses on receivables will be continued.

The Group has adopted the principle to create an impairments for receivables over 180 days past due in the amount of 100% of receivables. If companies belonging to the Group have 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 31.2.3 to this report.

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	90 942	80 034
Overdue receivables, of which:	28 523	30 662
- overdue for up to 1 month	16 906	16 614
- overdue for a period from 1 to 3 months	5 387	6 558
- overdue for a period from 3 to 6 months	1 772	3 002
- overdue for a period from 6 months to 1 year	1 047	713
- overdue for more than 1 year	3 411	3 775
Total gross short-term receivables	**119 465**	**110 696**
Impairment loss on non-overdue receivables	(30)	(98)
Impairment loss on overdue receivables, of which:	(4 969)	(6 899)
- overdue for up to 1 month	0	(83)
- overdue for a period from 1 to 3 months	(119)	(87)
- overdue for a period from 3 to 6 months	(681)	(2 284)
- overdue for a period from 6 months to 1 year	(760)	(670)
- overdue for more than 1 year	(3 409)	(3 775)
Total impairment loss on receivables	**(4 999)**	**(6 997)**
Net short-term receivables	**114 466**	**103 699**

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

As at December 31, 2018, receivables amounting to PLN 23 554 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:	**23 554**	**23 763**
- overdue for up to 1 month	16 906	16 531
- overdue for a period from 1 to 3 months	5 268	6 471
- overdue for a period from 3 to 6 months	1 091	718
- overdue for a period from 6 months to 1 year	287	43
- overdue for a period from 1 year to 5 years	2	0

No collaterals were established to secure the Group'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 available in Note 31.2.2 of these financial statements.

16. OTHER SHORT-TERM FINANCIAL ASSETS

OTHER SHORT-TERM FINANCIAL ASSETS	As at December 31, 2018	As at December 31, 2017
Loans to other entities	456	457
Impairment loss on loan	(456)	(457)
Total other short-term financial assets	**0**	**0**

Other short-term financial assets included a loan granted by Accor Pannonia Hotels Zrt. to external companies, namely City Budapest Zrt. and Hotel Liget. Zrt.

17. CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	As at December 31, 2018	As at December 31, 2017
Cash at bank and in hand	257 093	161 282
Short-term bank deposits	279 223	21 786
Cash on the escrow account	314	30 122
Other cash and cash equivalents	1 204	1 654
Total cash and cash equivalents	**537 834**	**214 844**

Cash in the escrow account is restricted. This includes cash deposited in the escrow account by the subsidiary UAB Hekon, allocated for the purchase of an ibis hotel in Vilnius.

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

The Group 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).

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

18. 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	**201 093**	**23 631**
Increase due to acquisition of subsidiary	**0**	**179 626**
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
reversal of impairment loss	0	4 550
Disposals	**(201 399)**	**(26 755)**
sale of property	(187 886)	(23 624)
transfer to tangible assets and assets under construction	(14 520)	0
recognized impairment loss	0	(1 084)
other	(10)	0
exchange differences on translation	1 017	(2 047)
Closing balance	**8 690**	**201 093**

Addition to assets classified as held for sale in 2018 arose in connection with the signing of a preliminary real property sale agreement relating to a non-hotel property located in Wrocław, including perpetual usufruct rights to land, buildings and equipment.

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 and the sale of the Sofitel Budapest Chain Bridge by Accor Pannonia Hotels Zrt. in Hungary.

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 is as follows:

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 from investment property	9 911	0
Closing balance	**0**	**(14 692)**

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

19. EQUITY

19.1 SHARE CAPITAL

The Group's share capital comprises the share capital of Orbis S.A. 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.

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

	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 thousands, 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	0	0.00%	-9.94 p.p.
Metlife Otwarty Fundusz Emerytalny and Metlife Dobrowolny Fundusz Emerytalny managed by Metlife Powszechne Towarzystwo Emerytalne S.A.	0	0.00%	-5.12 p.p.
Nationale-Nederlanden Otwarty Fundusz Emerytalny	4 710 265	10.22%	+5.03 p.p.

19.2 RESERVES

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 investments line of the statement of financial position. At the end of 2017 the reserves also included 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 thousands, unless otherwise stated)

19.3 FOREIGN CURRENCY TRANSLATION RESERVE

This item includes exchange differences on translation of financial statements of foreign subsidiaries and at the end of 2017, also exchange rate differences related to the valuation of net investments in foreign entities.

19.4 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.

19.5 NON-CONTROLLING INTERESTS

This item includes certain net assets of consolidated subsidiaries held by shareholders other than the Group Companies.

19.6 CAPITAL MANAGEMENT

The objective of capital management is to secure the ability of the Orbis Group companies 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 companies may fuel capital growth through on-going activities taken to generate a good financial result, in joint-stock companies by regulating the amount of dividend disbursed to the shareholders as well as by issuing new shares or raising the nominal value of existing shares and, in limited liability companies, by increasing the share capital though establishment of new shares or increase of the nominal value of existing shares.

In order to finance long-term investment projects that are bound to affect the Group's results over a longer time-horizon, the Group companies seek to use both their 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 Group companies.

The Group 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 significantly went up owing to an increase in the net profit as compared to 2017.

	2018	2017
Net profit	363 358	232 441
Equity - opening balance	2 080 877	1 950 676
Equity - closing balance	2 386 786	2 080 877
Return on equity	**16.27%**	**11.53%**

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

The equity-to-non-current assets ratio is calculated as a quotient of the Group's equity and non-current assets and demonstrates the relation between sources of financing and the Group's assets.

	As at December 31, 2018	As at December 31, 2017
Equity	2 386 786	2 080 877
Non-current assets	2 546 642	2 392 340
Equity-to-non-current assets ratio	**93.72%**	**86.98%**

The analysis of equity is supplemented by the debt-to-equity ratio presented in Note 31.2.4 to the financial statements.

20. BORROWINGS

As at December 31, 2018, the Group did not have any liabilities associated with borrowings.

As at December 31, 2017, subsidiary Accor Pannonia Hotels Zrt. had liabilities of PLN 40 873 thousand (EUR 9 793 thousand).

The amount of unused credit lines under overdrafts as at December 31, 2018, was PLN 44.5 million, of which the credit lines unused by Orbis S.A. amounted to PLN 20.0 million and those of subsidiary Katerinska Hotel s.r.o.: PLN 24.5 million (i.e. CZK 150.0 million). Other companies of the Group had no unused credit lines.

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

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

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

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

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

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

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

Cash obtained from the bond issue has been allocated for projects implemented by the Group, 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 paid PLN 14 015 thousand as interest on issued bonds. Moreover, in 2018 the Company paid PLN 75 thousand as interest payments under the IRS transaction (please refer to Note 32.3).

BONDS	As at December 31, 2018	As at December 31, 2017
Liability under bond issue (principal amount to be repaid)	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 30.1 to the financial statements.

22. ASSETS AND LIABILITIES ARISING FROM CONTRACTS

As at December 31, 2018, assets arising under contracts include one-off cash bonuses granted by the Group at the time of executing management agreements in exchange for the client's obligation to build and/or adapt a hotel to the requirements of the brand prior to hotel opening (including hotel FF&E pursuant to the Group's standards). These assets are recognised over the term of the related agreement, i.e. during the period of operation of the managed hotel. The amounts are recognised as a decrease in management revenue.

Liabilities arising from contracts reflect Group'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	2 097	0
Liabilities arising under contractslong-term	**2 097**	**0**
Fees for affiliation with a hotel network	153	0
Prepayments and advance payments received	30 626	0
Liabilities arising under contractsshort-term	**30 779**	**0**
Total liabilities arising from contracts	**32 876**	**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 Group commits to provide to its customers is described under Note 2.4.2. The Group 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 Group'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 Group'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 Group.

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

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 876 thousand, while PLN 126 thousand was recognized in the statement of financial position as revenue from franchising and management.

23. DEFERRED REVENUE

DEFERRED REVENUE LONG-TERM	As at December 31, 2018	As at December 31, 2017
Advance payments received	10 928	12 202
Total deferred revenue long-term	**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 for the sale of the Giewont hotel in Zakopane and the accompanying contract of lease, executed on April 3, 2012. Pursuant to the executed preliminary sale and purchase agreement, Orbis S.A. received an advance payment towards the selling price amounting to PLN 5 428 thousand in 2012 and PLN 9 500 thousand in 2017. Also, rent for the first three years of the hotel lease was paid in advance on the date of execution of the contract of lease. Pursuant to the executed contract, starting from the fourth year, i.e. from April 2015, the rent of PLN 1 000 thousand per year will be covered from the received advance payment towards the sale price.

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

DEFERRED REVENUE SHORT-TERM	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	17 475
Deferred revenue from lease of real property	3 474	3 848
Other deferred revenues	2 345	2 109
Total deferred revenue short-term	**6 735**	**23 623**

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.

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

24. OTHER NON-CURRENT LIABILITIES

OTHER NON-CURRENT LIABILITIES	As at December 31, 2018	As at December 31, 2017
Liabilities concerning tangible assets	6 601	5 199
Deposits under lease of real property	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 Group by way of security for any claims resulting from faulty performance of agreements for repair and construction services.

25. PROVISIONS FOR LIABILITIES

MOVEMENTS IN PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Other provisions for liabilities	Total provisions for liabilities
As at January 1, 2018	**777**	**1 588**	**5 666**	**8 031**
Provision recognised in the period	0	797	0	797
Provision utilised in the period	0	(1 145)	0	(1 145)
Provision released in the period	(3)	(661)	(4 088)	(4 752)
Exchange differences on translation	0	(1)	(40)	(41)
As at December 31, 2018	**774**	**578**	**1 538**	**2 890**
Short-term provisions	774	578	0	1 352
Long-term provisions	0	0	1 538	1 538
Total provisions as at December 31, 2018	**774**	**578**	**1 538**	**2 890**

In 2017, other provisions for liabilities included mainly the provision created in accordance with IAS 37 for onerous contracts (the operating lease agreement of the Novotel hotel in Hungary), which was terminated in 2018.

MOVEMENTS IN PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Other provisions for liabilities	Total provisions for liabilities
As at January 1, 2017	**777**	**681**	**6 765**	**8 223**
Provision recognised in the period	0	1 917	249	2 166
Provision utilised in the period	0	(957)	0	(957)
Provision released in the period	0	(48)	(994)	(1 042)
Exchange differences on translation	0	(5)	(354)	(359)
As at December 31, 2017	**777**	**1 588**	**5 666**	**8 031**
Short-term provisions	777	1 588	1	2 366
Long-term provisions	0	0	5 665	5 665
Total provisions as at December 31, 2017	**777**	**1 588**	**5 666**	**8 031**

Description of major disputes is provided in Note 30.4.

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

(all amounts are quoted in PLN thousands, 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	80 706	101 471
of which: liabilities towards related parties	*13 407*	*8 980*
Total trade payables	**80 706**	**101 471**

LIABILITIES ASSOCIATED WITH TANGIBLE ASSETS	as at December 31, 2018	as at December 31, 2017
Liabilities associated with tangible assets	73 595	28 358
Total liabilities associated with tangible assets	**73 595**	**28 358**

As at December 31, 2018, the value of liabilities associated with non-current assets increased significantly compared to the balance of liabilities from the past year. This is mainly related to the fact that capital expenditures in Q4 2018 were higher by PLN 47.2 million as compared to capital expenditures incurred by the Group in the fourth quarter of 2017.

Other current liabilities are composed of the following items:

OTHER CURRENT LIABILITIES	as at December 31, 2018	as at December 31, 2017
Current liabilities	**24 946**	**30 657**
Taxes, social insurance and other benefits payable	17 635	23 565
Settlements with employees	3 775	4 545
Deposits received	1 365	1 896
Liabilities related to hotel acquisitions	1 075	0
Other liabilities	1 096	651
Accrued expenses	**51 178**	**57 594**
Obligations towards employees	40 333	44 574
Public law liabilities	10 135	11 069
Other	710	1 951
Total other current liabilities	**76 124**	**88 251**

The item Liabilities related to hotel acquisitions include the liability of Accor Hotels Romania s.r.l. amounting to EUR 250 thousand (i.e. PLN 1 075 thousand) due to the purchase of the Mercure Budapest Unirii hotel (more information available in Note 3).

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 Group does not have any finance lease liabilities.

Operating lease liabilities, presented off the statement of financial position, are described in Note 28 to the financial statements.

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

27. EMPLOYEE BENEFITS

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

Provision for retirement benefits and similar obligations

The provision for retirement benefits and similar obligations is calculated for employees of the parent company and subsidiary company in Hungary, hence they have been measured by different actuaries and by applying different assumptions for models.

POLAND

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.

As at December 31, 2018, the amount of the provision 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 Orbis 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 an employee of Orbis S.A. 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.

Principal actuarial assumptions for retirement and disability benefits calculated for employees of the parent company Orbis S.A. are presented below:

Principal actuarial assumptions for retirement & disability benefits - Poland	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 base			5.50%	4.00%	3.50%

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

HUNGARY

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 I.A.C.T.A. Actuarial Consulting Ltd.

The amount of retirement benefit paid is equal to the amount of last gross salary paid. The benefit is paid to an employee, provided he/she has at least 5 years of service for the Company.

The model applied to measure the present value of employee benefits, associated costs and actuarial gains/losses takes into account:

- the risk that employee will not meet the conditions for being granted a retirement benefit
- employee mortality determined based on mortality tables
- employee rotation
- salary increase

The discount rate corresponds to yields of long-term zero-coupon bonds issued by the government of Hungary.

Principal actuarial assumptions for retirement and disability benefits calculated for employees and the subsidiary company Accor Pannonia Hotels Zrt. are presented below:

Principal actuarial assumptions for retirement & disability benefits - Hungary	2017	2018	2019	2020 - 2029	successive years
- discount rate	1.60%	1.60%	1.60%	1.60%	1.60%
- projected future growth in the benefit assessment base		3.00%	3.00%	3.00%	3.00%

Provision for jubilee awards

Amounts of provisions for jubilee awards 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.

As at December 31, 2018, the provision was measured on an individual basis, separately for each employee.

The provision per employee is calculated based on an anticipated amount of jubilee awards that Accor Pannonia Hotels Zrt. 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.

Principal actuarial assumptions for jubilee awards calculated for employees of the parent company Orbis S.A. are presented below:

Principal actuarial assumptions for jubilee awards - Poland	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 base			7.14%	4.00%	3.50%

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

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

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.

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	335	1 428
past service cost and (gain)/loss from settlements	(347)	(106)	(453)
Net interest expense	493	226	719
Remeasurement on the net future employee benefit liability:			
actuarial gains and losses arising from changes in demographic assumptions	(45)	10	(35)
actuarial gains and losses arising from changes in financial assumptions	467	690	1 157
actuarial gains and losses arising from experience adjustments	1 750	482	2 232
Components of future employee benefit plan costs recognised in profit of loss	**3 411**	**455**	**3 866**
Components of future employee benefit plan costs recognised in other comprehensive income	**0**	**1 182**	**1 182**
Total	**3 411**	**1 637**	**5 048**

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

2017	Jubilee awards	Retirement & disability benefits	Total liabilities
Service cost:			
current service cost	987	319	1 306
past service cost and (gain)/loss from settlements	(1 483)	(754)	(2 237)
Net interest expense	510	225	735
Remeasurement on the net future employee benefit liability:			
actuarial gains and losses arising from changes in demographic assumptions	(47)	(70)	(117)
actuarial gains and losses arising from changes in financial assumptions	292	434	726
actuarial gains and losses arising from experience adjustments	1 221	74	1 295
Components of future employee benefit plan costs recognised in profit of loss	**1 480**	**(210)**	**1 270**
Components of future employee benefit plan costs recognised in other comprehensive income	**0**	**438**	**438**
Total	**1 480**	**228**	**1 708**

The current service cost is included in the Group's profit or loss under the item Employee benefit expense. The net interest expense is presented in finance costs.

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

(all amounts are quoted in PLN thousands, 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**	**7 243**	**22 260**
Current service cost	1 093	335	1 428
Past service cost and (gain)/loss from settlements	(347)	(106)	(453)
Interest cost	493	226	719
Remeasurement (gains)/losses:			
actuarial gains and losses arising from changes in demographic assumptions	(45)	10	(35)
actuarial gains and losses arising from changes in financial assumptions	467	690	1 157
actuarial gains and losses arising from experience adjustments	1 750	482	2 232
Benefits paid	(2 178)	(398)	(2 576)
Exchange differences on translation	0	(2)	(2)
Present value of obligation - as at December 31, 2018	**16 250**	**8 480**	**24 730**
Short-term provisions	2 001	1 388	3 389
Long-term provisions	14 249	7 092	21 341
Total present value of obligation - as at December 31, 2018	**16 250**	**8 480**	**24 730**

	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2017	**15 446**	**7 302**	**22 748**
Current service cost	987	319	1 306
Past service cost and (gain)/loss from settlements	(1 483)	(754)	(2 237)
Interest cost	510	225	735
Remeasurement (gains)/losses:			
actuarial gains and losses arising from changes in demographic assumptions	(47)	(70)	(117)
actuarial gains and losses arising from changes in financial assumptions	292	434	726
actuarial gains and losses arising from experience adjustments	1 221	74	1 295
Benefits paid	(1 909)	(251)	(2 160)
Exchange differences on translation	0	(36)	(36)
Present value of obligation - as at December 31, 2017	**15 017**	**7 243**	**22 260**
Short-term provisions	2 005	1 075	3 080
Long-term provisions	13 012	6 168	19 180
Total present value of obligation - as at December 31, 2017	**15 017**	**7 243**	**22 260**

(all amounts are quoted in PLN thousands, 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 968 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 900 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 884 thousand, whereas if the base were increased by 0.5 percentage point, the amount of the provision would go up by PLN 1 151 thousand.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as 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 in Orbis and 18.8 years in Accor Pannonia.

Maturity analysis of the expected benefit payments 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	1 381	3 426
2020	1 591	763	2 354
2021	2 163	711	2 874
2022	2 399	738	3 137
2023	2 737	668	3 405
years 2024 - 2028	15 427	3 263	18 690
Total	**26 362**	**7 524**	**33 886**

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

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

28. OPERATING LEASE AGREEMENTS

The Group's operating lease commitments apply to agreements that concern predominantly buildings. As at December 31, 2018, the Group pursued business in 10 hotels used under operating lease agreements. The majority of these agreements is denominated in foreign currencies. Expiry dates of concluded agreements range from 1 to 13 years.

Operating lease agreements of hotel buildings per type of contract:

Type of contract	Number of hotels	Annual rent	Minimum lease payment	Expiry date
Fixed rent with buyout option	1	(6 217)	(7 177)	2019
Fixed rent without buyout option	5	(25 280)	(23 517)	2021-2031
Fixed rent with variable interest	1	(8 254)	(7 898)	2022
Variable lease with minimum lease payment	1	(5 022)	(4 694)	2029
Variable rent without minimum lease payment	2	(10 879)	0	2025-2030
Total	**10**	**(55 652)**	**(43 286)**	

Operating lease agreements of hotel buildings per country:

	Number of hotels	Annual rent	Minimum lease payment	Expiry date
Poland	1	(7 596)	(7 596)	2021
Czech Republic	2	(12 671)	(12 658)	2019-2031
Lithuania	1	(5 022)	(4 694)	2029
Romania	1	(7 948)	0	2030
Slovakia	2	(5 423)	(2 087)	2023-2025
Hungary	3	(16 992)	(16 251)	2022-2026
Total	**10**	**(55 652)**	**(43 286)**	

In addition, as at December 31, 2018, the Group had 121 passenger vehicles in operating lease. The dates of termination of passenger vehicles lease contracts are from 1 to 4 years.

In 2018, lease payments amounting to PLN 57 724 thousand were recognised in profit or loss, in which PLN 43 286 thousand minimum lease payment of rental expense. In 2016, lease payments amounting to PLN 64 041 thousand were recognised in profit or loss, in which PLN 50 233 thousand minimum lease payment.

The costs of lease of hotel buildings (PLN 55 652 thousand in 2018 and PLN 62 187 thousand in 2017) are presented in the income statement under the Costs of properties rental item. This item also includes costs of rental of non-hotel properties.

The costs of lease of passenger vehicles (PLN 1 614 thousand in 2018 and PLN 1 746 thousand in 2017) are presented in the income statement under the Outsourced services item.

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

Future minimum operating lease payments are as follows:

Future minimum operating lease payments	as at December 31, 2018	as at December 31, 2017
Future minimum operating lease payments, due in:		
one year	41 110	42 504
from 1 to 5 years	134 368	119 919
more than 5 years	96 422	78 660
Total future minimum operating lease payments*	**271 900**	**241 083**

**Future minimum lease payments denominated in foreign currencies are translated at the exchange rate prevailing the end of the reporting period*

29. FUTURE CAPITAL COMMITMENTS

As at December 31, 2018, the Orbis Group was bound by future capital commitments under executed contracts amounting in total to PLN 83.5 thousand. The highest amounts concern works related to the construction of the ibis Styles Szczecin (PLN 42.5 million), general modernisation works carried out 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). Furthermore, EUR 175 thousand (i.e. approx. PLN 753 thousand) relates to the pending construction works at the ibis Vilnius hotel in Lithuania, while EUR 153 thousand (i.e. approx. PLN 657 thousand) relates to modernization works in the Mercure Budapest City Center in Hungary.

30. CONTINGENT LIABILITIES

30.1 LIABILITIES ARISING FROM BONDS ISSUE AND THE APPLICABLE LAW

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 appraisers 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.

Moreover, the following hotels located in Hungary: the Mercure Budapest City Center hotel and the Novotel Budapest City hotel are covered by the Act on Protection of Cultural Heritage, which comprises special legal regulations concerning restrictions or duties connected with the permitted use, reconstruction (repair) methods and demolition of such buildings (hotels). An important element of the legal regime created by the aforementioned Act is the right of pre-emption in respect of these hotels enjoyed by the State of Hungary or local authorities if the properties are sold.

30.2 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.

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

30.3 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.

30.4 LEGAL CLAIMS

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

Furthermore, 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 Group's opinion, fee revaluations made by Mayors of respective cities are either unjustified or calculations should be based on different rates. As at the end of the reporting period, the accumulated value of the fees challenged by the Group, 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, the Group 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.

31. RISK AREAS

31.1 BUSINESS RISK

31.1.1 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.

31.1.2 Competition risk

The hotel industry is a highly competitive market. Year in, year out, new hotels open in cities where the Orbis Group 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 Orbis Group companies and, consequently, on financial performance.

The Orbis Group 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.

31.1.3 Risk related to cooperation with travel agents

The objective of the Orbis Group 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 Group's performance.

31.2 FINANCIAL RISK

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

The Group 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.

The Group 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.

The Orbis Group 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. and in Group companies.

31.2.1 Interest rate risk

The Group is exposed to the interest rate risk since it has obtained financing at variable interest rates, i.e. credit facilities and issued bonds.

A potential rise in interest rates on credit facilities and bonds issued will increase finance costs and adversely affect the Group's financial results.

As at December 31, 2018, the Orbis Group had liabilities resulting from the issue of variable-interest bonds in the amount of PLN 502.1 million. The first tranche of bonds was issued on June 26, 2015 (PLN 300 million) with a variable interest rate equal to WIBOR 6M plus a margin of 0.97 p.p. The second tranche of bonds was issued on July 29, 2016 (PLN 200 million) with variable interest rate equal to WIBOR 6M plus an interest 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.

Sensitivity analysis of the interest rate risk associated with the issued bonds was performed based on the balance of debt resulting from the issued bonds as at the end of the reporting period. A 0.5 p.p. change in the interest rate on bonds would result in an increase or 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 32.3).

31.2.2 Currency risk

A portion of sales revenue and costs of the conducted business is generated by foreign companies of the Orbis Group. Similarly, Polish companies execute transactions denominated in foreign currencies. Hence, a risk of fluctuations in foreign currency exchange rates arises. In case incurred costs and generated revenue are denominated in different foreign currencies, the Group may be exposed to the foreign exchange risk. Certain expenses, like rent costs and fees to companies of 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 Group.

In order to reduce the risk of its currency exposure, the Group 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 Group’s foreign currency denominated monetary assets and monetary liabilities (i.e. in other currencies than the functional currency of respective Group companies) as at the end of reporting period are as follows:

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

		as at December 31, 2018	as at December 31, 2017
Cash and cash equivalents			
foreign currency	EUR	36 383	6 408
Polish currency equivalent	PLN	156 447	26 727
foreign currency	USD	180	161
Polish currency equivalent	PLN	677	560
Receivables			
foreign currency	EUR	8 087	6 301
Polish currency equivalent	PLN	34 774	26 281
foreign currency	USD	0	25
Polish currency equivalent	PLN	0	87
Credit			
foreign currency	EUR	0	9 793
Polish currency equivalent	PLN	0	40 873
Payables			
foreign currency	EUR	6 759	6 332
Polish currency equivalent	PLN	29 064	26 410
foreign currency	USD	0	11
Polish currency equivalent	PLN	0	38
foreign currency	GBP	13	6
Polish currency equivalent	PLN	62	28

The Group has no foreign currency borrowings nor borrowings denominated in a foreign currency as at the end of the reporting period.

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

The following table details the Group'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.

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 equivalent	15 712	2 729
Credit	0	4 087
Receivables/Payables	565	(11)
Total effect of exchange rate fluctuations on result	**16 277**	**6 805**

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.

31.2.3 Credit risk

The credit risk to which the Group 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 Group purchases or invests in,
- creditworthiness of franchisees and investors with which the Group companies 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 Group's assessment, the risk related to its clients does not differ from the average credit risk on the markets on which Group companies operate.

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 Group 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 Group'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, the Group cooperates with reputable banks with good financial standing and high credibility.

The impact of the above-mentioned risk, if transpired, on the financial results of the Capital Group cannot be predicted.

31.2.4 Liquidity risk

The Orbis Group hedges liquidity through credit facilities, internal loans and overdrafts.

The amount of unused credit lines under overdrafts as at December 31, 2018, was PLN 45.1 million, of which the credit lines unused by Orbis S.A. amounted to PLN 20.0 million and those of subsidiary Katerinska Hotel s.r.o.: PLN 25.1 million (i.e. CZK 150.0 million). The remaining companies of the Group did not have unused credit lines under overdrafts.

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

The Group monitors financial liquidity on the basis of the debt-to-equity ratio and current ratio.

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

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 rate dropped as compared to December 31, 2017, mainly due to a significant increase in the Group's equity (mainly on account of high net result) and a minor decrease in total liabilities.

	as at December 31, 2018	as at December 31, 2017
Total debt	831 694	838 425
Total equity and liabilities	3 218 480	2 919 302
Debt-to-equity ratio	**25,8%**	**28,7%**

The current ratio is calculated as a quotient of current assets and current liabilities. This ratio improved compared to the past year, mainly due to the increase in cash and cash equivalents resulting from the sale of hotels in Hungary, the Czech Republic and Poland.

	as at December 31, 2018	as at December 31, 2017
Current assets and assets classified as held for sale	671 838	526 962
Current liabilities	286 283	289 854
Current ratio	**2.35**	**1.82**

Net working capital amounted to PLN 423 069 thousand at the end of 2018 as compared to PLN 260 731 thousand at the end of the past year. The increase in working capital results mainly from a high balance of cash at the end of 2018.

The Group forecasts future flows arising from financial payables. The forecast takes into account payables existing as at the date of preparation of the financial statements. For future interest periods, interest rates valid as at December 31, 2018, are adopted. Interest and instalments on bonds are classified according to payment dates.

Projected expenditure payable in the period	up to 1 year	from 1 year to 3 years	from 3 years to 10 years
Bonds	13 940	515 488	0
Trade payables	80 706	0	0
Other payables*	80 906	6 142	1 058
Total expenditure on account of payables	**175 552**	**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 refurbishment and construction services.*

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

31.3 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.

The Orbis Group monitors changes in the Group's legal environment on a current basis.

31.4 REPUTATIONAL RISK

Brands under which hotels of the Orbis Group operate and their reputation are among the Group's most important assets. Customer acquisition and maintenance depend on the standard and quality of services and application of the best market (commercial) practices in management. Incidents undermining guests' confidence and safety may harm the brands' image. In addition, the Orbis Group'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.

The Orbis Group monitors media activity on a current basis and responds to problems notified on social media portals. Also, the Group 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.

31.5 RISK FACTORS RELATED TO THE BONDS

31.5.1 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.

31.5.2 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.

32. FINANCIAL INSTRUMENTS

32.1. CATEGORIES OF FINANCIAL INSTRUMENTS

As at December 31, 2018, all financial assets and liabilities of the Group are measured at amortized cost. At the end of the past year, the financial instruments (which were the only ones recognised at fair value through profit or loss) included a derivative instrument, i.e. interest rate swap (IRS). As at December 31, 2018, the Group no longer had an IRS (as described in Note 32.3).

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

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	537 834	214 844
Loans and receivables (including trade receivables)	81 605	90 181
Financial liabilities		
Amortised cost (including trade payables)	670 923	685 349
Derivative instruments in designated hedge accounting relationships	0	74

32.2. 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	537 834	537 834	214 844	214 844
Other financial assets (long-term)	0	0	6 944	6 944
Trade receivables and other short-term receivables	81 605	81 605	83 237	83 237
Financial liabilities				
Borrowings	0	0	40 873	40 873
Debt securities - bonds issued	502 111	503 380	501 778	504 500
Derivative instruments (liabilities)	0	0	74	74
Trade payables and other payables long- and short-term	168 812	168 812	142 698	142 698

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 credit facilities and 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 carrying amount is accepted as the fair value of overdraft facilities. As at December 31, 2018, the Group did not have any liabilities resulting from credit facilities.

The fair value of bonds was determined based on their price on the Catalyst bond market as at the end of the reporting period (or a date close to that day).

The fair value of a derivative instrument was determined as at December 31, 2017, as the present value of estimated future cash flows on the basis of yield curves monitoring. As at December 31, 2018, the Group 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 Group did not perform any reclassifications between fair value levels in the current period.

32.3. 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 Group 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 Group'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 Group.

33. 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, non-consolidated subsidiaries and associates, as well as Accor S.A. (significant shareholder) and its related parties.

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

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

Salaries and other short-term benefits for serving as member of governing bodies of Orbis S.A.	in 2018	in 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 of the Supervisory Board from June 12, 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.

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

33.2. SALES OF GOODS AND SERVICES

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

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

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

REVENUES AND EXPENSES	2018	2017
Net sales of services	4 682	4 724
from the parent	3 248	3 187
from other Accor Group companies	1 434	1 537
Other revenue	1 226	2 701
from the parent	1 226	2 701
Purchases of services, merchandise and raw materials	74 450	67 960
from the parent	58 540	49 444
from other Accor Group companies	15 910	18 516

RECEIVABLES AND PAYABLES	As at December 31, 2018	As at December 31, 2017
Trade receivables	6 325	4 405
from the parent	5 515	3 973
from other Accor Group companies	810	432
Other receivables	51	54
from other Accor Group companies	51	54
Trade payables	13 407	8 980
from the parent	12 634	7 809
from other Accor Group companies	773	1 171

No impairment loss was recognised on the presented receivables.

Transactions with related parties are effected at arm's length.

No transactions involving transfer of rights and obligations either free of charge or against consideration, were executed between the Group and related parties:
- members of the Management Board and the Supervisory Board of Orbis S.A.,
- spouses, next-of-kin or relatives of the first and second degree of members of the Management Board and the Supervisory Board of Orbis S.A., or its subsidiaries and associates,
- persons linked by a relation of guardianship, adoption or custody with members of the Management Board and the Supervisory Board of Orbis S.A., or its subsidiaries and associates.

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

34. EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

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

	2018	2017
Change in receivables and assets arising from contracts in the statement of financial position	**(4 211)**	**(3 028)**
change due to acquisition of subsidiaries and hotels	70	8 234
change due to hotel disposals	(1 207)	0
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 prepayments	0	(4 381)
exchange differences on translation	410	(3 053)
Change in the statement of cash flows	**(13 693)**	**(12 217)**
Change in the statement of liabilities arising from contracts	**32 876**	**0**
adjustment for IFRS 15	(29 890)	0
exchange differences on translation	(68)	0
Change in the statement of cash flows	**2 918**	**0**
Change in other liabilities, except borrowings, in the statement of financial position	**13 768**	**(1 304)**
change due to acquisition of subsidiaries	0	(2 012)
change due to hotel disposals	1 569	0
change in investment liabilities	(39 161)	(4 234)
liabilities associated with acquisition of shares and hotels	(1 069)	(10 309)
adjustment for IFRS 15	10 961	0
exchange differences on translation	(368)	4 806
Change in the statement of cash flows	**(14 300)**	**(13 053)**
Change in deferred revenue presented in the statement of financial position	**(18 162)**	**10 358**
change due to acquisition of subsidiaries and hotels	(15)	0
change due to prepayments against sale of tangible assets	(725)	(7 616)
adjustment for IFRS 15	17 429	0
exchange differences on translation	(155)	166
Change in the statement of cash flows	**(1 628)**	**2 908**
Change in provisions in the statement of financial position	**(2 671)**	**(680)**
actuarial gains and losses in respect of defined employee benefit plan recognised in other comprehensive income	(1 182)	(438)
exchange differences on translation	44	395
Change in the statement of cash flows	**(3 809)**	**(723)**

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

Change in inventories presented in the statement of financial position	**322**	**382**
change due to acquisition of subsidiaries and hotels	968	0
change due to hotel disposals	(473)	0
exchange differences on translation	5	(161)
Change in the statement of cash flows	**822**	**221**

Other adjustments	**(536)**	**(6 734)**
revaluation of non-current assets	(546)	(6 740)
revaluation of investments in subsidiaries	10	0
other	0	6
Change in the statement of cash flows	**(536)**	**(6 734)**

35. 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 thousands, 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	

SIGNATURES OF THE MEMBER IN CHARGE OF BOOKKEEPING

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