Orbis Group

Report for 2017

Consolidated Financial Statements

February 21, 2018

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

CONSOLIDATED INCOME STATEMENT
for the year 2017

	Note	2017	2016
Net sales	5.1	**1 458 073**	**1 382 879**
Outsourced services	5.2	(316 062)	(296 904)
Employee benefit expense	5.3	(354 914)	(339 121)
Materials and energy used	5.2	(202 110)	(200 861)
Taxes and charges	5.2	(42 905)	(42 407)
Other expenses by nature	5.2	(13 796)	(13 077)
Net other operating income/(expenses)	5.4	4 104	(1 293)
EBITDAR		**532 390**	**489 216**
Property rental expense	28	(64 041)	(99 603)
Operating EBITDA		**468 349**	**389 613**
Depreciation and amortisation	5.2	(164 067)	(148 204)
Operating profit without the effects of one-off events		**304 282**	**241 409**
Result on sale of real property	5.5	12 064	27 629
Revaluation of non-current assets	5.6	6 740	1 548
Restructuring costs	5.7	(4 028)	(2 322)
Result of other one-off events	5.8	(3 381)	(3 787)
Operating profit		**315 677**	**264 477**
Gain on disposal of interest in associates	12	0	5 108
Finance income	5.9	1 872	4 901
Finance costs	5.10	(30 987)	(17 458)
Share of net profits/(losses) of associates	12	0	126
Profit before tax		**286 562**	**257 154**
Income tax expense	6	(54 121)	(50 007)
Net profit for the period		**232 441**	**207 147**
- attributable to owners of the parent		232 391	207 125
- attributable to non-controlling interests		50	22
Earnings per ordinary share			
Basic and diluted profit attributable to owners of the parent for the period (in PLN)	7	5.04	4.50

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year 2017

	Note	2017	2016
Net profit for the period		**232 441**	**207 147**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/losses arising from the defined benefit plan	27	(438)	87
Income tax relating to items that will not be reclassified subsequently		35	116
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	20.3	(28 148)	14 603
The effective portion of the gain or loss on the hedging instrument entered into for cash flow hedges	32.3	42	677
Income tax relating to items that may be reclassified subsequently		(8)	(128)
Other comprehensive income/(loss), net of income tax		**(28 517)**	**15 355**
Total comprehensive income for the period		**203 924**	**222 502**
- attributable to owners of the parent		203 885	222 473
- attributable to non-controlling interests		39	29

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31, 2017

Assets	Note	As at:	
		December 31, 2017	December 31, 2016
Non-current assets		**2 392 340**	**2 193 359**
Property, plant and equipment	9	2 251 515	2 037 338
Investment property	10	5 088	8 720
Intangible assets, of which:	11	111 568	112 692
- goodwill		107 252	107 252
Other financial assets	13	6 944	15 510
Deferred tax assets	6	15 912	18 206
Other long-term assets	14	1 313	893
Current assets		**325 869**	**643 145**
Inventories	15	6 785	7 167
Trade receivables	16	68 579	58 953
Income tax receivables	6	541	3 079
Other short-term receivables	16	35 120	33 152
Cash and cash equivalents	18	214 844	540 794
Assets classified as held for sale	19	**201 093**	**23 631**
TOTAL ASSETS		**2 919 302**	**2 860 135**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, continued
as at December 31, 2017

Equity and Liabilities	Note	As at:	
		December 31, 2017	December 31, 2016
Equity		**2 080 877**	**1 950 676**
Equity attributable to owners of the parent		**2 080 676**	**1 950 514**
Share capital	20.1	517 754	517 754
Reserves	20.2	133 272	133 238
Retained earnings	20.4	1 440 378	1 282 113
Foreign currency translation reserve	20.3	(10 728)	17 409
Non-controlling interests	20.5	**201**	**162**
Non-current liabilities		**548 571**	**624 954**
Borrowings	21	0	87 656
Bonds	22	501 778	501 372
Deferred tax liabilities	6	3 969	282
Deferred revenue	23	12 202	4 001
Other non-current liabilities	24	5 777	5 114
Provision for retirement benefits and similar obligations	27	19 180	19 765
Provisions for liabilities	25	5 665	6 764
Current liabilities		**289 854**	**284 505**
Borrowings	21	40 873	35 289
Other financial liabilities	32.3	74	118
Trade payables	26	101 471	117 429
Liabilities associated with tangible assets	26	28 358	24 945
Current tax liabilities	6	1 758	3 143
Deferred revenue	23	23 623	21 466
Other current liabilities	26	88 251	77 673
Provision for retirement benefits and similar obligations	27	3 080	2 983
Provisions for liabilities	25	2 366	1 459
TOTAL EQUITY AND LIABILITIES		**2 919 302**	**2 860 135**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year 2017

	Note	Equity attributable to owners of the parent				Non-controlling interests	Total
		Share capital	Reserves	Retained earnings	Foreign currency translation reserve		
Twelve months ended December 31, 2016							
Balance as at January 1, 2016		**517 754**	**132 689**	**1 129 899**	**2 813**	**133**	**1 783 288**
- net profit for the period		0	0	207 125	0	22	**207 147**
- other comprehensive income/(loss)		0	549	203	14 596	7	**15 355**
Total comprehensive income for the period		**0**	**549**	**207 328**	**14 596**	**29**	**222 502**
- transaction with a shareholder		0	0	17 286	0	0	**17 286**
- income tax relating to transaction with a shareholder		0	0	(3 284)	0	0	**(3 284)**
- dividends		0	0	(69 116)	0	0	**(69 116)**
Balance as at December 31, 2016	20	**517 754**	**133 238**	**1 282 113**	**17 409**	**162**	**1 950 676**
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	8	0	0	(73 723)	0	0	**(73 723)**
Balance as at December 31, 2017	20	**517 754**	**133 272**	**1 440 378**	**(10 728)**	**201**	**2 080 877**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year 2017

	Note	2017	2016
OPERATING ACTIVITIES			
Profit before tax		**286 562**	**257 154**
Adjustments:		**150 479**	**178 226**
Share of net (profits)/losses of associates	12	0	(126)
Depreciation and amortisation	5.2	164 067	148 204
Foreign exchange losses		8 596	348
Interest and other borrowing costs		17 141	14 688
Gain from investing activities		(9 727)	(33 133)
Change in receivables	34	(12 217)	1 640
Change in liabilities, excluding borrowings	34	(13 053)	46 249
Change in deferred revenue	34	2 908	(756)
Change in provisions	34	(723)	2 925
Change in inventories	34	221	(286)
Other adjustments	34	(6 734)	(1 527)
Cash generated from operations		**437 041**	**435 380**
Income taxes paid		(46 811)	(54 493)
Net cash generated by operating activities		**390 230**	**380 887**
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment, intangible assets and investment property		62 216	63 138
Proceeds from sale of associates		0	15 785
Interest received		1 776	1 833
Other investing cash inflows		14 881	5 454
Buyout of leased hotels		(468 056)	(109 342)
Payments for property, plant and equipment and intangible assets		(146 584)	(182 117)
Increase in share capital of related parties		0	(10)
Other investing cash outflows		0	(6 704)
Net cash used in investing activities		**(535 767)**	**(211 963)**
FINANCING ACTIVITIES			
Proceeds from borrowings	21	41 706	0
Issue of bonds	22	0	200 000
Inflows from shareholder		0	17 286
Repayment of borrowings	21	(123 512)	(36 683)
Interest paid and other financing cash outflows resulting from borrowings	21	(3 827)	(4 841)
Interest paid and other financing cash outflows resulting from bonds	22	(14 190)	(9 076)
Dividends and other payments to owners	8	(73 723)	(69 116)
Net cash generated by/(used in) financing activities		**(173 546)**	**97 570**
Change in cash and cash equivalents		**(319 083)**	**266 494**
Effects of exchange rate changes on the balance of cash held in foreign currencies		(6 867)	2 617
Cash and cash equivalents at the beginning of the period		**540 794**	**271 683**
Cash and cash equivalents at the end of the period	18	**214 844**	**540 794**

1. BACKGROUND

The attached consolidated financial statements present financial data in the consolidated statement of financial position as at December 31, 2017 and as at December 31, 2016, consolidated statement of changes in equity, consolidated income statement, consolidated statement of comprehensive income, and consolidated statement of cash flows, covering data for 2017 and for 2016, as well as explanatory notes to the abovementioned financial statements. These consolidated financial statements of the Group for 2017 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 the 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, 2018.

Items of statement of financial position of foreign subsidiaries were translated into the Polish currency at the average exchange rate quoted by the National Bank of Poland as at December 31, 2017. Items of the income statement, statement of comprehensive income and statements of cash flows of foreign subsidiaries were translated into the Polish currency at the exchange rates being the arithmetic mean of average rates quoted by the National Bank of Poland on the last day of each month of 2017 and of 2016. All resulting foreign exchange differences are recognised as a component of equity.

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

CURRENCY	Average exchange rate in the reporting period		Exchange rate at the end of the reporting period	
	2017	2016	December 31, 2017	December 31, 2016
EUR/PLN	4.2447	4.3757	4.1709	4.4240
HUF/PLN	0.0137	0.0140	0.0134	0.0142
CZK/PLN	0.1614	0.1618	0.1632	0.1637
RON/PLN	0.9282	0.9739	0.8953	0.9749

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, Warsaw 00-028, 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 20.1 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 Group is the largest hotel network in Poland and Central & Eastern Europe. As at the end of 2017, the Group's structure comprised 124 hotels located in eleven countries. Hotels of the Group operate under the following Accor brands: Sofitel, Pullman, MGallery, Novotel, Mercure, ibis, ibis Styles and ibis budget.

Orbis is the sole licensor of Accor brands in 16 countries of Central & Eastern Europe. As at the end of the reporting period, 37 hotels offering a total of 4 102 rooms operated under franchise agreements and 13 hotels with a total of 1 791 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 authorized to develop the Adagio network both in the form of owned hotels and by granting such rights to third parties under management, subfranchise or license agreements. The General Franchise Agreement was executed in October 2017 for a term of 15 years with the option of renewal for subsequent five-year terms; it covers the following eight countries: Poland, Czech Republic, Hungary, Romania, Serbia, Estonia, Latvia and Lithuania. As at the end of the reporting period, Orbis S.A. did not have any owned, franchised or managed hotels under the Adagio brands.

The 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.

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

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
H-DEVELOPMENT CZ a.s., Prague	indirectly 100%	indirectly 100%	real property services
Business Estate Entity a.s., Pilsen	indirectly 100%	indirectly 100%	real property rental
5 Hotel Kft., Budapest	indirectly 99.92%	indirectly 99.92%	real property rental
5 Star Hotel Kft., Budapest (formerly: HVB Leasing Maestoso Kft.)	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 January 1, 2017, a merger of subsidiaries, i.e. Katerinska Hotel s.r.o. (merging company) with Nový Smíchov Gate a.s. (merged company) took place. As at that day, Katerinska Hotel s.r.o. took over the rights and obligations of Nový Smíchov Gate a.s., which was removed from the register of companies.

On January 2, 2017, the subsidiary Accor Pannonia Hotels Zrt. acquired from Erste Group Immorent Holding GmbH with its corporate seat in Vienna and Subholding Immorent GmbH with its corporate seat in Vienna a share representing 100% of the share capital in 5 Hotel Kft. with its corporate seat in Budapest.

Moreover, on May 29, 2017, the subsidiary Accor Pannonia Hotels Zrt. executed with Universale International Realitäten GmbH with its corporate seat in Vienna an agreement for the purchase of 100% stake in HVB Leasing Maestoso Kft. with its corporate seat in Budapest. Following this acquisition, HVB Leasing Maestoso Kft. was renamed 5 Star Hotel Kft.

Further details about the acquisition of companies 5 Hotel Kft. and 5 Star Hotel Kft. are provided in Note 3.

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. ACCOUNTING POLICIES AND THEIR CHANGES

2.1 STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with the 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. The International Financial Reporting Standards applied for the first time by the Group are described in Note 2.6 to these statements.

Preparing financial statements in accordance with IFRSs requires applying certain key accounting estimates. The Management Board must also take a number of subjective decisions concerning the application of the Group's accounting policies. The areas which are more complex or require a subjective judgement, as well as areas in which the assumptions and estimates are significant for the financial statements as a whole, are described in 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 STANDPOINT OF ORBIS S.A. MANAGEMENT BOARD CONCERNING THE QUALIFIED OPINION ISSUED BY THE ENTITY LICENSED TO AUDIT FINANCIAL STATEMENTS

The report of the licensed auditor Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. on the audit of the consolidated financial statements of the Orbis Group for 2017 contains a qualification relating to the classification of the rights to 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 land and 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 opinion of the Management Board the specific nature of the right to perpetual usufruct of land (which is an element of the Polish legal system only) makes it much more similar to ownership title than to any contractual right. Even without a detailed analysis of legal regulations that apply to perpetual usufruct, a number of elements vested in the perpetual usufructuary in a manner virtually identical to real property owner can easily be identified, namely:

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

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

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

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

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

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

Considering the specific features of the rights to perpetual usufruct of land, the Management Board and the Supervisory Board are of an opinion that these rights 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, 2017, amounted to PLN 59 324 thousand (which accounted for 2.0% of total assets), compared to PLN 61 382 thousand (equal to 2.1% of total assets) as at December 31, 2016.

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 rights to perpetual usufruct of land obtained free of charge, as recognized in the statement of financial position, amounted to PLN 251 764 thousand (8.6% of total assets) as at December 31, 2017 and PLN 260 044 thousand (9.1% of total assets) as at December 31, 2016. The value of the related deferred tax liabilities amounted to PLN 47 835 thousand (1.6% of total equity and liabilities) as at December 31, 2017 and PLN 49 408 thousand (1.7% of total equity and liabilities) as at December 31, 2016.

If the rights to perpetual usufruct of land obtained free of charge had not been recognised in the statement of financial position, the financial result for the period of 12 months ended December 31, 2017, and for the period of 12 months ended December 31, 2016, taking into account deferred tax, would have been higher by, respectively, PLN 6 707 thousand (corresponding to 2.9% of net profit) and PLN 8 110 thousand (3.9% of net profit) and the previous years' profit/loss as at December 31, 2017 and December 31, 2016 would have been lower by, respectively, PLN 210 636 thousand (7.2% of total equity and liabilities) and PLN 218 745 thousand (7.6% of total equity and liabilities).

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

In connection with the foregoing, the Management Board intends to consistently pursue the approach to the presentation of perpetual usufruct of land and until the entry into force of new provisions on leases and development of consistent interpretation of these regulations on the Polish market, the Board has no plans to revise the consolidated financial statements (more information about the influence of IFRS 16 can be found in Note 2.7 of these financial statements).

When evaluating the financial statements of the Orbis Group for 2017, like in the past years, the Supervisory Board gave 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.

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 elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. 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 might indicate that the Group is, or is not able to direct the relevant activities at the time when decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are fully 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 under the acquisition method. The cost of acquisition is set at the fair value of the 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 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 financial 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 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 IAS 39. 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. 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 minority 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 by the Group, and (ii) the carrying amount of the assets (including goodwill), liabilities, and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are reclassified to profit or loss. The fair value of any investment retained by the Group in the former subsidiary following disposal is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or 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 measured at their book value and adjusted, where appropriate, for the purpose of unifying the accounting principles applied 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 Income statement

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

The structure of sales revenue 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.
- sales of food&beverage services – they include revenue from sales of food and beverages in hotels owned or leased. The revenue is recognised when the products/goods are handed over to the customer. This group of revenues also includes revenues from the organization of conferences, banquets and events.
- other revenue – includes income from auxiliary services provided by hotels (among others, rental of parking places, sports and leisure services), as well as revenue from renting out non-hotel properties.

- revenue from franchise 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 franchisees fixed fees for joining the network and flexible charges for use of the trademark, the know-how, marketing support, hotel affiliation with the global distribution and reservation systems, and participation in loyalty programs. Flexible charges are calculated as a percentage of revenue from provision of hotel room accommodation service by franchised hotels specified in the contract.
- management fees – these fees are paid by hotels managed by the Group, usually on the basis of long-term management agreements executed with hotel owners. The revenue comprises the basic fee, usually calculated as a percentage of hotel revenue, and an additional management fee defined as a specific percentage of the hotel's operating profit before tax. 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 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 direct 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 2.4.19).

2.4.7 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 of the Introduction to the financial statements.

Subsequent costs are included in the PP&E'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 costs 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 an item 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.

2.4.8 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.

2.4.8.1 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.

Tangible assets 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.

2.4.8.2 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.

2.4.9 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at 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 a 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.

2.4.10 Intangible assets

2.4.10.1 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.

2.4.10.2 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 website creation 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 – 10 years.

2.4.11 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.

2.4.12 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 realisable in the ordinary course of business, less applicable variable distribution costs.

2.4.13 Financial assets

Financial assets are recognised when the company becomes a party to a financial instrument agreement, and their initial value is measured at fair value less transaction costs, except for assets classified as financial assets initially measured at fair value through profit or loss. Transaction costs allocated directly to the acquisition of financial assets measured at fair value through profit or loss are recognised directly in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expired, or when it has transferred the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the 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 at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2.4.13.1 Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling it in the near term; or
- it is part of a portfolio of identified financial instruments that the 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; 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
- the asset forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

The 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 dividends or interest earned on the financial asset.

2.4.13.2 Held-to-maturity investments

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

2.4.13.3 Available-for-sale financial assets

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

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

2.4.13.4 Loans and receivables

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

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

2.4.14 Cash and cash equivalents

Cash and cash equivalents are recognised in the statement of financial position at fair value. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, 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 flow from financing activities. For the purposes of presentation in the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.4.15 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 as a separate item of 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.

2.4.16 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.

2.4.16.1 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. The description of the goodwill impairment testing method is provided in Note 11.

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 at the given market.

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

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

2.4.16.2 Impairment of financial assets

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

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

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

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

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

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

In respect of available for sale equity securities, 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.

2.4.16.3 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 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.

2.4.17 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.

2.4.17.1 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.

2.4.17.2 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 used 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.

2.4.17.3 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 at fair value through profit or loss or as other financial liabilities.

2.4.17.4 Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term; or
- it is part of a portfolio of identified financial instruments that the 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; 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; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

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

2.4.17.5 Other financial liabilities

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

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

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

2.4.17.6 Financial guarantee contract liabilities

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

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

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

2.4.18 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 realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2.4.18.1 Embedded derivative instruments

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

2.4.19 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 recognized in other comprehensive income is immediately reflected in retained earnings and will not be reclassified to the income statement. Past service cost is recognised in profit or loss in the period when the plan was amended. 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.

2.4.20 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 is 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.

2.4.21 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:
  - an outflow of benefits to settle that obligation is not likely;
  - the amount of the obligation cannot be measured with sufficient reliability.

2.4.22 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.

2.4.22.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the income statement because of items of income or expense that are taxable or deductible in other years and items of income or expense 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 2017 the Companies calculated their corporate income tax liability at the rate of 19% of taxable income.

Until September 1, 2016, Orbis company formed a Tax Group together with a subsidiary Hekon-Hotele Ekonomiczne S.A. Due to the merger with the subsidiary, the Agreement Establishing the Tax Group lost its tax status. Consequently on September 2, 2016, Orbis company became an autonomous CIT payer. The tax year for Orbis ended on December 31, 2016. In 2017 the tax year was the same as the reporting year.

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

- Czech Republic 19%
- Lithuania 15%
- Romania* 16%
- Slovakia 21% (in 2016 the rate was 22%)
- Hungary 9% (in 2016 the rate was 10% on income up to HUF 500 million and 19% on the excess over this amount).

** From 2017, the provisions on CIT calculation in Romania changed. Part of the business activities is still 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.*

2.4.22.2 Deferred tax

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

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

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

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

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

2.4.22.3 Current and deferred tax for the period

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

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

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

2.4.22.4 Tax Group

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

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

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

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

From September 2009, Orbis S.A. and its subsidiary Hekon-Hotele Ekonomiczne S.A. formed a Tax Group until both companies merged on September 1, 2016 and the Tax Group lost its tax status.

Orbis company was the tax representative of the Tax Group that existed until the beginning of September 2016. The tax was calculated independently by each company and subsequently consolidated and remitted to the Tax Office by the tax representative. The tax was charged to profit or loss and affected cash flows of both companies in accordance with the calculations. Deferred tax assets and liabilities were offset within the Tax Group.

The remaining companies of the Orbis Group made independent remittances during the period covered by these Statements (were not members of the Tax Group).

2.4.23 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.

2.4.24 Foreign currencies

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 translated at the rates prevailing at that date. Assets and liabilities carried at fair value that are denominated in foreign currencies are translated 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 the 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 the relevant reserve (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.

2.4.25 Materiality

A given figure is material if its omission or distortion might influence economic decisions made by users on the basis of the financial statements.

For the purpose of disclosing information in the financial statements, the Management Board assumed a threshold of materiality at 5% of operating result (EBIT) without one-off events, rounded down to full hundreds of thousands of zlotys, which in case of these financial statements means the sum of PLN 15 200 thousand.

The Management Board believes that omitting figures in excess of the specified materiality threshold might have a negative impact on the view of economic and financial standing, and the financial result of the Group.

2.5 CHANGES IN ACCOUNTING POLICIES AND CHANGES IN PRESENTATION OF DATA

In 2017, the accounting policies did not change as compared to the financial statements published as at December 31, 2016, save for changes resulting from new provisions of law (please refer to Note 2.6).

Information about the influence of applying new standards (IFRS 16 "Leases", IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers") on the financial statements for the period when they are first applied is presented in Note 2.7.

2.6 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS

The following amendments to the existing standards, issued by the International Accounting Standards Board (IASB) and adopted by the European Union, came into force in 2017:

- **Amendments to IAS 7 "Statement of Cash Flows"** - disclosure initiative - adopted by EU on November 6, 2017 (effective for annual periods beginning on or after January 1, 2017),

- **Amendments to IAS 12 "Income Taxes" -** recognition of Deferred Tax Assets for Unrealised Losses - adopted by EU on November 6, 2017 (effective for annual periods beginning on or after January 1, 2017).

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

The above listed amendments to the existing standards have not exerted any substantial impact on the Group's financial statements for the year 2017.

As at February 20, 2018, the following new standards and amendments to standards have been issued by the IASB and adopted by the European Union but have not become effective yet:

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

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

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

- **Amendments to IFRS 4 "Insurance Contracts"** - applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" - adopted by the EU on November 3, 2017 (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 "Financial Instruments" is first applied),

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - clarifications to IFRS 15 "Revenue from Contracts with Customers" - adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2018),

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

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

Moreover, the following new standards, amendments to standards and new interpretations have been adopted by the IASB, but not yet approved by the European Union as at February 20, 2018:

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

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

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

- **Amendments to IFRS 9 “Financial Instruments”** - prepayment features with negative compensation (effective for annual periods beginning on or after January 1, 2019),

- **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 subsequent amendments (effective date deferred until the research project on the equity method has been concluded),

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

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

- **Amendments to various standards 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 January 1, 2019),

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

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

According to the Group's estimates, the above listed standards, interpretations and amendments to standards, with the exception of IFRS 16 “Leases”, would not exert any substantial impact on the financial statements if applied by the Group as at the end of the reporting period. The influence of applying new standards IFRS 16 "Leases", IFRS 9 "Financial Instrument" and IFRS 15 "Revenue from Contracts with Customers" on the financial statements of the Orbis Group is presented in Note 2.7.

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 to 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 INFLUENCE OF THE NEW ACCOUNTING STANDARDS ON THE FINANCIAL STATEMENTS

The following information describes the influence of applying the new standards on the financial statements for the period when they are first applied.

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

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

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

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

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

As at December 31, 2017, the Group was a party to an operating lease agreement concerning ten hotels, including two with variable fees without a minimum fee, and lease agreements concerning 135 motorcars. Disclosures currently required by IAS 17, including information about the future minimum lease payments under those agreements, are presented in Note 28.

At the same time, the Group conducted a preliminary analysis of the existing/concluded agreements concerning use of assets to determine if the agreements met the definition of leases under IFRS 16. After the preliminary analysis, the Group classified the following types of material agreements that clearly met the definition of leases:

- Hotel lease agreements,
- Car lease agreements.

Bearing in mind that as at December 31, 2017 the Group used mainly financing in PLN, the current cost of debt taken out by Orbis S.A. was assumed to be the marginal lending rate; it stood at approx. 3%. Had the Group first applied IFRS 16 as at December 31, 2017, the consolidated statement of financial position would recognize rights to use the aforementioned assets and lease liabilities at PLN 211 355 thousand. If the discount rate were higher/lower by 1.0%, the amount would be lower/higher by PLN 8 688 thousand.

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

The Group is also taking steps to determine the direction and estimate the potential impact of IFRS 16 (the scale of impact) on the future financial statements with respect to the right to perpetual usufruct of land, the right which is after all the basis for the Orbis Group using many properties where the Group operates hotels.

According to the Management Board of the Parent Company, based on the literal wording of IFRS 16.9, according to which a lease means every contract that conveys to the client the right to control the use of the identified asset for a period of time in exchange for consideration, the right to perpetual usufruct of land could be regarded a lease. However, considering the specific nature of this right (described in Note 2.3 to these statements), its clear-cut classification as lease is difficult. Furthermore, major doubts arise as to whether the value of such lease liabilities can be reliably assessed, due to the difficulties in specifying the lease term, the relevant discount as well as due to lack of accurate and unequivocal legal analyses of the nature of fees (i.e. variable or fixed ones), which has a decisive importance for the classification and calculation of the liability.

In connection with the foregoing, the Management Board of Orbis S.A. emphasises that the Group continues to take steps aimed at determining the potential impact of IFRS 16 upon its future financial statements, as regards the rights to perpetual usufruct of land.

Influence of IFRS 15 "Revenue from Contracts with Customers" on the financial statements of the Orbis Group

IFRS 15 introduces a new, five-step model of measurement and recognition of revenue, according to which revenue should be recognised in the amount in which the entity expects the payment and at the time and to the extent that the Group has discharged the obligation to perform the service or supply the goods. Depending on what criteria specified in the standard are met, revenue may be recognised at a point in time (when control over goods and services is transferred to the customer) or over time, in a manner which reflects the degree of performance of obligations.

The Group analysed the individual categories of revenue and the existing contracts from the point of view of the impact of applying IFRS 15 on the way in which revenue is recognised, including in particular the point in time when revenue is recognised and its amount; it also verified the correctness of presentation of the individual categories of revenue.

A conclusion was drawn from the analysis that applying IFRS 15 would 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, 2018. The only identified area where changes introduced by the new standard will appear is the one-off entrance fees (charged for joining the 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 so far, entrance fees are recognised in 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.

It is expected that recognition of entrance fees over time equal to the period of operation of the franchised hotel, and not at a single point in time, like it is done now, will result in a slight decrease of the Group's revenue and operating profit. The value of revenue from entrance fees recognized until December 31, 2017 in the Group's retained earnings is PLN 1.8 million (0.12% of the Group's retained earnings as at December 31, 2017), of which PLN 0.4 million was recognized in the income statement in 2017 (0.03% of the Group's revenue for 2017). Moreover, the change will affect recognition of deferred revenue in the statement of financial position.

Retrospective application of the new standard will result in withdrawal from retained earnings as at December 31, 2017 of PLN 1.5 million, decrease in the Group's sales for 2017 by PLN 0.3 million and recognition of deferred revenue of PLN 1.5 million; also retained earnings at December 31, 2016 will drop by PLN 1.2 million and deferred income of PLN 1.2 million will be recognized.

The presentation and disclosure requirements resulting from IFRS 15 are a major change compared to the current practice and they will increase the volume of disclosures, both quantitatively and qualitatively. As for the disclosures required by IFRS 15, the Group believes that due to the relatively uniform nature of its business, the influence of IFRS 15 will be insignificant. However, it is assumed that disclosures may be modified if such a change can help users of financial statements learn more about the character, amounts, collection dates and uncertainty relating to revenues and cash flows resulting from contracts with customers.

IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 apply to 12-month reporting periods starting on January 1, 2018 or later. The Group did not decide to transition to the standard earlier. The Group selected the full retrospective approach to applying the new standard, as per paragraph C3 (a) of the standard, i.e. by making adjustments for the reporting periods. In practice, in the financial statements for 2018 the Group will restate the income statement for 2017 and the statement of financial position as at December 31, 2017 and January 1, 2017. The Group uses full historical data in order to determine the retrospective influence of IFRS 15 on its financial statements. This means that the Group will not apply the so-called practical expedients specified in paragraph C5 of the standard.

Influence of IFRS 9 "Financial Instruments" on the financial statements of the Orbis Group

IFRS 9 “Financial Instruments” introduces changes in the measurement methods (at amortised cost and at fair value), in principles relating to impairment of financial assets, where the incurred loss method is to be replaced with the model of expected loss, and in classification of financial instruments, as well as in the approach to hedge accounting.

Pursuant to the new principles of financial asset impairment, the Group is obligated to recognize a loss allowance on the basis of expected credit losses over the lifetime of a given instrument, however if as at the end of the reporting period the credit risk associated with the instrument did not rise significantly, the Group measures the loss allowance in respect of this instrument at the sum of expected credit losses for a 12-month period.

The Group conducted an analysis of the financial instruments it held at December 31, 2017 in terms of the influence of these provisions on the financial statements.

In accordance with IFRS 9, other financial assets relating to receivables resulting from sale of properties should be measured at amortized cost using the effective interest rate. If the above method were applied, this would result in recognition of PLN 251 thousand of extra finance costs in the Group's financial statements for 2017. The expected credit losses are immaterial, as the receivables are secured by mortgages on the hotel or funds in escrow accounts (Note 13). The calculation assumes the use of an effective discount rate equal to the risk-free rate, which was estimated on the basis of deposit rates (WIBOR) and prices of Treasury bonds as at December 31, 2017. The estimated risk-free rate for expected due dates of individual receivables was calculated by linear interpolation of point values.

The Group also analysed the influence on the financial statements as at December 31, 2017 of the expected credit losses relating to short-term receivables, using a simplified method whose use is permitted by IFRS 9 with regard to short-term trade receivables with regard to the influence of the expected loss. The additional allowance for the expected credit losses in 2017 would be PLN 406 thousand.

The Group estimates that the new measurement will not affect the value of liabilities under borrowings and bonds, as recognized in the financial statements.

In case of long-term liabilities, the application of new measurement methods would result in an increase of finance income by PLN 260 thousand in 2017. The discount rate used to calculate the discounted value of long-term liabilities under guarantee deposits was set at the risk-free rate, i.e. one estimated on the basis of deposit rates (WIBOR) and prices of Treasury bonds as at December 31, 2017. The estimated risk-free rate for expected due dates of individual liabilities was calculated by linear interpolation of point values. In case of trade liabilities and other short-term liabilities, the Group estimates that there will be no influence on the financial statements, since currently they are measured at amortized cost.

Hedge accounting covers an Interest Rate Swap transaction (pay-floating receive-fixed swap), which was entered into for the purposes of minimizing the risk of interest rate changes and hedging future cash flows (Note 32.3). Due to the short maturity of the IRS transaction, the Group decided to continue measurement and classification in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”, hence IFRS 9 will have no influence on the statements for 2018 with regard to this specific instrument.

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, investment properties 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 2.4.16.1.

(c) Impairment of goodwill

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

(d) 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.

(e) 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 Management Board of Orbis S.A. reviews the estimated 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 2017

The most important events of 2017 which affected the financial information of the Orbis Group include:

Real property sale transactions

In 2017, Orbis S.A. finalised the following hotels sale transactions, whose results were recognized in the income statement under the "Result on sale of real property" item (see also Note 5.5):

- On March 31, 2017, Orbis S.A. executed the final sale agreement of organized parts of the enterprise, namely the **Mercure Jelenia Góra** hotel and the **Mercure Karpacz Resort** hotel for the total net price of PLN 26 500 thousand. The sale covered, among others, the right to perpetual usufruct of land, the right of ownership of the buildings located on the land, including fixtures and fittings, facilities and other assets of the aforementioned hotels;
- On September 30, 2017, the sale agreement of organized parts of the enterprise, namely the **ibis Katowice Zabrze** hotel, was executed; the parts comprised assets of the Company used in the operation of the hotel, including without limitation, the right of ownership of land with the buildings, structures, facilities, fixtures and fittings. The total net price of the of organized parts of the enterprise amounted to PLN 7 600 thousand;
- On September 30, 2017, the sale agreement of organized parts of the enterprise, namely the **Mercure Toruń Centrum** hotel, was finalised. The sale transaction covered the right to perpetual usufruct of land with a building and other assets included in the hotel's property, plant and equipment. The total net price amounted to PLN 18 000 thousand.

Moreover, in connection with the sale transactions of the above-mentioned hotels, long-term franchise agreements were signed, by virtue of which hotel buyers will continue to operate the hotels under the Mercure and ibis brands.

Execution of a preliminary agreement for the sale of the ibis budget Toruń hotel and a real property located in Toruń, built up with an undeveloped hotel building

On August 30, 2017, Orbis S.A. executed a preliminary sale agreement in respect of an organized part of the enterprise in the form of the **ibis budget Toruń** hotel and a property built up with an undeveloped building initially targeted as an ibis hotel ("Property"), for a total net price of PLN 11 000 thousand. The preliminary agreement provides that the final sale agreement for the ibis budget Toruń hotel and the Property will be completed by September 30, 2018.

Moreover, alongside the preliminary agreement, two long-term franchise agreements were executed, under which after finalisation of the sale, the buyer will continue to operate the ibis budget Toruń hotel under its brand and will finish off the construction of the hotel on the Property within 3 years after the acquisition of the Property, which afterwards will be operated under the ibis Styles brand.

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

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

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

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

The transaction of acquisition of 5 Hotel Kft. was recognized in the Group’s consolidated financial statements in accordance with IAS 16. Considering that as at the transaction date the company had no employees and its key assets included hotel buildings leased to Accor Pannonia Hotels Zrt. which derived financial gains from these assets by running a hotel business in these buildings, the acquired assets and the assumed liabilities are not recognised as a business within the meaning of IFRS 3. In connection with the foregoing, the acquisition price of the company (including transaction costs) was allocated to each of the assets acquired and liabilities assumed in proportion to their fair values as at the date of acquisition. No goodwill or negative goodwill arose as a result of this transaction. As a result of this transaction, the sum of PLN 300.6 million was recognized as assets (incl. PLN 291.6 million of property, plant and equipment) and PLN 1.7 million as liabilities.

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

On May 29, 2017, the subsidiary Accor Pannonia Hotels Zrt. executed with Universale International Realitäten GmbH with its corporate seat in Vienna (the seller) an agreement for the purchase of 100% stake in HVB Leasing Maestoso Kft. (after acquisition, the name was changed to 5 Star Hotel Kft.) with its corporate seat in Budapest, which is the owner of the Sofitel Budapest Chain Bridge hotel operated by the Hungarian subsidiary on the basis of lease agreement. The company HVB Leasing Maestoso Kft. (currently: 5 Star Hotel Kft.) was purchased by exercise of the hotel call option dated January 30, 2017. The net price for the purchase of the company totaled EUR 42.3 million and was paid on June 1, 2017.

More information on the transaction is provided in current reports no.: 2/2017, 18/2017 and 25/2017.

On April 12, 2017, the subsidiary Accor Pannonia Hotels Zrt. signed a letter of intent with a third-party investor interested in the purchase of the Sofitel Budapest Chain Bridge hotel. After selling the hotel, Accor Pannonia Hotels Zrt. will manage the hotel on the basis of a long-term management agreement. The sale price of the hotel, declared by the parties, is EUR 75 million, with potential adjustments arising as a result of due diligence carried out by the buyer. The sale of the hotel is subject to satisfactory finalisation of the negotiation over the terms and conditions of the transaction and fulfilment of conditions provided in the letter of intent.

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

Prepayment of a credit facility by Orbis S.A.

On December 29, 2017, Orbis S.A. prepaid a credit facility of PLN 105 867 thousand, being the whole outstanding part of the facility taken out by the company under credit facility agreement of December 19, 2014 with Bank Polska Kasa Opieki S.A. and Société Generale S.A. for a total amount of PLN 480 000 thousand.

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 broken down by geographic segments presented in the Note 4.2.

Segment performance is evaluated based on, first and foremost, revenues as well as results measured as EBIT (operating profit/loss) and EBITDA (operating profit/loss before depreciation & amortisation), with the exclusion of one-off and non-recurring events. Also, incurred investment 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. The presented figures comprise results of owned and leased hotels.

Unallocated operations comprise revenues and expenses of the Head Office (including revenues and expenses of investment property rentals) as well as one-off and non-recurring events, such as revaluation of non-financial non-current assets, result on disposal of real property and restructuring costs. Also, current and deferred income tax expense is recognised under unallocated operations (the Group does not calculate income tax for the respective operating segments).

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

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.

As at December 31, 2016, the individual operating segments included:
- the Up&Midscale segment: 4 Sofitel hotels, 21 Novotel hotels, 18 Mercure hotels and 1 MGallery hotel,
- the Economy segment: 24 ibis hotels, 9 ibis budget hotels and 3 ibis Styles hotels.

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

Operating segment revenues and costs/expenses are as follows:

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**
Sales 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**

Figures for 2016:

	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**1 059 040**	**292 281**	**31 558**	**1 382 879**
Sales to external clients	1 059 040	292 281	31 558	1 382 879
EBITDAR	**421 981**	**144 365**	**(77 130)**	**489 216**
Operating EBITDA	**337 214**	**130 931**	**(78 532)**	**389 613**
Depreciation and amortisation	(105 106)	(39 236)	(3 862)	(148 204)
Operating profit/(loss) without the effects of one-off events	**232 108**	**91 695**	**(82 394)**	**241 409**
Result of one-off events	0	0	23 068	23 068
Operating profit/(loss) (EBIT)	**232 108**	**91 695**	**(59 326)**	**264 477**
Gain on disposal of interest in associates	0	0	5 108	5 108
Finance income/(costs)	496	(1 243)	(11 810)	(12 557)
Share of net profits of associates	0	0	126	126
Income tax expense	0	0	(50 007)	(50 007)
Net profit/(loss)	**232 604**	**90 452**	**(115 909)**	**207 147**

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

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

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

Figures for 2016:

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

4.2 GEOGRAPHICAL INFORMATION

The division into geographical segments is based on the criterion of location of points where services are provided and where other assets are 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 2017 and 2016. The data present the results of owned and leased hotels.

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.

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

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

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

Geographical segment revenues and costs/expenses are as follows:

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**
Sales to external clients	887 165	356 268	122 139	92 501	0	1 458 073
Sales 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)
EBIT without the effects of one-off events	**169 568**	**87 823**	**29 766**	**17 092**	**33**	**304 282**

Figures for 2016:

	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**862 325**	**315 600**	**114 895**	**91 070**	**(1 011)**	**1 382 879**
Sales to external clients	861 314	315 600	114 895	91 070	0	1 382 879
Sales to other segments	1 011	0	0	0	(1 011)	0
EBITDAR	**293 851**	**108 737**	**52 943**	**33 690**	**(5)**	**489 216**
Operating EBITDA	**286 031**	**49 822**	**39 126**	**14 639**	**(5)**	**389 613**
Depreciation and amortisation	(121 627)	(12 792)	(11 587)	(2 198)	0	(148 204)
EBIT without the effects of one-off events	**164 404**	**37 030**	**27 539**	**12 441**	**(5)**	**241 409**

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

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

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

Figures for 2016:

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

4.3 REVENUE FROM MAJOR PRODUCTS AND SERVICES

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

4.4 INFORMATION ABOUT MAJOR CUSTOMERS

In 2017 and 2016, the Orbis Group did not identify any leading external customers with turnover exceeding 10% of total sales.

4.5 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	2017		2016	
	PLN `000	% share in annual revenues	PLN `000	% share in annual revenues
1st quarter	265 951	18.2%	247 214	17.9%
2nd quarter	413 579	28.4%	392 660	28.4%
3rd quarter	421 924	28.9%	396 374	28.7%
4th quarter	356 619	24.5%	346 631	25.0%
Total	**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	2017	2016
Room revenue	998 202	942 444
Food & beverage revenue	370 243	357 386
Franchise and management revenue	23 762	17 985
Other revenue	65 866	65 064
Total net sales	**1 458 073**	**1 382 879**
of which: revenue from related parties	*4 724*	*4 777*

5.2 EXPENSES BY NATURE

EXPENSES BY NATURE	2017	2016
Depreciation and amortisation	(164 067)	(148 204)
Property rental expense	(64 041)	(99 603)
Outsourced services	(316 062)	(296 904)
Employee benefit expense	(354 914)	(339 121)
Materials and energy used	(202 110)	(200 861)
Taxes and charges	(42 905)	(42 407)
Other costs by nature, of which:	(13 796)	(13 077)
business trips	(4 072)	(3 957)
insurance premiums	(3 641)	(3 609)
royalties	(2 143)	(2 211)
change in impairment of receivables	(797)	(507)
other	(3 143)	(2 793)
Total expenses by nature	**(1 157 895)**	**(1 140 177)**

5.3 EMPLOYEE BENEFIT EXPENSE

EMPLOYEE BENEFIT EXPENSE	2017	2016
Wages and salaries	(275 037)	(257 997)
Provision for unused and overdue holidays	(1 315)	(1 107)
Provision for wages and salaries as well as related expenses	400	(6 277)
Provision for jubilee awards and retirement benefits	931	(950)
Employee benefits	(79 893)	(72 790)
Total employee benefit expense	**(354 914)**	**(339 121)**

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	2017	2016
Commissions received from business partners	4 319	4 884
Reversal of provision for costs of fees for perpetual usufruct of land	774	2 782
Reversal of provision for onerous contract	994	1 378
Indemnities received	1 007	999
Other	2 663	30
Total other operating income	**9 757**	**10 073**
Provision for onerous contract	0	(5 644)
Provision for other liabilities	(249)	(1 037)
Receivables redeemed and written off	(1 075)	(2 045)
Indemnities, fines and penalties paid	(204)	(549)
Costs of hotel closing and assets liquidation	(2 710)	(360)
Other	(1 415)	(1 731)
Total other operating expenses	**(5 653)**	**(11 366)**
Total other operating income/(expenses)	**4 104**	**(1 293)**

5.5 RESULT ON SALE OF REAL PROPERTY

RESULT ON SALE OF REAL PROPERTY	2017	2016
Net proceeds from disposal of real properties	54 608	81 331
Net value of real properties disposed of	(42 261)	(53 094)
Additional costs related to disposal	(283)	(608)
Total result on sale of real property	**12 064**	**27 629**

The Orbis Group achieved the following results on sale of real property in 2017:

- Proceeds from the sale of organized parts of the enterprise in the form the **Mercure Jelenia Góra** hotel and the **Mercure Karpacz Resort** hotel amounted to PLN 26 500 thousand, whereas gain on this transaction was PLN 3 938 thousand;
- An organised part of enterprise in the form of the **ibis Katowice Zabrze** hotel was sold for a net price of PLN 7 600 thousand, while the result on this transaction, considering the extra costs, was PLN -36 thousand;
- Proceeds from the sale of an organized part of the enterprise in the form of the **Mercure Toruń Centrum** hotel amounted to PLN 18 000 thousand net, whereas gain on this transaction (considering the costs to sell) was PLN 6 961 thousand;
- Proceeds from the sale of the right to perpetual usufruct of land **at Heweliusza street in Gdańsk** were PLN 2 184 thousand, while the result on this transaction was PLN 990 thousand;
- Sale of a **non-residential unit in Włocławek** and a **garage in Katowice** constituted additional income earned by the Company in 2017, totalling PLN 324 thousand.

More information about real properties sale transactions finalised in 2017 is provided in Note 3.

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

5.6 REVALUATION OF NON-CURRENT ASSETS

REVALUATION OF NON-CURRENT ASSETS	2017	2016
Recognised impairment loss on tangible assets	(1 416)	(8 627)
Recognised impairment loss on investment property	0	(598)
Recognised impairment loss on intangible assets	0	(14)
Recognised impairment loss on assets held for sale	(1 084)	0
Reversed impairment loss on tangible assets	4 690	10 787
Reversed impairment loss on assets held for sale	4 550	0
Total revaluation of non-current assets	**6 740**	**1 548**

Information on impairment is provided in Notes 9, 10, 11 and 19.

5.7 RESTRUCTURING COSTS

RESTRUCTURING COSTS	2017	2016
Costs of employment restructuring	(3 116)	(1 985)
(Recognised)/reversed provisions for employment restructuring	(912)	(337)
Total restructuring costs	**(4 028)**	**(2 322)**

5.8 RESULTS OF OTHER ONE-OFF EVENTS

RESULTS OF OTHER ONE-OFF EVENTS	2017	2016
Incurred and estimated costs of purchase of interests in companies from Central & Eastern Europe	0	(1 862)
Leased hotels buyback costs	(3 381)	(1 925)
Total results of other one-off events	**(3 381)**	**(3 787)**

5.9 FINANCE INCOME

FINANCE INCOME	2017	2016
Interest on deposits	1 797	1 833
Foreign exchange differences	0	2 275
Actuarial gains/(losses) arising from valuation of provisions for jubilee awards	0	713
Other	75	80
Total finance income	**1 872**	**4 901**

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

5.10 FINANCE COSTS

FINANCE COSTS	2017	2016
Interest and debt service costs accrued on credit facilities	(4 302)	(5 136)
Interest and debt service costs accrued on bonds	(14 596)	(11 219)
Interest expense arising from provisions for employee benefits	(735)	(752)
Actuarial gains/(losses) arising from valuation of provisions for jubilee awards	(292)	0
Foreign exchange differences	(10 794)	0
Other	(268)	(351)
Total finance costs	**(30 987)**	**(17 458)**

In the presented financial figures for 2017 and in comparable figures for 2016, the Group recognised all borrowing costs in the profit or loss for the period in which the costs were incurred. In 2017, there were no borrowing costs that would be eligible for capitalisation.

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

In 2017, the Group paid PLN 14 040 thousand as interest on issued bonds and PLN 150 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:

	2017	2016
Current tax	**(48 346)**	**(46 714)**
- current tax charge	(50 089)	(48 496)
- adjustments of current tax from previous years	1 743	1 782
Deferred tax	**(5 775)**	**(3 293)**
- related to recognised and reversed temporary differences	(5 775)	1 886
- decrease (increase) as a result of change of tax rates	0	(5 179)
Tax charge recognised in the consolidated income statement	**(54 121)**	**(50 007)**

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

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

	2017	2016
Profit before tax	**286 562**	**257 154**
Tax calculated at the statutory rate of 19%	(54 451)	(48 859)
Tax effect of non-taxable revenue and non-deductible expenses	(5 041)	(3 222)
Tax effect of tax adjustments as well as posted deferred tax on tax losses and temporary differences from previous years	(3 938)	2 629
Tax effect of unrecognised tax losses	(64)	(93)
Utilised tax losses - tax effect	1 902	3 742
Impact of differing tax rates applicable to subsidiaries that operate in other legal systems	8 029	(168)
Effect of tax rate change	0	(5 179)
Other	(558)	1 143
Tax charge at the effective tax rate	**(54 121)**	**(50 007)**

In accordance with Polish regulations, in 2017 as well as in 2016, the Polish Companies calculated their corporate income tax liability at the rate of 19% of taxable income.

in 2017 and 2016, the foreign subsidiaries of the Group calculated their corporate income tax liability based on the following tax rates:

- Lithuania 15%
- Czech Republic 19%
- Romania* 16%
- Slovakia 21% (in 2016 the rate was 22%)
- Hungary 9% (in 2016 the rate was 10% on income up to HUF 500 million and 19% on the excess over this amount).

** From 2017, the provisions on CIT calculation in Romania changed. Part of the business activities is still 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.*

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

INCOME TAX RECEIVABLE/LIABILITIES	as at December 31, 2017	as at December 31, 2016
Income tax receivable from the tax office	541	3 079
Income tax liabilities payable to the tax office	1 758	3 143

(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, 2017	as at December 31, 2016
Deferred tax assets, of which:	**32 254**	**35 246**
Posted to profit or loss	31 893	34 910
- provisions for wages and salaries, bonuses as well as for unused holidays	7 086	7 002
- provision for retirement benefits and similar obligations	3 837	3 984
- other provisions and accrued expenses	7 260	8 177
- revaluation of receivables	631	406
- difference between tax value and book value of non-financial non-current assets	7 414	8 902
- valuation of liabilities arising from bonds issued at amortised costs	491	491
- utilised tax losses	2 583	4 902
- other	2 591	1 046
Posted to equity	361	336
- actuarial gains/losses arising from the defined benefit plan	347	314
- valuation of derivative instruments to hedge future cash flows	14	22
Deferred tax assets, of which:	**32 254**	**35 246**
Long-term	16 342	15 421
Short-term	15 912	19 825
Deferred tax liabilities, of which:	**20 311**	**17 322**
Posted to profit or loss	20 220	17 231
- difference between tax value and book value of non-financial non-current assets	19 311	16 397
- non-invoiced revenue	357	347
- foreign exchange differences	214	214
- other	338	273
Posted to equity	91	91
- long-term investments	91	91
Deferred tax liabilities, of which:	**20 311**	**17 322**
Long-term	19 570	16 487
Short-term	741	835

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

	as at December 31, 2017	as at December 31, 2016
Deferred tax assets	15 912	18 206
Deferred tax liabilities	3 969	282

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

As at December 31, 2017, the Group did not recognise the deferred tax asset on unused tax losses of PLN 19 506 thousand, because it is not probable that taxable income will be generated in future from which these unused tax losses could be deducted.

Information on unused tax losses as at December 31, 2017 in respective countries (amounts translated into PLN) is presented in the table below:

	Unused tax losses	Tax rate	Unrecognised deferred tax assets	Expiry date
Czech Republic	10 966	19%	2 084	2018-2021
Slovakia	6 452	21%	1 355	2018
Hungary	178 525	9%	16 067	2018-2025
Total	**195 943**		**19 506**	

Pursuant to tax regulations in effect in the Czech Republic, a tax loss may be settled within a period not longer than 5 consecutive years after the loss was determined.

In Slovakia, a tax loss may be deducted from taxable profit within 4 years from being incurred (no more than 1/4 of the loss of a given year may be settled).

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 the companies newly acquired by the subsidiary Accor Pannonia Hotels Zrt.: 5 Hotel Kft. and 5 Star Hotel Kft.

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 209 534 thousand as at December 31, 2017, and PLN 171 771 thousand as at December 31, 2016. The value of temporary negative differences associated with investments in subsidiaries and associates amounted to PLN 199 414 thousand as at December 31, 2017, and PLN 246 995 thousand as at December 31, 2016.

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 or 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:

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

	2017	2016
Net profit attributable to owners of the parent	232 391	207 125
Weighted average number of ordinary shares issued (in thous.)	46 077	46 077
Earnings per share (in PLN)	**5.04**	**4.50**

8. DIVIDEND PAID OR PROPOSED TO BE PAID

By virtue of resolution of the General Meeting of Shareholders dated June 8, 2017, the net profit generated by Orbis S.A. in 2016, was appropriated for the dividend totalling PLN 73 723 thousand, i.e. PLN 1.60 per share. The dividend was paid on August 2, 2017. A decision was also made to keep the remaining part of profit, amounting to PLN 81 021 thousand, in the Company as retained earnings.

No decision concerning distribution of the net profit for 2017 has been taken by the date of publication of these financial statements.

9. PROPERTY, PLANT AND EQUIPMENT

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

PROPERTY, PLANT AND EQUIPMENT	as at December 31, 2017	as at December 31, 2016
Tangible assets	2 178 213	1 993 556
Assets under construction	73 302	43 782
Total	**2 251 515**	**2 037 338**

(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**
Increase 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
reclassification 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**

"Increase due to acquisition of subsidiaries" item includes PP&E of 5 Hotel Kft. company, acquired by the subsidiary Accor Pannonia Hotels Zrt. on January 2, 2017 (further details of the acquisition are provided in Note 3 to these statements).

The reclassifications from investments recognised in 2017 cover, first and foremost, the expenditures connected with the division of the Novotel Poznań Centrum, part of which hotel is being rebranded as ibis. The project is due to be completed in 2Q 2018. Moreover, the Group recognised in the balance of PP&E the investment expenditures incurred in recent years on modernisation and improving the standard of most of the Group's hotels, with the highest amounts spent on the Sofitel Victoria in Warsaw, the Novotel Szczecin, the Novotel Wrocław Centrum and the Novotel Warszawa Centrum hotels.

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

Additions due to purchase of PP&E in 2017 were described in detail in section 3.8 of the Directors' Report on the Operations of the Orbis Group and Orbis S.A. for 2017.

Disposals by means of sale comprise the net value of PP&E of the Mercure Toruń Centrum hotel and the ibis Zabrze Katowice hotel. Both hotels were sold as organized parts of the enterprise on September 30, 2017.

The disposal in the form of reclassification to assets held for sale concerns reclassification of the PP&E allocated to the ibis budget Toruń hotel, as well as land located in Toruń, with an unfinished building, originally planned to be an ibis hotel. The reclassification was a result of the execution, on August 30, 2017, of a preliminary agreement to sell the above properties. In addition, the item comprises a non-hotel property located in Karpacz and assets of the Mercure Cieszyn and the ibis Styles Bielsko-Biała hotels, as a result of the preliminary sale agreement signed on February 8, 2018.

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

	Land and rights to perpetual usufruct of land acquired against consideration	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Vehicles	Total tangible assets
			As at January 1, 2016			
Opening gross book amount	**134 003**	**306 974**	**3 051 509**	**800 347**	**674**	**4 293 507**
Accumulated depreciation and impairment	(10 543)	(45 090)	(1 799 284)	(591 179)	(596)	(2 446 692)
Opening net book amount	**123 460**	**261 884**	**1 252 225**	**209 168**	**78**	**1 846 815**
Additions	**42 058**	**0**	**142 087**	**181 028**	**0**	**365 173**
purchase	42 058	0	91 560	138 751	0	272 369
reclassification from investments	0	0	50 527	8 501	0	59 028
other	0	0	0	33 776	0	33 776
Disposals	**(4 617)**	**(4 890)**	**(71 531)**	**(6 057)**	**0**	**(87 095)**
sale	(3 343)	(1 437)	(21 476)	(3 323)	0	(29 579)
liquidation	0	(139)	(44)	(156)	0	(339)
other	0	0	(33 633)	0	0	(33 633)
reclassification to assets held for sale	(1 274)	(3 314)	(16 378)	(2 578)	0	(23 544)
Increase in impairment loss	0	0	(6 923)	(1 704)	0	(8 627)
Decrease in impairment loss	0	0	10 787	0	0	10 787
Depreciation charge for the period	(831)	(3 658)	(86 843)	(53 160)	(24)	(144 516)
Exchange differences on translation	1 286	0	6 981	2 750	2	11 019
Closing net book amount	**161 356**	**253 336**	**1 246 783**	**332 025**	**56**	**1 993 556**
			As at December 31, 2016			
Closing 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)
Closing net book amount	**161 356**	**253 336**	**1 246 783**	**332 025**	**56**	**1 993 556**

(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, 2017 and as at December 31, 2016:

ASSETS UNDER CONSTRUCTION	as at December 31, 2017	as at December 31, 2016
Gross value of assets under construction	73 302	55 146
Impairment loss on assets under construction	0	(11 364)
Total	**73 302**	**43 782**

The change in the balance of assets under construction between December 31, 2017 and December 31, 2016 results from incurred investment expenditure amounting to PLN 150 845 thousand and disposals of PLN 121 325 thousand (including PLN 44 thousand for reason of reclassification of expenditure on the unfinished ibis Toruń hotel to Assets held for sale). The figure does not include expenditure of PLN 471 255 thousand, allocated in 2017 for buyout of six hotels in Budapest which were previously leased by Accor Pannonia Hotels Zrt.

The incurred investment expenditure was allocated above all for the development of new hotels, modernisation of the Novotel Poznań Centrum hotel, as well as for refurbishing the hotels operating within the network, including the Novotel Kraków City West, the Novotel Warszawa Airport, the Novotel Warszawa Centrum, the Mercure Warszawa Centrum and the Sofitel Warszawa Victoria. In the Czech Republic investment expenditures related mainly to the modernisation of the MGallery Praha Old Town hotel, while in Hungary to modernisations of the Mercure Budapest Buda, the Mercure Budapest Korona and the Mercure Budapest City Center hotels. More information is provided in Section 3.8 of the Directors' Report on the Operations of the Orbis Group and Orbis S.A. for 2017).

In 2017 and 2016, there were no reasons for recognising new impairment loss in respect of assets under construction.

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

As at December 31, 2017, the Group does not have any tangible assets held under finance leases.

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

(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, 2017	as at December 31, 2016
Opening balance	**(87 987)**	**(122 645)**
recognised impairment loss on tangible assets	(1 416)	(8 627)
reversed impairment loss on tangible assets	4 690	10 787
reclassification to assets held for sale	18 158	17 882
decrease in impairment losses in connection with sale/liquidation	5 231	9 590
impairment loss on tangible assets not subject to reversal *	10 392	6 952
exchange differences on translation	1 691	(1 926)
Closing balance	**(49 241)**	**(87 987)**

** 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 (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 economic value of the Group hotel properties was measured on the basis of their value in use, determined using the DCF method. Future cash flows were estimated independently for each hotel on the basis of changes in occupancy and Average Room Rate projected for subsequent years, and taking into account the location and present standard of each hotel (including hotels that require investment expenditure) and on the basis of budgets approved by the Management Board for a 5-year period. The rate of growth in the value of cash flows following the 5-year projection period was estimated at 1.5%. The adopted discount rate of 8.4% was calculated based on the weighted average cost of capital (WACC) of the Orbis Group. In case of special conditions resulting in material distortion of the values obtained from DCF valuations, the recoverable amounts of assets were determined by means of estimating their fair value.

As a result of the review, an impairment loss of PLN 1 416 thousand was recognised and an impairment loss of PLN 4 690 thousand was reversed. None of the recognised/reversed individual impairment losses was material.

Recognised and reversed impairment losses on tangible assets and assets under construction are presented in the revaluation of non-current assets item of the income statement.

In 2017, the Group reduced the impairment loss on tangible assets by additional PLN 5 231 thousand in connection with the sale of the Mercure Toruń Centrum hotel and the ibis Zabrze Katowice hotel.

Impairment loss on tangible assets and assets in construction, totalling PLN 18 158 thousand, in respect of the ibis budget Toruń hotel, the incomplete building in Toruń, originally planned as an ibis hotel, as well as the Mercure Cieszyn and the ibis Styles Bielsko-Biała hotels, was reclassified to Assets as held for sale due to the signature of preliminary agreements to sell the above assets.

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

10. INVESTMENT PROPERTY

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 item “Reclassification to assets held for sale” includes a plot of land with the right of ownership of buildings, located in Poznań, at Prusimska Street, due to the execution of a preliminary sale agreement.

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

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

	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Total investment property
As at January 1, 2016				
Opening gross book amount	**4 027**	**21 068**	**711**	**25 806**
Accumulated depreciation and impairment	(587)	(14 221)	(711)	(15 519)
Opening net book amount	**3 440**	**6 847**	**0**	**10 287**
Additions	**0**	**0**	**59**	**59**
other	0	0	59	59
Disposals	**0**	**(568)**	**0**	**(568)**
sale	0	(516)	0	(516)
other	0	(52)	0	(52)
Increase in impairment loss	0	(598)	0	(598)
Depreciation charge for the period	(46)	(355)	(59)	(460)
Closing net book amount	**3 394**	**5 326**	**0**	**8 720**
As at December 31, 2016				
Closing gross book amount	**4 027**	**17 752**	**1 068**	**22 847**
Accumulated depreciation and impairment	(633)	(12 426)	(1 068)	(14 127)
Closing net book amount	**3 394**	**5 326**	**0**	**8 720**

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 on-going operations.

A review of the value of investment properties did not show any need to recognise impairment loss in 2017. Pursuant to the accounting policy any recognised and reversed impairment losses on investment property are disclosed in the revaluation of non-current assets item of the income statement.

IMPAIRMENT LOSS ON INVESTMENT PROPERTY	as at December 31, 2017	as at December 31, 2016
Opening balance	**(592)**	**(375)**
recognised impairment loss	0	(598)
decrease in impairment losses in connection with sale/liquidation	0	354
impairment loss not subject to reversal	14	27
Closing balance	**(578)**	**(592)**

No valuation of investment property based on valuation by an independent expert was made as at December 31, 2017.

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

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, 2017, the fair value of investment property was estimated at approx. PLN 21.3 million.

In terms of procedures applied, measurement of investment property is classified to Level 3 of the fair value hierarchy (fair value is determined on the basis of non-observable inputs).

The following amounts were recognised in profit or loss:

	2017	2016
Income from rent of investment property	1 720	1 620
Direct operating expenses of investment property which generates income from rent	(798)	(922)
Direct operating expenses of investment property which does not generate income from rent	(743)	(759)

As at December 31, 2017 investment property includes:

- in Bielsko-Biała – ownership title to office premises,
- in Gdańsk – right to perpetual usufruct of land, building,
- in Katowice – cooperative ownership title to two garages,
- in Konin – right to perpetual usufruct of land and interest in an office building,
- in Lublin – structure (coach depot),
- in Łódź – car park and right to perpetual usufruct of land,
- in Poznań – right to perpetual usufruct of land as well as buildings and structures developed thereon,
- in Szczecin – right to perpetual usufruct of land, ownership title to buildings,
- in Warsaw – non-residential premises with two parking spaces,
- in Włocławek – cooperative ownership title to 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, 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 amortisation 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)
reclassification to assets held for sale	0	0	(29)	0	(29)
Amortisation 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 amortisation and impairment	(901)	(986)	(24 189)	(515)	(26 591)
Closing net book amount	**107 252**	**52**	**4 220**	**44**	**111 568**

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

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

	Goodwill	Permits, patents, licenses and similar	Computer software	Other intangible assets	Total intangible assets
			As at January 1, 2016		
Opening gross book amount	**108 153**	**1 041**	**31 373**	**1 200**	**141 767**
Accumulated amortisation and impairment	(901)	(970)	(25 181)	(526)	(27 578)
Opening net book amount	**107 252**	**71**	**6 192**	**674**	**114 189**
Additions	**0**	**18**	**2 515**	**1 430**	**3 963**
purchase	0	18	554	1 430	2 002
other	0	0	1 961	0	1 961
Disposals	**0**	**0**	**(226)**	**(2 041)**	**(2 267)**
sale	0	0	(117)	0	(117)
liquidation	0	0	(22)	0	(22)
other	0	0	0	(2 041)	(2 041)
reclassification to assets held for sale	0	0	(87)	0	(87)
Increase in impairment loss	0	0	(14)	0	(14)
Amortisation charge for the period	0	(28)	(3 200)	0	(3 228)
Exchange differences on translation	0	0	42	7	49
Closing net book amount	**107 252**	**61**	**5 309**	**70**	**112 692**
			As at December 31, 2016		
Closing gross book amount	**108 153**	**1 094**	**29 955**	**615**	**139 817**
Accumulated amortisation and impairment	(901)	(1 033)	(24 646)	(545)	(27 125)
Closing net book amount	**107 252**	**61**	**5 309**	**70**	**112 692**

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

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, 2017	as at December 31, 2016
Opening balance	**(576)**	**(627)**
recognised impairment loss	0	(14)
impairment loss not subject to reversal	170	88
reversal of impairment related to the sale/liquidation	0	1
exchange differences on translation	30	(24)
Closing balance	**(376)**	**(576)**

Goodwill impairment test

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

Goodwill is tested for impairment 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.

The recoverable amount of both segments was determined based on the value in use, calculated on the basis of projected cash flows adopted for a 5-year period, and of a discount rate of 8.4% 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 1.5%. The discount rate was calculated based on the weighted average cost of capital (WACC) of the Company.

The segments identified in Hekon – Hotele Ekonomiczne S.A. were not impaired as at December 31, 2017.

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

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

12. INVESTMENTS IN ASSOCIATES

Until December 14, 2016, the Group held shares in an associate Blaha Hotel Szállodaüzemeltető Kft.

On December 14, 2016, the subsidiary Accor Pannonia Hotels Zrt. sold its non-controlling interest (44.46%) in Blaha Hotel Szállodaüzemeltető Kft. for the sum of EUR 3.6 million (description of the transaction in Note 3 to the financial statements for 2016).

The tables below present the Group's interests in the revenues of the associate and in proceeds from disposal of interests in the associate:

	2016*
Revenue	8 659
Net profit (loss) for the period	284
Share of net profits (losses) of associates	**126**

** Figures for the period from January 1, 2016 to the day when interests in the associate were sold*

	2016
Proceeds from disposal of interests in an associate	15 785
Book value of investments in an associate as at the date of cessation of significant influence	(10 677)
Gain on disposal of interest in an associate	**5 108**

13. OTHER FINANCIAL ASSETS

OTHER FINANCIAL ASSETS	as at December 31, 2017	as at December 31, 2016
Receivables from the sale of real property	6 944	10 944
Cash in the escrow account	0	4 566
Total other financial assets	**6 944**	**15 510**

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, while PLN 7 000 thousand will be paid in the following instalments:

- PLN 4 000 thousand will be paid by the buyer by December 31, 2018,
- PLN 3 000 thousand will be paid by December 31, 2019.

The receivable of PLN 3 000 thousand was presented in Other financial assets, meanwhile the remaining part, i.e. PLN 4 000 thousand, was presented in Other short-term receivables item.
The total amount receivable of PLN 11 500 thousand was secured with a mortgage established on the real property of the Mercure Mrągowo Resort & SPA hotel.

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

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; this amount is presented in "Other short-term receivables" item,
- 7% of the price, i.e. PLN 3 944 thousand will be transferred into Orbis' account by December 31, 2019; this amount is presented in "Other financial assets" item.

Cash in the escrow account in 2016 comprised funds deposited by subsidiary UAB Hekon and allocated for the purchase of the ibis hotel in Vilnius. Due to the planned buyout of the hotel in 2018, these funds were recognised in cash and cash equivalents as at December 31, 2017.

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

14. OTHER LONG-TERM ASSETS

OTHER LONG-TERM ASSETS	as at December 31, 2017	as at December 31, 2016
Long-term prepayments - insurance costs	855	429
Other long-term investments – works of art	458	464
Total other long-term assets	**1 313**	**893**

Other long-term assets item includes long-term prepayments in respect of insurance of hotels, as well as other long-term investments, i.e. works of art possessed by Orbis S.A.

15. INVENTORIES

INVENTORIES	as at December 31, 2017	as at December 31, 2016
Raw materials	6 708	7 084
Merchandise	77	83
Total inventories	**6 785**	**7 167**

The Group did not have any reasons to recognise any impairment of inventories in 2017 and 2016.

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

16. SHORT-TERM RECEIVABLES

Trade receivables are presented in the table below:

TRADE RECEIVABLES	as at December 31, 2017	as at December 31, 2016
Trade receivables	73 189	63 121
of which: from related parties	*4 405*	*4 847*
Impairment loss on receivables	(4 610)	(4 168)
Net trade receivables	**68 579**	**58 953**

(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, 2017	as at December 31, 2016
Short-term receivables	**27 239**	**24 812**
Taxes, social security and other benefits receivable	12 581	5 573
Receivables claimed in court	2 387	2 364
Amounts receivable on account of sale of tangible assets	7 944	14 671
Prepayments	2 085	2 212
Other receivables	4 629	2 356
Impairment loss on receivables	(2 387)	(2 364)
Short-term prepayments	**7 881**	**8 340**
Prepayments, of which:	7 881	8 340
rent	5 526	5 665
other	2 355	2 675
Net other short-term receivables	**35 120**	**33 152**

The item of Amounts receivable on account of sale of tangible assets includes the short-term part of the amount receivable on account of sale of the Mercure Mrągowo Resort & SPA hotel (PLN 4 000 thousand) and the short-term receivable on account of sale of an organised part of the enterprise of the Mercure Kasprowy Zakopane hotel (PLN 3 944 thousand). More information about receivables on account of the sale of the Mercure Mrągowo Resort & SPA hotel and the Mercure Kasprowy Zakopane hotel is included in Note 13 to these financial statements.

Changes in impairment losses on receivables are presented below:

IMPAIRMENT LOSS ON RECEIVABLES	as at December 31, 2017	as at December 31, 2016
Opening balance	**(6 532)**	**(6 245)**
recognised impairment loss	(1 956)	(2 592)
reversed impairment loss	1 159	2 085
utilised impairment loss	76	352
exchange differences on translation	256	(132)
Closing balance	**(6 997)**	**(6 532)**

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

The maximum credit risk related to the Group's receivables equals the amount of receivables 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 has 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. 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.

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

More information on credit risk is provided in Note 31.2.3 to these financial statements.

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

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

RECEIVABLES AGEING	as at December 31, 2017	as at December 31, 2016
Non-overdue receivables	80 034	69 670
Overdue receivables, of which:	30 662	28 967
- overdue for up to 1 month	16 614	17 158
- overdue for a period from 1 to 3 months	6 558	4 958
- overdue for a period from 3 to 6 months	3 002	2 784
- overdue for a period from 6 months to 1 year	713	945
- overdue for more than 1 year	3 775	3 122
Total gross short-term receivables	**110 696**	**98 637**
Impairment loss on non-overdue receivables	(98)	(191)
Impairment loss on overdue receivables, of which:	(6 899)	(6 341)
- overdue for up to 1 month	(83)	(297)
- overdue for a period from 1 to 3 months	(87)	(277)
- overdue for a period from 3 to 6 months	(2 284)	(1 743)
- overdue for a period from 6 months to 1 year	(670)	(902)
- overdue for more than 1 year	(3 775)	(3 122)
Total impairment loss on receivables	**(6 997)**	**(6 532)**
Net short-term receivables	**103 699**	**92 105**

As at December 31, 2017, receivables amounting to PLN 23 763 thousand were overdue but not impaired. Ageing of these receivables is presented below:

RECEIVABLES AGEING	as at December 31, 2017	as at December 31, 2016
Overdue non-impaired receivables, of which:	**23 763**	**22 626**
- overdue for up to 1 month	16 531	16 861
- overdue for a period from 1 to 3 months	6 471	4 681
- overdue for a period from 3 to 6 months	718	1 041
- overdue for a period from 6 months to 1 year	43	43
- overdue for a period from 1 year to 5 years	0	0

No collaterals for receivables have been established for the benefit of the Group.

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

17. OTHER SHORT-TERM FINANCIAL ASSETS

OTHER SHORT-TERM FINANCIAL ASSETS	as at December 31, 2017	as at December 31, 2016
Loans to other entities	457	1 078
Impairment loss on loan	(457)	(1 078)
Total other short-term financial assets	**0**	**0**

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

18. CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	as at December 31, 2017	as at December 31, 2016
Cash at bank and in hand	161 282	231 224
Short-term bank deposits	21 786	25 627
Cash in the escrow account	30 122	282 511
Other cash and cash equivalents	1 654	1 432
Total cash and cash equivalents	**214 844**	**540 794**

The funds in the escrow account is restricted cash. This is an amount of PLN 30 122 thousand, which was deposited in the escrow account by a subsidiary UAB Hekon, allocated for the purchase of the ibis hotel in Vilnius.

Meanwhile, the balance of the escrow account at the end of 2016, which equaled PLN 282 511 thousand, was deposited by a subsidiary Accor Pannonia Hotels Zrt. in connection with the executed buyback agreement in respect of five leased hotels.

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.

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

19. ASSETS CLASSIFIED AS HELD FOR SALE

As at December 31, 2017, assets classified as held for sale comprise:
- the components of property, plant and equipment of the ibis budget Toruń hotel (including the right to perpetual usufruct of land with a building and its fixtures and fittings),
- land located in Toruń, built up with an unfinished building, initially planned as an ibis hotel,
- assets of the Mercure Cieszyn hotel (including the right to perpetual usufruct of land with a building, and fixtures and fittings),
- tangible and intangible assets of the ibis Styles Bielsko-Biała hotel,
- right to perpetual usufruct of the land with the buildings located on it, in Karpacz at Konstytucji 3 Maja Street,
- land with the ownership title of buildings located in Poznań at Prusimska Street,
- the components of property, plant and equipment of the Sofitel Budapest Chain Bridge hotel in Hungary.

The table below presents changes in assets classified as held for sale in 2017 and 2016;

ASSETS CLASSIFIED AS HELD FOR SALE	as at December 31, 2017	as at December 31, 2016
Opening balance	**23 631**	**23 057**
Increase due to acquisition of subsidiaries	**179 626**	**0**
Additions	**24 591**	**23 634**
reclassification from tangible assets and assets under construction	16 493	23 544
reclassification from intangible assets	29	87
reclassification from investment property	3 519	0
reclassification from other assets	0	3
reversed impairment loss	4 550	0
Disposals	**(26 755)**	**(23 060)**
sale of property	(23 624)	(23 060)
recognised impairment loss	(1 084)	0
exchange differences on translation	(2 047)	0
Closing balance	**201 093**	**23 631**

Additions of assets classified as held for sale in 2017 result from the execution of preliminary sale agreements. On August 30, 2017, Orbis S.A. entered into a preliminary agreement to sell an organised part of enterprise: the ibis budget Toruń hotel and a plot of land built up with an unfinished building, originally planned as an ibis hotel. Moreover, in 2017 preliminary sale agreements were signed in respect of non-hotel properties in Poznań and Karpacz, while in February 2018 a preliminary sale agreement was signed concerning a transaction of joint sale of two hotels, the Mercure Cieszyn and the ibis Styles Bielsko-Biała, as organized parts of the enterprise.

Moreover, the increase in assets classified as held for sale is connected with the signature of a letter of intent concerning the sale of the Sofitel Budapest Chain Bridge hotel (further details in Note 3).

The disposal due to sale of property is an effect of the finalised transactions of sale of the Mercure Jelenia Góra and the Mercure Karpacz Resort hotels (at the end of March 2017) as organized parts of the enterprise and sale of the right to perpetual usufruct of land at Heweliusza Street in Gdańsk (at the end of December 2017).

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

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

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

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

IMPAIRMENT LOSS ON ASSETS CLASSIFIED AS HELD FOR SALE	as at December 31, 2017	as at December 31, 2016
Opening balance	**(17 882)**	**(9 055)**
recognised impairment loss	(1 084)	0
reversed impairment loss	4 550	0
decrease in impairment losses in connection with sale/liquidation	17 882	9 055
reclassification from tangible assets	(18 158)	(17 882)
Closing balance	**(14 692)**	**(17 882)**

As at December 31, 2017, the Company recognized impairment loss in respect of assets classified as held for sale, which amounted to PLN 14 692 thousand. This impairment loss concerns the ibis budget Toruń hotel and the unfinished ibis Toruń hotel, as well as the Mercure Cieszyn and the ibis Styles Bielsko-Biała hotels. Due to the execution of preliminary sale agreements in respect of the aforementioned properties, Orbis S.A. reclassified them to assets held for sale. In addition, in 2017 the Company recognized impairment loss of PLN 1 084 thousand and reversed impairment loss of PLN 4 550 thousand, to adjust the net value of properties located in Toruń to their fair values less costs to sell.

Also in 2017 the balance of impairment loss was decreased by PLN 17 882 thousand, due to the sale, on March 31, 2017, of the Mercure Jelenia Góra and the Mercure Karpacz Resort hotels, both sold as organized parts of the enterprise.

20. EQUITY

20.1 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	ordinary bearer shares	37 500 000	75 000	contribution in kind	Jan. 9, 1991
B	ordinary bearer shares	8 523 625	17 047	cash	Apr. 21, 1998
C	ordinary bearer shares	53 383	107	cash	Apr. 21, 1998
Total number of shares		**46 077 008**			
Total share capital			**92 154**		
Par value per share = PLN 2					
Hyperinflation restatement of share capital			**425 600**		
Carrying amount of share capital			**517 754**		

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

	as at December 31, 2017	as at December 31, 2016
Number of shares issued and paid	46 077 008	46 077 008
Par value per share	2	2
Shares at the beginning of period	**46 077 008**	**46 077 008**
Change in the period	0	0
Shares at the end of period	**46 077 008**	**46 077 008**

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

As at February 20, 2018, shareholders who hold, directly or indirectly through subsidiaries, at least 5% of the total number of voting rights at the General Meeting of Shareholders, determined on the basis of notifications specified in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, include:

Shareholder (description)	Number of shares held as at Feb. 20, 2018 (no. of voting rights at the GM)	Percentage share of share capital as at Feb. 20, 2018 (percentage share of total number of voting rights at the GM)	Change in the structure of ownership of major blocks of shares from Jan. 1, 2017 till Feb. 20, 2018
Accor S.A.	24 276 415	52.69%	-
of which a subsidiary of Accor S.A. - Accor Polska Sp. z o.o.	*2 303 849*	*4.99%*	-
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	4 577 880	9.94%	-
Metlife Otwarty Fundusz Emerytalny and Metlife Dobrowolny Fundusz Emerytalny managed by Metlife Powszechne Towarzystwo Emerytalne S.A.	2 357 156	5.12%	-
Nationale-Nederlanden Otwarty Fundusz Emerytalny	2 391 368	5.19%	-

The Orbis S.A. shareholding status determined based on notifications received (above) differs from the shareholding status of individual shareholders established on the basis of lists of shareholders present at the Annual General Meeting of Shareholders convened for June 8, 2017, and is presented under Section 5.2 of the Director’s Report of the Orbis Group and Orbis S.A. for 2017.

20.2 RESERVES

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

	as at December 31, 2017			as at December 31, 2016		
	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	(76)	15	(61)	(118)	23	(95)
Total reserves	**133 348**	**(76)**	**133 272**	**133 306**	**(68)**	**133 238**

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.

20.3 FOREIGN CURRENCY TRANSLATION RESERVE

This item includes exchange differences on translation of financial statements of foreign subsidiaries and exchange differences concerning valuation of net investments in foreign subsidiaries.

The net investment in a subsidiary operating abroad is part of the loan extended by Orbis S.A. to its subsidiary Accor Pannonia Hotels Zrt. In 2017, on the basis of analyses of future cash flows, the Management Board of Orbis S.A. deemed it highly likely that part of the loan (EUR 46 million) would be converted to the subsidiary's equity. As a consequence of reclassification of part of the loan to net investments in a foreign subsidiary, negative unrealised exchange differences on translation on its measurement, totalling PLN 11 959 thousand, were recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

20.4 RETAINED EARNINGS

Retained earnings include profits from past years, net profit for the current year and profits reclassified to equity that are subject to limited distribution, recognised in accordance with provisions of the Code of Commercial Companies and Partnership in force in Poland. As at December 31, 2017 and December 31, 2016, profits subject to limited distribution totalled PLN 30 718 thousand.

20.5 NON-CONTROLLING INTERESTS

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

20.6 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 paid 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 2017, return on equity went up owing to an increase in the net profit as compared to the previous year.

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

	2017	2016
Net profit	232 441	207 147
Equity - opening balance	1 950 676	1 783 288
Equity - closing balance	2 080 877	1 950 676
Return on equity	**11.53%**	**11.10%**

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

	as at December 31, 2017	as at December 31, 2016
Equity	2 080 877	1 950 676
Non-current assets	2 392 340	2 193 359
Equity-to-non-current assets ratio	**86.98%**	**88.94%**

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

21. BORROWINGS

On June 30, 2017, in accordance with the agreement, Orbis S.A. repaid a principal instalment of PLN 17 645 thousand, while on December 29, 2017, Orbis S.A. prepaid the credit facility of PLN 105 867 thousand, that is, the full outstanding portion of the facility the Company had taken out under a credit facility agreement of December 19, 2014, with Bank Polska Kasa Opieki S.A. and Société Générale S.A. for a total amount of PLN 480 000 thousand. The credit facility was allocated for:

- financing 80% of the price payable for interests in companies in Central Europe purchased by Orbis S.A.,
- corporate purposes of Orbis S.A., up to PLN 50 000 thousand.

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

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

During 12 months of 2017, the Group repaid PLN 3 409 thousand as interest on credit facilities and PLN 140 thousand as commissions and other borrowing costs resulting from credit facilities. In addition, the Hungarian subsidiary Accor Pannonia Hotels paid PLN 278 thousand of interest on the overdraft facility.

BORROWINGS	as at December 31, 2017	as at December 31, 2016
Liabilities arising from credit facilities (outstanding capital)	0	123 512
Credit facilities valued at amortised cost	0	(567)
Overdraft facilities	40 873	0
Total borrowings	**40 873**	**122 945**

The amount of unused credit lines under overdrafts as at December 31, 2017 was PLN 66.2 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), while those of Accor Pannonia Hotels Zrt.: PLN 21.7 million (i.e. EUR 5.2 million). The remaining Group companies did not have unused credit lines under overdrafts.

Due to the pay-off of the credit facility on December 29, 2017, by Orbis S.A. all related security was released. Detailed information is provided in Note 30.2 to the financial statements.

22. BONDS

On June 26, 2015, Orbis S.A. issued 300 thousand ordinary bearer bonds of the ORB A 260620 series, of a nominal value of PLN 1 000 each and total nominal value of PLN 300 000 thousand. The issue price of the bonds is equal to their nominal value. The funds raised from this bond issue were used for partial repayment of a credit facility.

The bonds bear interest per annum at a variable interest rate at WIBOR for six-month deposits (WIBOR 6M) plus interest rate margin of 0.97%. Interest will be payable in 6-month interest periods.

The bonds will be redeemed on June 26, 2020, at their nominal value. Prior to the redemption date, on June 26, 2018, Orbis may redeem all the issued bonds or 50% of the issued bonds by paying to bondholders the nominal value of the bonds plus a premium of 1% of the nominal value of the bonds and the amount of interest due for the interest period ending on the date on which early bond redemption takes place.

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

Moreover, on July 29, 2016, Orbis S.A. issued another 200 thousand ordinary bearer bonds of ORB B 290721 series of a nominal value of PLN 1 000 each and 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 is payable in 6-month (six-month) interest periods.

The bonds will 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 early 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 early redemption of bonds.

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

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

In 2017, Orbis paid PLN 14 040 thousand as interest on issued bonds. Moreover, in 2017 the Company paid PLN 150 thousand as interest payments under the IRS transaction (please refer to Note 32.3).

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

BONDS	as at December 31, 2017	as at December 31, 2016
Liability under bond issue (principal amount to be repaid)	500 000	500 000
Valuation of bonds at amortised cost	1 778	1 372
Closing balance	**501 778**	**501 372**

Information on securities established in connection with the issue of bonds is provided in Note 30.2 to the financial statements.

23. DEFERRED REVENUE

DEFERRED REVENUE LONG-TERM	as at December 31, 2017	as at December 31, 2016
Advance payments received	12 202	4 001
Total deferred revenue	**12 202**	**4 001**

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

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

Moreover, non-current deferred revenue comprises the non-current portion of rent paid in advance on account of lease of land for a petrol station in Wrocław. The balance of the received advance payment as at December 31, 2017 is PLN 573 thousand, of which the current portion of PLN 299 thousand is presented under the current deferred revenue.

DEFERRED REVENUE SHORT-TERM	as at December 31, 2017	as at December 31, 2016
Advance payments towards the sale of real property	191	2 074
Other prepayments and advances	19 584	15 484
Deferred revenue under real property lease	3 848	3 908
Total deferred revenue	**23 623**	**21 466**

As at December 31, 2017, the balance of deferred revenue arising from the sale of real property comprises earnest money towards the sale of the right to perpetual usufruct of land together with the buildings erected on it, located at Konstytucji 3 Maja Street in Karpacz. As at the end of 2016, under this item the Company disclosed an advance against the selling price of the right to perpetual usufruct of land at Heweliusza Street in Gdańsk.

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

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

24. OTHER NON-CURRENT LIABILITIES

OTHER NON-CURRENT LIABILITIES	as at December 31, 2017	as at December 31, 2016
Liabilities associated with tangible assets	5 199	4 522
Deposits received	578	592
Total other non-current liabilities	**5 777**	**5 114**

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. Other non-current liabilities comprise non-current deposits received on account of rental of real properties.

25. PROVISIONS FOR LIABILITIES

MOVEMENTS IN PROVISIONS FOR LIABILITIES	Provision for litigation	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 reversed 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**

Other provisions for liabilities include mainly the provision created in accordance with IAS 37 for onerous contracts, i.e. the operating lease agreement of the Novotel hotel in Hungary.

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

A description of major disputes is provided in Note 30.5.

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, 2017	as at December 31, 2016
Trade payables	101 471	117 429
of which: liabilities towards related parties	*8 980*	*17 674*
Total trade payables	**101 471**	**117 429**

LIABILITIES ASSOCIATED WITH TANGIBLE ASSETS	as at December 31, 2017	as at December 31, 2016
Liabilities associated with tangible assets	28 358	24 945
Total liabilities associated with tangible assets	**28 358**	**24 945**

Other current liabilities are composed of the following items:

OTHER CURRENT LIABILITIES	as at December 31, 2017	as at December 31, 2016
Current liabilities	**30 657**	**22 643**
Taxes, social insurance and other benefits payable	23 565	14 409
Settlements with employees	4 545	4 838
Deposits received	1 896	2 903
Other liabilities	651	493
Accrued expenses	**57 594**	**55 030**
Obligations towards employees	44 574	44 242
Public law liabilities	11 069	8 486
Other	1 951	2 302
Total other current liabilities	**88 251**	**77 673**

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

As at December 31, 2017 and as at December 31, 2016, 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 companies in Poland and 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, 2017, 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 the Group is obligated to pay under the Company Collective Labour Agreement. The cash benefit amounts to a specified percentage of the assessment base, dependent on the length of service in the Group. 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, 2017. 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 Group 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 a Group employee was determined by using the competing risks method that takes into account the following risks:
- possibility of dismissal from job,
- risk of total incapacity to work,
- risk of death.

The likelihood that an employee will resign from work of his own accord was assessed using the distribution function, taking into account the statistical data of the Group. 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 pttz2016 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	2016	2017	2018	2019 - 2028	successive years
- discount rate	3.50%	3.20%	3.20%	3.20%	3.20%
- projected future growth in the benefit assessment base			5.00%	3.50%	3.00%

(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 on the basis of TGH05/TGF05 table
- 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	2016	2017	2018	2019 - 2028	successive years
- discount rate	1.50%	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, 2017, 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 the Group agrees to pay under the Company Collective Labour Agreement. The jubilee award amounts to a specified percentage of the assessment base, dependent on the length of service in the Group. The assessment base is the minimum salary. 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, 2017. 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 Group 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	2016	2017	2018	2019 - 2026	successive years
- discount rate	3.50%	3.20%	3.20%	3.20%	3.20%
- projected future growth in the benefit assessment base			5.00%	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:

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**

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

2016	Jubilee awards	Retirement & disability benefits	Total liabilities
Service cost:			
current service cost	1 182	319	1 501
past service cost and (gain)/loss from settlements	(592)	42	(550)
Net interest expense	546	206	752
Remeasurement on the net future employee benefit liability:			
actuarial gains and losses arising from changes in demographic assumptions	(3 448)	556	(2 892)
actuarial gains and losses arising from changes in financial assumptions	(713)	(283)	(996)
actuarial gains and losses arising from experience adjustments	2 202	(360)	1 842
Components of future employee benefit plan costs recognised in profit of loss	**(823)**	**567**	**(256)**
Components of future employee benefit plan costs recognised in other comprehensive income	**0**	**(87)**	**(87)**
Total	**(823)**	**480**	**(343)**

The current and past service cost is included in the Group's profit or loss as 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, 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**

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

(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, 2017. 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 821 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 766 thousand.

The sensitivity analysis of projected growths in benefit assessment bases has shown that the adoption of an assessment base by 0.5 percentage point lower would decrease the provision by PLN 755 thousand, whereas if the base were increased by 0.5 percentage point, the amount of the provision would go up by PLN 993 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 another one 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 method 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, 2017 is 5 years in Orbis and 18.4 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
2018	2 062	1 030	3 092
2019	1 911	568	2 479
2020	1 669	759	2 428
2021	2 218	700	2 918
2022	2 437	648	3 085
years 2023 - 2027	13 513	3 173	16 686
Total	**23 810**	**6 878**	**30 688**

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

28. OPERATING LEASE AGREEMENTS

The Group's operating lease liabilities refer to agreements that concern predominantly buildings. As at December 31, 2017, the Group pursued business in 10 hotels used under operating lease agreements. The majority of these agreements is denominated in foreign currencies. Expiry dates of the concluded agreements range from 1 to 14 years.

Operating lease agreements of hotel buildings by type of contract:

Type of contract	Number of hotels	Annual rent	Minimum lease payment	Expiry date
Fixed rent with buyout option *	1	(13 601)	(13 601)	2018
Fixed rent without buyout option	5	(24 854)	(23 879)	2021-2031
Fixed rent with variable interest	1	(8 074)	(8 074)	2022
Variable rent with minimum lease payment	1	(5 026)	(4 669)	2019
Variable rent without minimum lease payment	2	(10 632)	0	2018-2025
Total	**10**	**(62 187)**	**(50 223)**	

Operating lease agreements of hotel buildings by country:

	Number of hotels	Annual rent	Minimum lease payment	Expiry date
Poland	1	(7 614)	(7 614)	2021
Czech Republic	2	(12 542)	(11 923)	2018-2031
Lithuania	1	(5 026)	(4 669)	2019
Romania	1	(8 060)	0	2018
Slovakia	2	(5 005)	(2 076)	2023-2025
Hungary*	3	(23 940)	(23 941)	2022-2026
Total	**10**	**(62 187)**	**(50 223)**	

** including 5 months of lease rent of the Sofitel Budapest Chain Bridge hotel (until the company was acquired - details of the transaction in Note 3 to these statements)*

In addition, as at December 31, 2017, the Group had 135 motorcars under operating leases. Expiry dates of car lease contracts range from 1 to 3 years.

In 2017 lease payments amounting to PLN 64 041 thousand, on account of property rental, were recognised in the income statement, of which sum PLN 50 223 thousand were minimum lease payments. In 2016, lease payments amounting to PLN 99 603 thousand were recognised in the income statement, including PLN 80 546 thousand of minimum lease payment.
The costs of lease of hotel buildings (PLN 62 187 thousand in 2017 and PLN 96 543 thousand in 2016) are presented in the income statement under the Costs of properties rental item. This item also includes costs of rental of non-hotel properties, including the rental of an office by Accor Pannonia Hotels Zrt.
The costs of lease of motorcars (PLN 1 746 thousand in 2017 and PLN 1 904 thousand in 2016) 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, 2017	as at December 31, 2016
Future minimum operating lease payments, due in:		
one year	42 504	54 684
from 1 to 5 years	119 919	167 823
more than 5 years	78 660	139 697
Total future minimum operating lease payments*	**241 083**	**362 204**

** 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, 2017, the Orbis Group was bound by future capital commitments under executed contracts amounting in total to PLN 77 352 thousand. The highest amounts concern works related to the construction of the ibis Styles Warszawa hotel (PLN 31.5 million), modernisation works carried out in the Novotel Poznań Centrum hotel (PLN 9.3 million) in connection with the planned division of the hotel and its partial rebranding into ibis, as well as renovation of the Novotel Kraków City West hotel (PLN 8.6 million). Moreover, EUR 2.8 million (approx. PLN 12.0 million) concerns works related to the construction of the ibis Vilnius hotel in Lithuania, while EUR 2.1 million (approx. 8.7 million) is allocated for modernisation of the Mercure Budapest City Center hotel and refurbishment at the Mercure Budapest Buda hotel.

30. CONTINGENT ASSETS AND LIABILITIES

30.1 CONTINGENT ASSETS UNDER EXECUTED CONTRACTS

On August 30, 2017, Orbis S.A. (the Seller) and Cube Sp. z o.o. (the Buyer) executed a preliminary conditional sale agreement for an organised part of the enterprise in the form of the ibis budget Toruń hotel and a preliminary conditional sale agreement for a real property with an undeveloped hotel building which was initially planned to be an ibis hotel, located in Toruń. According to these agreements, if by September 30, 2018, the Buyer does not perform or improperly performs its obligations under the preliminary agreements, specifically if the Buyer fails to fulfil the obligation to execute the final sale agreements by the date specified above, the Buyer will pay to Orbis S.A. a contractual penalty totalling PLN 2 000 thousand on the date and according to the procedure stipulated in the said agreements.

To secure the payment of contractual penalties to Orbis S.A. by Cube Sp. z o.o., an aggregate contractual mortgage was established up to the amount of PLN 2 000 thousand for the benefit of Orbis S.A. on real properties specified below:

- two real properties comprising of land located in Bydgoszcz, registered in the land and mortgage registers no. BY1B/00010043/3 and BY1B/00020673/1; the buyer is the holder of the right to perpetual usufruct of these properties,
- real property comprising of land located in Bydgoszcz, registered in the land and mortgage register no. BY1B/00010215/0; the buyer is the holder of the ownership title to these properties.

30.2 LIABILITIES ARISING FROM CREDIT FACILITY AGREEMENTS, LEASE AGREEMENTS, BOND ISSUES AND APPLICABLE LAWS

As at December 31, 2017, Orbis S.A. had no liabilities under borrowings.

On December 29, 2017, Orbis S.A. repaid the sum of PLN 105 867 thousand, thereby prepaying in full the credit facility taken out by Orbis S.A. under the agreement of December 19, 2014 by Bank Polska Kasa Opieki S.A. and Société Générale S.A. The banks extended to Orbis S.A. a credit facility of up to PLN 480 000 thousand, of which the company used PLN 476 445 thousand.

Since the aforementioned loan was paid off on December 29, 2017, all the security for the credit facility was released. The security included:

- aggregate contractual mortgage of up to PLN 720 000 thousand, established for the benefit of Bank Polska Kasa Opieki S.A. (Mortgage Administrator) on the right to perpetual usufruct and ownership title of the building situated in it, in which building Orbis S.A. runs the Sofitel Warsaw Victoria hotel (registers No. WA4M/00193711/1 and No. WA4M/00193710/4), however, as at the date of these financial statements, the mortgage registry court did not yet remove the said mortgage from the land and mortgage register;
- assignment as a collateral security of Orbis S.A.'s rights under the insurance policies of the above-mentioned real properties;
- commitment made by Orbis S.A. to each of the Banks to submit itself to voluntary debt enforcement procedure;
- financial pledge on cash deposited in bank accounts kept by Bank Polska Kasa Opieki S.A.;
- granting a power of attorney to all the bank accounts of Orbis S.A. to Bank Polska Kasa Opieki S.A. (credit agent and collateral agent).

The 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 valuers as at May 19, 2017, by the valuation survey dated June 1, 2017, was PLN 773 176 thousand. The book value of these real properties as at December 31, 2017, is PLN 232 416 thousand.

Moreover, the following hotels located in Hungary: Mercure Budapest City Center, Novotel Szeged, Novotel Budapest City and Sofitel Budapest Chain Bridge, 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.

30.3 LIABILITIES ARISING UNDER GUARANTEE AGREEMENTS

On November 28, 2017, Bank Pekao S.A., upon order of Orbis S.A., issued a Bank Guarantee in favour of NDI S.A. based in Sopot (beneficiary of the guarantee). The Guarantee was issued to secure the timely payment by Orbis S.A. of liabilities under the construction works contract with NDI S.A. concerning the rebuilding of all the residential floors of the Novotel Centrum hotel in Poznań. The Bank Guarantee was issued for up to PLN 8 618 thousand and it is valid until January 25, 2018. On January 26, 2018, the guarantee amount was reduced to PLN 6 484 thousand, and its validity was extended until April 25, 2018.

Moreover, as legal security of the claims of Bank Pekao S.A. for refund of any sum paid to the beneficiary of the guarantee (if the guarantee is drawn upon), the bank was granted a power of attorney to use funds in the accounts of Orbis S.A. with Bank Pekao S.A.

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 UAB Pinus Proprius, a bank guarantee has been issued by Société Générale S.A. Branch in Poland for the benefit of UAB Pinus Proprius (Beneficiary of the Guarantee) for the liabilities of UAB Hekon (Applicant of the Guarantee) that may arise under the executed agreement. The amount of the bank guarantee is EUR 250 thousand, the guarantee remains valid till March 31, 2019.

30.4 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.

30.5 LEGAL CLAIMS

Litigation pending before courts, arbitration or public administration bodies:

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

The proceedings were instituted on September 29, 2005, by an action of State Treasury, represented by the Municipal Office of the Capital City of Warsaw. The Plaintiff determined the value of litigation at PLN 5 million, as the value of real property or, alternatively, at PLN 377 thousand which corresponds to the 3-month lease/tenancy rent due for this type of real property. Orbis S.A. motioned that the claim be dismissed in its entirety. Presently, the case is being examined by the Court of Appeals in Warsaw (court of second instance). Proceedings have been suspended until final resolution of the issue concerning the ownership title to the real property in administrative proceedings. In connection with the conveyance of the property to a third party in 2014, Orbis S.A. is no longer a party to the proceedings for release of the property in question.

Proceedings for declaration of invalidity of an administrative decision of the President of the City of Warsaw dated April 11, 1950 concerning refusal to reinstate a time limit for filing an application for a temporary ownership title to the land located at 19 Wspólna Street, land and mortgage reg. no. 1651/2 letter C

The land subject to this litigation is the area of a former real property with land and mortgage reg. no. 1651/2 letter C, which partially corresponds to the current plot of land no. 133/2 administered by Orbis S.A., on which a driveway to the building of the Grand Warszawa hotel is situated, and to the plot of land no. 133/1 that is held by Orbis S.A. in perpetual usufruct, on which part of the Hotel building is situated. The proceedings were initiated by a statement of claim dated March 2, 2000. The parties to this proceedings are: J.Ostrowska-Bazgier – the successor of Abraham Juda vel Adam Kaltman (the claimant), "Parking-Wspólnota" Sp. z o.o. in liquidation and Orbis S.A. (participants). The value of the litigation is unknown. The case is pending.

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

The proceedings were instituted on July 21, 2014, by the Polish Agency for Enterprise Development (Polska Agencja Rozwoju Przedsiębiorczości - PARP) and the value of the dispute is estimated at PLN 616 thousand plus interest. As a beneficiary under the Human Capital Operational Programme 2007-2013, Orbis S.A. received aid for a training programme, co-financed by the European Union. As a result of a control of programme implementation, PARP claimed that Orbis S.A. had violated the terms of the programme by applying discriminating criteria and assessments in drawing up the offer. Hence, PARP requested Orbis S.A., under the sanction of issuing a decision, to pay a penalty of 25% of eligible expenditure under the programme, which is equivalent to PLN 616 thousand. Orbis S.A. challenged PARP's position in its entirety. Despite absence of an administrative decision on the reimbursement, in 2014 PARP used the bank guarantee and drew an amount of approx. PLN 504 thousand. Orbis S.A. claims refund of this amount by means of civil proceedings. In 2016, a decision reaffirming PARP's position was delivered. In this decision, PARP demands reimbursement of PLN 200 thousand with interest accruing from different payment deadlines specified in the decision. Orbis S.A. appealed against this decision. The Minister of Infrastructure upheld PARP decision. In July, 2016 Orbis S.A. paid to PARP a sum of PLN 261 thousand and then filed an appeal with the Voivodship Administrative Court.

On October 11, 2017, the Voivodship Administrative Court issued a judgement on this case in which it accepted Orbis S.A. appeal and revoked, for formal reasons, the PARP decision by virtue of which Orbis was to pay the sum of PLN 616 thousand. Orbis S.A. applied for refund of the amount drawn by the PARP against a bank guarantee in 2014. The litigation will continue. The anticipated duration of the litigation is approx. 4 years.

Statement of claim for determining that the contractual penalty for the delay in constructing a hotel in Elbląg was not due, or was invalidly reserved

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

In 2016, the Appellate Court issued a ruling on this case and statement of reasons. The Court ruled that only the contractual penalty of PLN 100 thousand for the year 2010 was due to the town of Elbląg. According to the statement of reasons for this judgement, contractual penalties for subsequent years were not due, since according to the position of the Supreme Court contained in the last-resort (cassation) appeal, the contractual penalty thus imposed would have to be paid indefinitely, however, this issue was not finally determined in the conclusion of the judgement. The Court dismissed the remaining claims of Hekon and ruled on the value of costs. In June 2016, Hekon filed a last-resort (cassation) appeal against the judgment of the Appellate Court in Gdańsk. Moreover, the issue of replacement of Hekon S.A. by Orbis S.A. as the party to the proceedings was raised.

In June 2017 the Supreme Court at a closed session adjudged the claim of Orbis S.A. (the legal successor of Hekon). The Court overturned the ruling of the Appellate Court of 2016 and sent it back for reconsideration. On December 8, 2017, the Appellate Court of Gdańsk modified the judgment and adjudged that the contractual penalty was not due and that it could not be claimed in the future. By the date of publication of this report, the Company did not receive the statement of reasons for the Appellate Court judgment.

Furthermore, as at December 31, 2017, 10 proceedings were pending before the Self-Government Appellate Board concerning revaluation of annual rates of fees for perpetual usufruct of land located in the following cities:

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

In the Group's opinion, fee revaluations made by 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 totals PLN 7 682 thousand and is disclosed in other current liabilities.

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

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, with the resulting drop in 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 hotels 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 on the Group's performance.

31.2 FINANCIAL RISK

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

The 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 result.

As at December 31, 2017, the Orbis Group's liabilities with variable interest rates comprised:

- Overdraft facility obtained by Accor Pannonia Hotel Zrt. subsidiary from Raiffeisen Bank for EUR 9.8 million, bearing interest at the rate of EURIBOR 1M plus 1.75%.
- Liabilities arising from the bond issue – PLN 501.8 million. The first tranche of bonds issued on June 26, 2015 (PLN 300.0 million) bear interest per annum at a variable interest rate equal to WIBOR for six-month deposits (WIBOR 6M), plus interest rate margin of 0.97 p.p. The second tranche of bonds issued on July 29, 2016 (PLN 200.0 million) bear interest per annum at a variable interest rate equal to WIBOR for six-month deposits (WIBOR 6M), plus interest rate margin of 1.05 p.p.

Moreover, in 2017 Orbis had a credit facility in Bank Pekao S.A. and Société Générale S.A., bearing interest at a variable rate, which on December 29, 2017 was prepaid in full (see also Note 21). The credit facility bore interest at a rate of WIBOR 3M plus margin. The interest rate was based on variable reference rates, updated quarterly.

In 2017, interest rates on credit facilities and bonds were based on the following rates:

- WIBOR 3M: 1.72 – 1.73
- WIBOR 6M: 1.81
- EURIBOR 1M: negative – interest rate applicable to the overdraft facility is equal to the margin of +1.75%.

An analysis of sensitivity to the interest rate risk arising from bonds issued was performed on the basis of the balance of debt resulting from 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/decrease in finance costs by PLN 2 500 thousand.

In case of bonds, cash flow volatility is offset by means of the executed Interest Rate Swap transaction (described in Note 32.3). The Group performed an analysis of sensitivity to interest rate risk with regard to the executed contract. If interest rates were by 0.5 p.p. higher, the Group's other comprehensive income would go up by PLN 74 thousand. In case interest rates declined by 0.5 p.p., other comprehensive income of the Group would decrease by PLN 74 thousand.

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

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. If the 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, 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:

		as at December 31, 2017	as at December 31, 2016
Cash and cash equivalents			
foreign currency	EUR	6 408	78 597
Polish currency equivalent	PLN	26 727	347 713
foreign currency	USD	161	153
Polish currency equivalent	PLN	560	639
Receivables			
foreign currency	EUR	6 301	4 667
Polish currency equivalent	PLN	26 281	20 647
foreign currency	USD	25	18
Polish currency equivalent	PLN	87	75
Credit			
foreign currency	EUR	9 793	0
Polish currency equivalent	PLN	40 873	0
Payables			
foreign currency	EUR	6 332	8 473
Polish currency equivalent	PLN	26 410	37 485
foreign currency	USD	11	6
Polish currency equivalent	PLN	38	25
foreign currency	GBP	6	0
Polish currency equivalent	PLN	28	0

The Group has no foreign currency borrowings or 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 end of the reporting period 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 profit and equity would decrease.

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

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

	2017 result	2016 result
Cash and cash equivalents	2 729	34 835
Credit	4 087	0
Receivables/Payables	(11)	(1 679)
Total effect of exchange rate fluctuations on result	**6 805**	**33 156**

In the Management Board's opinion, the sensitivity analysis is unrepresentative of the 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:
- 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 forecast of the balance of receivables.

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 payments delays, particularly inclusion on the internal "debtor blacklist" of the Group prevents further crediting
- presence of other negative information on the 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 credit to new customers with unclear financial standing.

To minimize the credit risk, the Group cooperates with reputable banks with good financial standing.

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

31.2.4 Liquidity risk

The Orbis Group hedges liquidity through credit facilities, long-term external loans and active overdraft facilities.

The amount of unused credit lines under overdrafts as at December 31, 2017 was PLN 66.2 million, of which the credit lines unused by Orbis S.A. amounted to PLN 20.0 million, those of subsidiary Katerinska Hotel s.r.o.: PLN 24.5 million (i.e. CZK 150.0 million) while those of Accor Pannonia Hotels Zrt.: PLN 21.7 million (i.e. EUR 5.2 million). The remaining Group companies did not have unused credit lines under overdrafts.

The amount of unused credit lines under overdrafts as at December 31, 2016 was PLN 44.6 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 24.6 million (i.e. CZK 150.0 million). The remaining Group companies did not have unused credit lines under overdrafts.

Temporarily available 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.

The debt-to-equity ratio is calculated as a quotient of total debt and total equity and liabilities. As at the end of 2017, the debt rate dropped, mainly due to the payoff of the bank credit facility by Orbis S.A in December 2017.

	as at December 31, 2017	as at December 31, 2016
Total debt	838 425	909 459
Total equity and liabilities	2 919 302	2 860 135
Debt-to-equity ratio	**28.7%**	**31.8%**

The current ratio is calculated as a quotient of current assets and current liabilities. This ratio worsened as compared to the previous year. This is a result of pay-off of the credit facility by Orbis S.A. at the end of 2017 and utilization of the funds deposited at the end of 2016 on the escrow account for the purpose of buying back five hotels which had so far been leased by the subsidiary Accor Pannonia Hotels Zrt.

	as at December 31, 2017	as at December 31, 2016
Current assets and assets classified as held for sale	526 962	666 776
Current liabilities	289 854	284 505
Current ratio	**1.82**	**2.34**

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. Interest rates applicable as at December 31, 2017 are assumed for future interest periods. Interest and loans instalments are classified in accordance with their maturity dates.

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

Projected expenditure payable in the period	up to 1 year	from 1 year to 3 years	from 3 years to 10 years
Borrowings	40 873	0	0
Bonds	14 060	323 978	205 720
Trade payables	101 471	0	0
Other payables*	35 450	4 979	798
Total expenditure on account of payables	**191 854**	**328 957**	**206 518**

** 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 an on-going 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. Opportunities of customers' acquisition and retention 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 having a negative impact on 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 event actually produces. 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 an on-going 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 minimize their effects.

31.5 RISK FACTORS RELATED TO BONDS

31.5.1 Risk of early redemption of 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.

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

31.5.2 Risk of early redemption of Bonds on the Bondholder's request

The Conditions of Bonds Issue contain several clauses that, if defaulted, give the bondholder (upon taking specific actions and following a proper procedure) the right to request early redemption of the Bonds by Orbis S.A. There is a risk that in case an early 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

The following table presents the main categories of financial instruments:

	as at December 31, 2017	as at December 31, 2016
Financial assets		
Cash and cash equivalents	214 844	540 794
Loans and receivables (including trade receivables)	90 181	93 702
Financial liabilities		
Amortised cost (including trade payables)	685 349	780 039
Derivative instruments in designated hedge accounting relationships	74	118

32.2. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at December 31, 2017 and December 31, 2016, financial instruments that were subject to measurement at fair value following their initial recognition and were recognised at fair value in the statement of financial position comprised derivative instruments, i.e. Interest Rate Swap.

The table below presents fair values and carrying amounts of financial assets and liabilities (including items that are not measured at fair value, but in respect of which fair value disclosures are required):

	as at December 31, 2017		as at December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	214 844	214 844	540 794	540 794
Other financial assets (long-term)	6 944	6 944	15 510	15 510
Trade receivables and other short-term receivables	83 237	83 237	78 192	78 192
Financial liabilities				
Borrowings	40 873	40 873	122 945	124 904
Debt securities - bonds issued	501 778	504 500	501 372	507 500
Derivative instruments (liabilities)	74	74	118	118
Trade payables and other payables long- and short-term	142 698	142 698	155 722	155 722

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

The fair value of liabilities arising from credit facilities was determined as the present value of future cash flows, discounted at the current interest rate.

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

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

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

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

32.3. HEDGE ACCOUNTING

To reduce the risk of changing interest rates and hedge future cash flows, on September 15, 2015 Orbis S.A. entered into a pay-floating receive-fixed Interest Rate Swap with bank Société Générale S.A. The amount of the hedging instrument is PLN 150 million, which accounts for 50% of the value of the first tranche of bonds (PLN 300 million). The swap matures on June 26, 2018. Interest payment dates fall every six months, starting from June 27, 2016, and have been correlated with dates of payment of interest on bonds. In 2017, Orbis S.A. paid PLN 150 thousand in settlement of the Interest Rate Swap interest payment. At the end of the presented reporting periods, the swap’s valuation at fair value was disclosed in the Group’s equity through other comprehensive income. In 2017, no ineffectiveness arising from cash flow hedges occurred that would require to be disclosed in the financial result of the Group.

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

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.

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

Wages, salaries and other short-term benefits arising from serving a function in governing bodies of Orbis S.A.	in 2017	in 2016
Management Board		
Gilles Stephane Clavie	2 226	2 100
Ireneusz Andrzej Węgłowski	1 081	1 023
Dominik Sołtysik	1 416	591
Marcin Szewczykowski	1 030	960
Supervisory Board		
Jan Ozinga	0	0
Artur Gabor	98	98
Christian Karaoglanian	62	0
Jacek Kseń	94	98
Jean-Jacques Morin	0	0
Laurent Francois Picheral	0	0
Andrzej Procajło	81	77
Andrzej Przytuła	81	77
Jarosław Szymański	81	77
Jean-Jacques Dessors (Member of the Supervisory Board from April 1, 2017)	0	0
Bruno Coudry (Member of the Supervisory Board until March 31, 2017)	17	73
Sophie Isabelle Stabile (Chairman of the Supervisory Board until June 2, 2016)	0	0

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

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

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

33.2. TRANSACTIONS WITH RELATED PARTIES

Revenues from related parties comprise revenues for sales support, promotion of the Accor network and development of the Le Club Accorhotels programme 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 programme.

Figures presented below concern the Accor Group companies.

REVENUES AND EXPENSES	2017	2016
Net sales of services	4 724	4 777
from the parent	3 187	3 580
from other Accor Group companies	1 537	1 046
from associates	0	151
Other revenues	2 701	3 405
from the parent	2 701	3 387
from associates	0	18
Purchases of services and merchandise	67 960	65 120
from the parent	49 444	47 538
from other Accor Group companies	18 516	17 579
from associates	0	3

RECEIVABLES AND PAYABLES	as at December 31, 2017	as at December 31, 2016
Trade receivables	4 405	4 847
from the parent	3 973	4 242
from other Accor Group companies	432	605
Other receivables	54	50
from other Accor Group companies	54	50
Trade payables	8 980	17 674
from the parent	7 809	15 145
from other Accor Group companies	1 171	2 529

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.

	2017	2016
Change in receivables in the statement of financial position	**(3 028)**	**(14 670)**
change due to acquisition of subsidiaries	8 234	0
change in other long-term receivables and prepayments	(426)	(8)
change in receivables on account of sale of tangible assets	(9 563)	13 183
change in prepayments	(4 381)	1 038
exchange differences on translation	(3 053)	2 097
Change in the statement of cash flows	**(12 217)**	**1 640**
Change in liabilities, except borrowings, in the statement of financial position	**(1 304)**	**43 025**
change due to acquisition of subsidiaries	(2 012)	0
change in investment liabilities	(4 234)	6 437
liabilities associated with acquisition of shares	(10 309)	0
exchange differences on translation	4 806	(3 213)
Change in the statement of cash flows	**(13 053)**	**46 249**
Change in deferred revenue presented in the statement of financial position	**10 358**	**(418)**
advance payments received towards sale of real property	(7 616)	(74)
exchange differences on translation	166	(264)
Change in the statement of cash flows	**2 908**	**(756)**
Change in provisions in the statement of financial position	**(680)**	**3 014**
actuarial gains and losses in respect of defined employee benefit plan recognised in other comprehensive income	(438)	86
exchange differences on translation	395	(175)
Change in the statement of cash flows	**(723)**	**2 925**
Change in inventories presented in the statement of financial position	**382**	**(404)**
exchange differences on translation	(161)	118
Change in the statement of cash flows	**221**	**(286)**
Other adjustments	**(6 734)**	**(1 527)**
revaluation of non-current assets	(6 740)	(1 548)
revaluation of investments in subsidiaries	0	10
other	6	11
Change in the statement of cash flows	**(6 734)**	**(1 527)**

35. EVENTS AFTER THE REPORTING PERIOD

On February 8, 2018 Orbis S.A. executed a preliminary conditional agreement to sell organized parts of the enterprise in the form of the Mercure Cieszyn and the ibis Styles Bielsko-Biała hotels for a total net price of PLN 8 100 thousand. The preliminary agreement provides that the final agreement will be concluded by July 31, 2018, subject to the condition that the General Meeting of Shareholders Orbis gives consent for these hotels to be sold.

The price was agreed to be paid as follows:

- 10% of the net sale price, i.e. PLN 810 thousand, was paid as earnest money prior to signature of the preliminary agreement,
- the remaining 90% of the net sale price, i.e. PLN 7 290 thousand, will be paid within 5 business days after the signature of the final agreement.

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

The subsidiary Katerinska Hotel s.r.o. based in Prague notified the owners of the Century Old Town Prague MGallery by Sofitel hotel, located in Prague, about exercising the option to purchase the hotel, which right is conferred on the subsidiary by the existing lease agreement in respect of this hotel.

The option will be exercised on August 30, 2018, for the purchase price of EUR 15.5 million. The option will be exercised either by the purchase of shares in the company which currently owns the hotel or as a direct purchase of the property (the hotel).

Furthermore on February 20, 2018, Orbis S.A. purchased real property (plot of land) of a total area of 771 square meters, located in Kraków at 8 Worcella Street, for a net price of PLN 13 000 thousand. The property was purchased in order to implement an investment project (hotel construction), and now Orbis is conducting an analysis of the technical and operational details of the investment, which will determine the choice of the optimum brans from the economy segment under which the hotel will operate. The above transaction is in line with the Group’s strategy assuming concentration of own investments in the region’s key cities, which offer long-term value growth and attractive return on investment.

(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, 2018	Gilles Stephane Clavie	President of the Management Board	
Feb. 20, 2018	Ireneusz Andrzej Węgłowski	Vice-President of the Management Board	
Feb. 20, 2018	Dominik Sołtysik	Member of the Management Board	
Feb. 20, 2018	Marcin Szewczykowski	Member of the Management Board	

SIGNATURE OF THE MEMBER IN CHARGE OF BOOKKEEPING

Date	Name and Surname	Position/Function	Signature
Feb. 20, 2018	Marcin Szewczykowski	Member of the Management Board	

DECLARATIONS OF THE MANAGEMENT BOARD

True and fair view of the financial statements

The Management Board of Orbis S.A. hereby declares that according to its best knowledge the consolidated financial statements of the Orbis Group for the year 2017 and comparative figures for the year 2016 have been prepared in accordance with the accounting principles applied by the Group and with the International Financial Reporting Standards and reflect, in a true, fair and transparent manner, the economic and financial standing of the Orbis Group and its financial result.

The Directors' Report on the operations of the Orbis Group and Orbis S.A. in 2017 gives a true view of the development, achievements and situation of Orbis Group, including a description of the basic threats and risks.

Selection of an entity authorised to audit the financial statements

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

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

Gilles Clavie
President of the Management Board, Chief Executive Officer

Ireneusz Węgłowski
Vice-President of the Management Board

Dominik Sołtysik
Member of the Management Board

Marcin Szewczykowski
Member of the Management Board, Finance Director

Warsaw, February 20, 2018