Orbis Group

REPORT FOR THE FIRST QUARTER OF 2018

Warsaw, April 27, 2018

Table of contents

1 MAJOR EVENTS OF THE FIRST QUARTER OF 2018 – PRESIDENT'S COMMENT 3

2 SELECTED FINANCIAL AND OPERATING FIGURES 5

2.1 ORBIS GROUP 5
2.2 ORBIS S.A. 6

3 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE ORBIS GROUP 7

3.1 CONSOLIDATED INCOME STATEMENT 7
3.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 8
3.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION 9
3.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 11
3.5 CONSOLIDATED STATEMENT OF CASH FLOWS 12

4 COMMENTS ON THE RESULTS OF THE FIRST QUARTER OF 2018 13

4.1 MACROECONOMIC ENVIRONMENT 13
4.2 HOTEL MARKET 14
4.3 IMPORTANT EVENTS OF THE FIRST QUARTER OF 2018 15
4.4 HOTEL PORTFOLIO OF THE ORBIS GROUP 16
4.5 FINANCIAL RESULTS OF THE ORBIS GROUP 17
4.6 SEGMENT REPORTING 19
4.6.1 RESULTS PER OPERATING SEGMENTS 19
4.6.2 RESULTS PER GEOGRAPHICAL REGION 21
4.7 OPERATING SEGMENT REVENUE PER TYPE OF SERVICE AND GEOGRAPHICAL AREA 25
4.8 SEASONALITY OR CYCLICALITY OF OPERATIONS 26
4.9 CLIENTS OF THE ORBIS GROUP 26
4.10 STATEMENT OF FINANCIAL POSITION 27
4.11 STATEMENT OF CHANGES IN EQUITY 28
4.12 STATEMENT OF CASH FLOWS 28
4.13 SHARE PRICE 29
4.14 CAPITAL EXPENDITURE 30
4.15 HUMAN RESOURCES 31
4.16 SOCIAL RESPONSIBILITY (CSR) 32
4.17 POSITION OF THE MANAGEMENT BOARD AS REGARDS VIABILITY OF PREVIOUSLY PUBLISHED FORECASTS 33
4.18 FACTORS TO AFFECT THE ORBIS HOTEL GROUP'S OPERATIONS IN SUBSEQUENT QUARTERS 33

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 35

5.1 BASIC INFORMATION ABOUT THE ISSUER 35
5.2 BUSINESS OPERATIONS 35
5.3 THE ISSUER'S SHAREHOLDERS 35
5.4 STATUTORY BODIES OF THE ISSUER 36
5.5 THE HOLDING OF ORBIS S.A. SHARES BY MEMBERS OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD 36
5.6 SHARE CAPITAL AND DIVIDENDS PAID 36
5.7 THE STRUCTURE OF THE GROUP 37
5.8 DESCRIPTION OF PRINCIPAL ACCOUNTING POLICIES 38
5.8.1 THE IMPACT OF NEW STANDARDS APPLICATION ON THE FINANCIAL STATEMENTS 38
5.8.2 REVENUE RECOGNITION ACCOUNTING POLICY 42
5.9 CURRENCY EXCHANGE RATES 43
5.10 BORROWINGS 44
5.11 ISSUE, REDEMPTION AND REPAYMENT OF DEBT AND EQUITY SECURITIES 44
5.12 FINANCIAL INSTRUMENTS 45
5.12.1 FAIR VALUE OF FINANCIAL INSTRUMENTS 45
5.12.2 HEDGE ACCOUNTING 46
5.13 CHANGES IN ESTIMATES OF AMOUNTS 46

5.13.1 IMPAIRMENT OF ASSETS 46
5.13.2 PROVISIONS FOR LIABILITIES 47
5.14 DEFERRED TAX ASSETS AND LIABILITIES 47
5.15 CONTINGENT ASSETS AND LIABILITIES 47
5.15.1 CONTINGENT ASSETS UNDER EXECUTED CONTRACTS 47
5.15.2 LIABILITIES ARISING FROM CREDIT FACILITY AGREEMENTS, LEASE AGREEMENTS, BONDS ISSUE AND THE APPLICABLE LAW 48
5.15.3 LIABILITIES ARISING UNDER GUARANTEE AGREEMENTS 48
5.15.4 LIABILITIES ARISING FROM AGREEMENTS FOR THE SALE OF ASSETS 49
5.16 LEGAL CLAIMS 49
5.17 RELATED PARTY TRANSACTIONS 50
5.18 IMPORTANT EVENTS AFTER THE REPORTING PERIOD 51

6 CONDENSED INTERIM FINANCIAL STATEMENTS OF ORBIS S.A. 53

6.1 INCOME STATEMENT 53
6.2 STATEMENT OF COMPREHENSIVE INCOME 54
6.3 STATEMENT OF FINANCIAL POSITION 55
6.4 STATEMENT OF CHANGES IN EQUITY 57
6.5 STATEMENT OF CASH FLOWS 58

7 COMMENTS ON ORBIS S.A. RESULTS IN THE FIRST QUARTER OF 2018 59

7.1 EXTERNAL ENVIRONMENT 59
7.2 INCOME STATEMENT 59
7.3 ORBIS S.A. FINANCIAL RESULTS PER OPERATING SEGMENTS 60
7.4 OPERATING SEGMENT REVENUE PER TYPE OF SERVICE 62
7.5 STATEMENT OF FINANCIAL POSITION 62
7.6 STATEMENT OF CHANGES IN EQUITY 64
7.7 STATEMENT OF CASH FLOWS 64

8 NOTES TO THE FINANCIAL STATEMENTS 65

8.1 GENERAL INFORMATION 65
8.1.1 BASIC INFORMATION ABOUT THE ISSUER 65
8.1.2 BUSINESS OPERATIONS 65
8.2 THE ISSUER'S SHAREHOLDERS 65
8.3 THE HOLDING OF ORBIS S.A. SHARES BY MEMBERS OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD 65
8.4 DESCRIPTION OF PRINCIPAL ACCOUNTING POLICIES 65
8.5 INVESTMENTS IN SUBSIDIARIES 68
8.6 BORROWINGS 68
8.7 ISSUE, REDEMPTION AND REPAYMENT OF DEBT AND EQUITY SECURITIES 68
8.8 LOANS GRANTED 69
8.9 FINANCIAL INSTRUMENTS 70
8.9.1 FAIR VALUE OF FINANCIAL INSTRUMENTS 70
8.9.2 HEDGE ACCOUNTING 71
8.10 CHANGES IN ESTIMATES OF AMOUNTS 71
8.10.1 IMPAIRMENT OF ASSETS 71
8.10.2 PROVISIONS FOR LIABILITIES 71
8.11 DEFERRED TAX ASSETS AND LIABILITIES 72
8.12 LEGAL CLAIMS 72
8.13 RELATED PARTY TRANSACTIONS 72
8.14 IMPORTANT EVENTS AFTER THE REPORTING PERIOD 73

APPENDIX 1: OPERATING RATIOS OF THE ORBIS GROUP 74

APPENDIX 2: GLOSSARY OF TERMS 76

1 MAJOR EVENTS OF THE FIRST QUARTER OF 2018 – PRESIDENT'S COMMENT

- Solid growth of the operating EBITDA by 5.9% up to PLN 40.4 million
- Positive operating indicators in all the countries of the EE region (+5.8% RevPAR like-for-like growth in total)
- 5 new asset light hotels opened (over 600 rooms)
- PLN 1.6 dividend per share recommendation
- AON Hewitt certifies Orbis "Best Employer in Poland"

Performance

Enjoying further market growth and stable macroeconomic environment across entire East European region, Orbis continues delivering solid results. In the 1Q 2018 we have been concentrating on strengthening our top line and managing the cost side having in mind a challenging situation on labour market, which concerns most industries.

Thanks to full engagement of our teams the revenue increased up to PLN 271.5 million, by +2.1% comparing to previous year figures. Operating EBITDA amounted to PLN 40.4 million, which represented 5.9% growth comparing to last year. It is worth mentioning that the first quarter of the year in hospitality business as a low season is not representative for the whole year results.

In 1Q 2018 progressive operational results of the Orbis Group are confirmed by 5.8% RevPAR growth like-for-like which amounted to PLN 136. Similarly to previous quarters, this result was mainly driven by an average room rate (ARR) increase which stood at PLN 222.7 like-for-like (up by 3.8% in 1Q 2018) and a slight increase of the occupancy rate, which grew by 1.2 p.p. compared to last year results. Growing operating indicators were observed in all the countries of the Eastern Europe where Orbis operates hotels.

Portfolio

In the 1Q 2018 Orbis Group was very active in developing its network. We have opened 5 new franchise and managed hotels, adding over 600 new rooms to our network in 4 countries of the region (Poland, Hungary, Slovenia, and Macedonia). Moreover Orbis signed 4 new asset light agreements for the hotels to be located in Poland, Hungary, Lithuania and Bosnia & Herzegovina, securing 556 hotel rooms, which will be added to our network in the near future. Apart from franchise & management expansion we plan to complete in 2018 two own new development projects i.e. ibis Styles Warszawa (178 rooms) and ibis Vilnius (164 rooms), which will enter the markets in the second half of 2018. We have been also preparing new development project in the city centre of Cracow, on the new plot that we acquired in 1Q 2018.

Taking advantage of low season we have been strongly pushing modernization of our selected hotels in strategic locations, i.e., Sofitel Warsaw Victoria, ibis Warszawa Centrum, Novotel & ibis Poznan Centrum, Mercure Budapest Korona and Mercure Budapest Buda. A total CAPEX amounting to PLN 40.7 million was spent during the quarter to finance all our investment projects.

People

While the labour market in Eastern Europe stays very challenging and competitive, we continue to deploy the Heartist® program aiming at making Orbis talents to be natural & authentic while serving guests and cooperating with each other. The ongoing cultural change in our Group across the region is having a positive impact on all our teams and consequently on our guest satisfaction.

We are also extremely proud that AON Hewitt, which performed the 2017 "Employee Engagement Survey" in 120 companies across Poland, recognized Orbis as Best Employer in Poland. It was as part of the AON Global Best Employers program based of benchmarking Orbis results with other employers on the Polish market.

Solid operating performance, strong cash position and favourable market forecasts enabled the Management Board to give recommendation to the Supervisory Board on the dividend payment at PLN 1.6 per share. Orbis is a growth company, focused on total shareholder return based on strengthening three main pillars: People, Portfolio and Performance.

In 2018, which is expected to be another year of strong growth both for economy in the Eastern Europe region and the tourism market in our key markets, we will be concentrating on the top line growth together with reasonable management of our expenditures.

2 SELECTED FINANCIAL AND OPERATING FIGURES

2.1 Orbis Group

Consolidated income statement	PLN `000		EUR `000	
	1st quarter of 2018	1st quarter of 2017	1st quarter of 2018	1st quarter of 2017
Net sales	271 465	265 951	64 969	62 006
Operating loss	(1 388)	(365)	(332)	(85)
Net loss for the period	(4 388)	(11 161)	(1 050)	(2 602)
Net loss for the period attributable to owners of the parent	(4 385)	(11 154)	(1 049)	(2 601)
Basic and diluted loss per share attributable to owners of the parent (in PLN)	(0.10)	(0.24)	(0.02)	(0.06)

Consolidated statement of cash flows	PLN `000		EUR `000	
	1st quarter of 2018	1st quarter of 2017	1st quarter of 2018	1st quarter of 2017
Net cash generated by operating activities	12 231	23 607	2 927	5 504
Net cash used in investing activities	(48 417)	(307 159)	(11 587)	(71 614)
Net cash generated by/(used in)financing activities	12 599	(3 782)	3 015	(882)
Net cash flow, total	(23 587)	(287 334)	(5 645)	(66 992)

Consolidated statement of financial position	PLN `000		EUR `000	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Non-current assets	2 378 720	2 392 340	565 218	573 579
Current assets	315 310	325 869	74 922	78 129
Assets classified as held for sale	216 711	201 093	51 494	48 213
Equity	2 079 818	2 080 877	494 195	498 904
Equity attributable to owners of the parent	2 079 620	2 080 676	494 148	498 855
Non-current liabilities	550 873	548 571	130 895	131 523
Current liabilities	280 050	289 854	66 544	69 494

Selected operating figures	1st quarter of 2018	1st quarter of 2017
Number of hotels (at the end of period)	128	116
Number of rooms (at the end of period)	20 982	19 741
Occupancy rate (%)	61.1	59.5
Revenue per Available Room in PLN	136.0	126.5

2.2 Orbis S.A.

Income statement	PLN `000		EUR `000	
	1st quarter of 2018	1st quarter of 2017	1st quarter of 2018	1st quarter of 2017
Net sales	171 954	174 132	41 153	40 599
Operating profit (loss)	(5 766)	3 507	(1 380)	818
Net loss for the period	(2 513)	(13 355)	(601)	(3 114)
Basic and diluted loss per share (in PLN)	(0.05)	(0.29)	(0.01)	(0.07)

Statement of cash flows	PLN `000		EUR `000	
	1st quarter of 2018	1st quarter of 2017	1st quarter of 2018	1st quarter of 2017
Net cash generated by operating activities	13 459	18 086	3 221	4 217
Net cash used in investing activities	(32 954)	(8 626)	(7 887)	(2 011)
Net cash used in financing activities	(2 884)	(3 782)	(690)	(882)
Net cash flow, total	(22 379)	5 678	(5 356)	1 324

Statement of financial position	PLN `000		EUR `000	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Non-current assets	2 507 203	2 517 115	595 747	603 494
Current assets	184 696	195 240	43 886	46 810
Assets classified as held for sale	31 111	23 514	7 392	5 638
Equity	2 051 683	2 056 754	487 509	493 120
Non-current liabilities	540 103	538 551	128 336	129 121
Current liabilities	131 224	140 564	31 181	33 701

The following exchange rates were used to translate the presented figures into EUR:

- For items of the income statement and the statement of cash flows:
  - 4.1784 – the exchange rate calculated as the average of exchange rates quoted by the National Bank of Poland on the last day of each month of the first quarter of 2018,
  - 4.2891 – the exchange rate calculated as the average of exchange rates quoted by the National Bank of Poland on the last day of each month of the first quarter of 2017.
- For items of the statement of financial position:
  - 4.2085 – the exchange rate quoted by the National Bank of Poland on March 30, 2018,
  - 4.1709 – the exchange rate quoted by the National Bank of Poland on December 29, 2017.

(figures quoted in PLN thousand, unless otherwise stated)

3 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE ORBIS GROUP

3.1 Consolidated income statement

	3 months ended March 31, 2018	3 months ended March 31, 2017
Net sales	**271 465**	**265 951**
Outsourced services	(68 260)	(64 277)
Employee benefit expense	(93 676)	(86 778)
Raw materials and energy used	(44 113)	(45 851)
Taxes and charges	(9 980)	(9 909)
Other expenses by nature	(3 039)	(3 028)
Impairment of receivables	417	(97)
Net other operating income/(expenses)	894	894
EBITDAR	**53 708**	**56 905**
Rental expense	(13 321)	(18 777)
Operating EBITDA	**40 387**	**38 128**
Depreciation and amortisation	(41 916)	(41 602)
Operating loss without the effects of one-off events	**(1 529)**	**(3 474)**
Result on sale of real property	879	3 947
Restructuring costs	(29)	(677)
Result of other one-off events	(709)	(161)
Operating loss	**(1 388)**	**(365)**
Finance income	256	392
Finance costs	(3 809)	(12 184)
Loss before tax	**(4 941)**	**(12 157)**
Income tax expense	553	996
Net loss for the period	**(4 388)**	**(11 161)**
- attributable to owners of the parent	(4 385)	(11 154)
- attributable to non-controlling interests	(3)	(7)
Loss per ordinary share		
Basic and diluted loss attributable to owners of the parent for the period (in PLN)	(0.10)	(0.24)

(figures quoted in PLN thousand, unless otherwise stated)

3.2 Consolidated statement of comprehensive income

	3 months ended March 31, 2018	3 months ended March 31, 2017
Net loss for the period	**(4 388)**	**(11 161)**
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/losses arising from the defined benefit plan		
Income tax relating to items that will not be reclassified subsequently	0	(22)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	4 492	(25 245)
The effective portion of the gain or loss on the hedging instrument entered into for cash flow hedges	0	(82)
Income tax relating to items that may be reclassified subsequently	0	15
Other comprehensive income/(loss) after tax	**4 492**	**(25 334)**
Total comprehensive income/(loss) for the period	**104**	**(36 495)**
- attributable to owners of the parent	107	(36 481)
- attributable to non-controlling interests	(3)	(14)

(figures quoted in PLN thousand, unless otherwise stated)

3.3 Consolidated statement of financial position

Assets	As at:		
	March 31, 2018	December 31, 2017	March 31, 2017
Non-current assets	**2 378 720**	**2 392 340**	**2 437 633**
Property, plant and equipment	2 237 592	2 251 515	2 276 362
Investment property	5 035	5 088	8 937
Intangible assets, of which:	110 972	111 568	112 194
- goodwill	107 252	107 252	107 252
Other financial assets	6 944	6 944	19 649
Deferred tax assets	16 991	15 912	19 642
Other non-current assets	1 186	1 313	849
Current assets	**315 310**	**325 869**	**371 747**
Inventories	6 623	6 785	6 352
Trade receivables	65 791	68 579	51 732
Income tax receivables	6 888	541	4 482
Other current receivables	43 301	35 120	60 682
Cash and cash equivalents	192 707	214 844	248 499
Assets classified as held for sale	**216 711**	**201 093**	**1 193**
TOTAL ASSETS	**2 910 741**	**2 919 302**	**2 810 573**

(figures quoted in PLN thousand, unless otherwise stated)

Equity and Liabilities	As at:		
	March 31, 2018	December 31, 2017	March 31, 2017
Equity	**2 079 818**	**2 080 877**	**1 914 181**
Equity attributable to owners of the parent	**2 079 620**	**2 080 676**	**1 914 033**
Share capital	517 754	517 754	517 754
Reserves	133 272	133 272	133 171
Retained earnings	1 434 830	1 440 378	1 270 937
Foreign currency translation reserve	(6 236)	(10 728)	(7 829)
Non-controlling interests	**198**	**201**	**148**
Non-current liabilities	**550 873**	**548 571**	**624 261**
Borrowings	0	0	87 778
Bonds	502 458	501 778	502 069
Deferred tax liabilities	4 473	3 969	703
Deferred revenue	13 522	12 202	3 926
Other non-current liabilities	5 329	5 777	4 970
Provision for retirement benefits and similar obligations	19 181	19 180	18 335
Provisions for liabilities	5 910	5 665	6 480
Current liabilities	**280 050**	**289 854**	**272 131**
Borrowings	56 703	40 873	35 289
Other financial liabilities	74	74	199
Trade payables	96 480	101 471	108 617
Liabilities associated with tangible assets	10 769	28 358	8 738
Current tax liabilities	295	1 758	1 521
Deferred revenue	42 132	23 623	33 845
Other current liabilities	68 280	88 251	80 015
Provision for retirement benefits and similar obligations	3 080	3 080	2 756
Provisions for liabilities	2 237	2 366	1 151
TOTAL EQUITY AND LIABILITIES	**2 910 741**	**2 919 302**	**2 810 573**

(figures quoted in PLN thousand, unless otherwise stated)

3.4 Consolidated statement of changes in equity

	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, 2017						
Balance as at January 1, 2017	**517 754**	**133 238**	**1 282 113**	**17 409**	**162**	**1 950 676**
- net profit for the period	0	0	232 391	0	50	232 441
- other comprehensive income/(loss)	0	34	(403)	(28 137)	(11)	(28 517)
Total comprehensive income/(loss) for the period	**0**	**34**	**231 988**	**(28 137)**	**39**	**203 924**
- dividends	0	0	(73 723)	0	0	(73 723)
Balance as at December 31, 2017	**517 754**	**133 272**	**1 440 378**	**(10 728)**	**201**	**2 080 877**
of which: three months ended March 31, 2017						
Balance as at January 1, 2017	**517 754**	**133 238**	**1 282 113**	**17 409**	**162**	**1 950 676**
- net loss for the period	0	0	(11 154)	0	(7)	(11 161)
- other comprehensive income/(loss)	0	(67)	(22)	(25 238)	(7)	(25 334)
Total comprehensive loss for the period	**0**	**(67)**	**(11 176)**	**(25 238)**	**(14)**	**(36 495)**
Balance as at March 31, 2017	**517 754**	**133 171**	**1 270 937**	**(7 829)**	**148**	**1 914 181**
Three months ended March 31, 2018						
Balance as at January 1, 2018 (reported)	**517 754**	**133 272**	**1 440 378**	**(10 728)**	**201**	**2 080 877**
- adjustment for IFRS 15	0	0	(1 163)	0	0	(1 163)
Balance as at January 1, 2018 (restated)*	**517 754**	**133 272**	**1 439 215**	**(10 728)**	**201**	**2 079 714**
- net loss for the period	0	0	(4 385)	0	(3)	(4 388)
- other comprehensive income/(loss)	0	0	0	4 492	0	4 492
Total comprehensive income/(loss) for the period	**0**	**0**	**(4 385)**	**4 492**	**(3)**	**104**
Balance as at March 31, 2018	**517 754**	**133 272**	**1 434 830**	**(6 236)**	**198**	**2 079 818**

* *description of restatement in Section 5.8*

(figures quoted in PLN thousand, unless otherwise stated)

3.5 Consolidated statement of cash flows

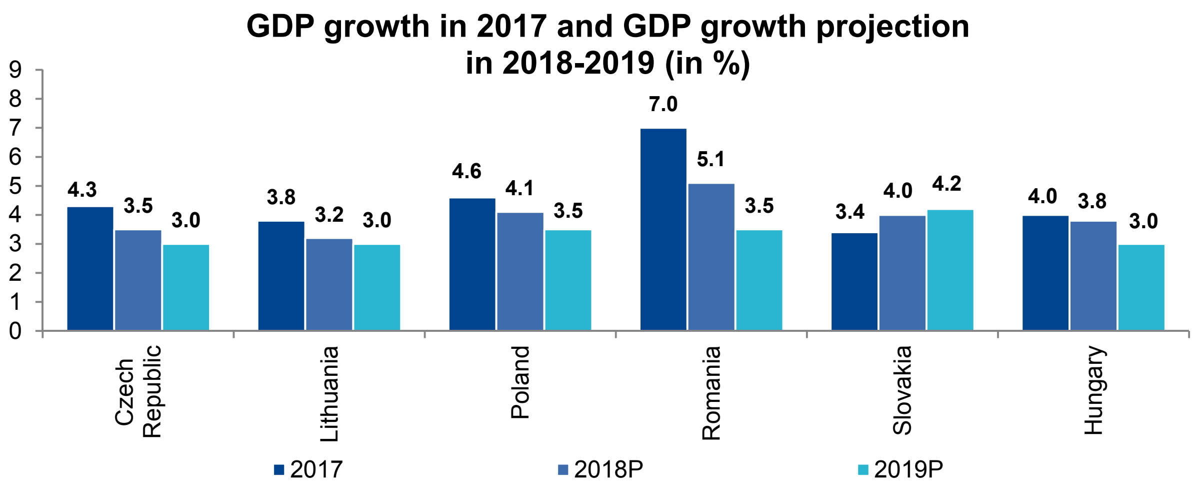
	3 months ended March 31, 2018	3 months ended March 31, 2017
OPERATING ACTIVITIES		
Loss before tax	**(4 941)**	**(12 157)**
Adjustments:	**24 590**	**39 158**
Depreciation and amortisation	41 916	41 602
Foreign exchange losses	(476)	6 661
Interest and other borrowing costs	3 433	4 041
(Gain)/loss on investing activities	84	(4 058)
Change in receivables	(8 907)	1 749
Change in liabilities, excluding borrowings	(28 688)	(22 193)
Change in deferred revenue	16 944	12 624
Change in provisions	103	(1 955)
Change in inventories	181	687
Cash generated from operations	**19 649**	**27 001**
Income taxes paid	(7 418)	(3 394)
Net cash generated by operating activities	**12 231**	**23 607**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment and intangible assets	1 864	10 253
Interest received	313	375
Other investing cash inflows	5 445	809
Leased hotels buyback	0	(283 033)
Other payments for property, plant and equipment and intangible assets	(56 039)	(31 141)
Other investing cash outflows	0	(4 422)
Net cash used in investing activities	**(48 417)**	**(307 159)**
FINANCING ACTIVITIES		
Proceeds from borrowings	15 642	0
Interest paid and other financing cash outflows resulting from received borrowings	(159)	(918)
Interest paid and other financing cash outflows resulting from issue of bonds	(2 884)	(2 864)
Net cash generated by/(used in) financing activities	**12 599**	**(3 782)**
Change in cash and cash equivalents	**(23 587)**	**(287 334)**
Effects of exchange rate changes on the balance of cash held in foreign currencies	1 450	(4 961)
Cash and cash equivalents at the beginning of the period	**214 844**	**540 794**
Cash and cash equivalents at the end of the period	**192 707**	**248 499**

4 COMMENTS ON THE RESULTS OF THE FIRST QUARTER OF 2018

4.1 Macroeconomic environment

Economic revival

The economy of Central and Eastern Europe region as well as the macroeconomic environment in the world continue to develop with a great momentum, although the longer the expansion phase, the more questions appear of how long this growth can last. For the time being, there are no negative premises that could herald a reversal of this positive trend. Economists are of an opinion that the peak point of the economic cycle is already behind us, yet the forthcoming quarters should not be much worse as compared to the previous ones. The 2018 average GDP growth forecast for the countries where Orbis operates remains high, i.e. 3.4%. The economic condition in the coming months may be impacted by the labour market in the region, which may restrain corporate growth in some sectors.



Source: Eurostat, International Monetary Fund, World Economic Outlook, April 2017 (2017 and 2018-2019 projection)

High turnover of the manufacturing sector in Poland and in the region

The value of the PMI index (measure of the economic conditions) remains above 50 pts. In Poland the PMI index was at 53.7 at the end of Q1 2018. Also, in Orbis' key markets, i.e. the Czech Republic and Hungary, the PMI index remained at a high level of nearly 60 pts. (57.3 and 57.0, respectively), which shows a significant increase in industrial activity. The economic trends in Europe are also high (the PMI index in Euroland was 56.6 in Q1 2018).

Strong labour market

Some research of the business trends already reveals deterioration in the future business intensity and output due to the challenging labour market, employee shortage and the growing salaries and wages. In most countries of the region the unemployment rate decreased visibly as compared to the corresponding period of the past year, which translates into single-digit unemployment rates in most countries of the Central and Eastern Europe (6.8% in Poland, 3.7% in the Czech Republic, 4.0% in Romania and 3.8% in Hungary). In some economies, the unemployment rate in recent months reached its lowest level in history. Low unemployment and employee shortages mean that employers have to raise salaries in order to attract and retain employees. Until now, it was partially hampered by, among other things, the inflow of employees from Ukraine.

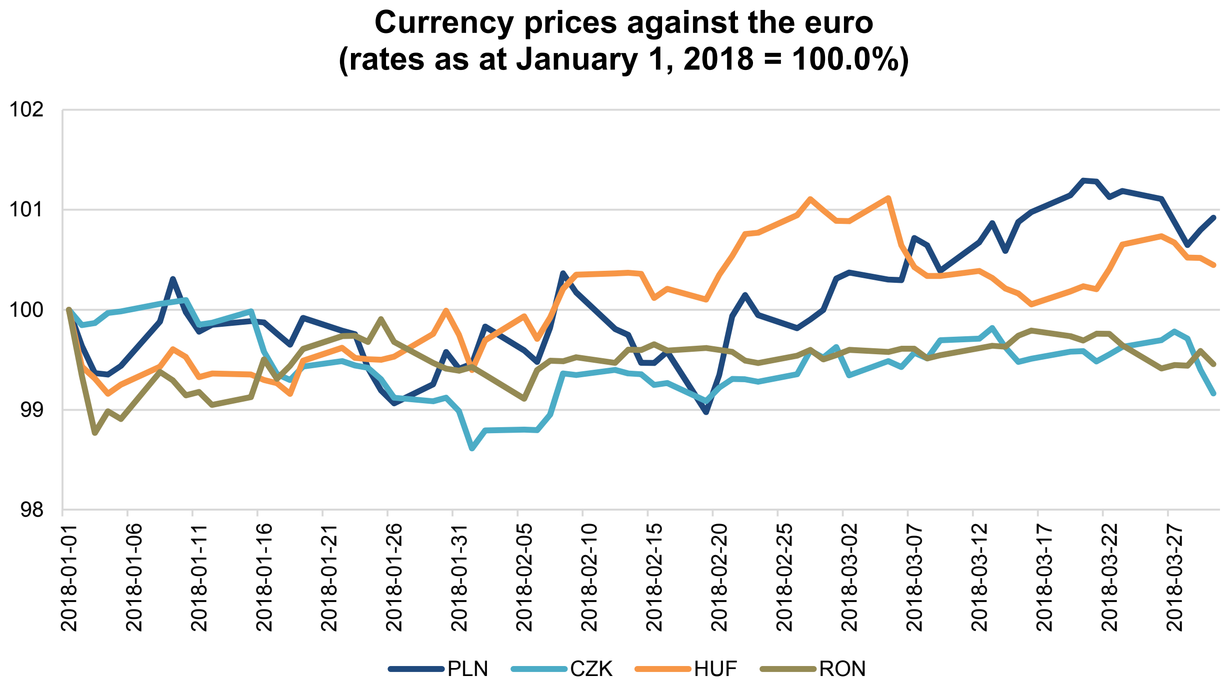
Inflation at a stable level

The inflation remains surprisingly benign, not only in Poland but also abroad (averaging below 2.0%). Despite rapid growth and tightening on labour markets in Europe, the year 2018 started with inflation drop in most countries. The ECB has just lowered its inflation forecasts for the Euroland. The inflation rate in Poland fell to 1.4% at the end of the first quarter, i.e. well below the inflation target (2.5%).

Similar low CPI levels of, respectively, 0.5% and 1.8% were reported in Hungary and the Czech Republic. Economic growth, wage pressure and higher commodity prices will drive inflationary pressure in 2018.

Current market stable

In the first quarter of 2018, the currencies of the countries in which the Orbis Group operates did not fluctuate significantly against the euro. The PLN/EUR rate fluctuated around PLN 4.20, the CZK/EUR rate around CZK 25.40 and the HUF/EUR rate was approx. 310 Hungarian forint.



Source: Thomson Reuters

Forecasts reveal stabilized economic growth

Many of the factors driving the growth in 2017 will have a positive impact also upon the 2018 results, foreshowing a stable economic growth in the region of the Central and Eastern Europe. Strong labour market momentum, eased monetary policy and a favourable environment in foreign markets should support a dynamic economic growth. However, the pace of expansion will slow down slightly as inflation increases and the monetary policy tightens. An important factor that influences the economic conditions is demography, which will exert pressure on the labour market. Growth also depends on political uncertainty, which can pose a threat to positive macroeconomic outlook. Forecasts of GDP growth of 3.4% on average for the coming years remain positive for the countries where the Orbis Group operates. Growth of 3.1% is expected in 2019.

4.2 Hotel market

In the first quarter of 2018, the operating ratios of hotels in major cities of the Central and Eastern Europe improved. Both the Occupancy Rate and the Average Room Rate rose in the capitals of most countries where the Orbis Group operates.

From among the Polish cities where Orbis Group hotels are located, the highest increase in the Occupancy Rate as compared to the first quarter of the past year was reported in Poznań (+4.3 p.p.) and in Cracow (+2.5 p.p.), while amongst the remaining cities of the region, Riga (+2.1 p.p.) and Budapest (+1.9 p.p.) reported the highest Occupancy Rate growth. In the first quarter of 2018, the highest hotel Occupancy Rates have been achieved in Warsaw (68.5%), Bucharest (63.9%), Budapest (62.7%) and Prague (62.2%).

In the reporting period the Average Room Rates in the region went up as well. The sharpest year-on-year increase was observed in Sofia (+21.7%), Riga (+9.6%) and Budapest (+8.3%) while in Poland, the highest Average Room Rate growth was achieved in Warsaw (+5.7%) and Cracow (+5.2%).

The steepest increase in RevPAR at the level of 13.5% was reported in Poznań. Among the Central and Eastern Europe cities where the Group operates, high RevPAR was reported in hotels in Sofia, Riga and Budapest.

4.3 Important events of the first quarter of 2018

The most important events of the first quarter of 2018 which affected the financial information of Orbis Group include:

Executing a preliminary sale agreement of the Mercure Cieszyn and the ibis Styles Bielsko-Biała hotels

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

- 10% of the net sale price, i.e. PLN 810 thousand was paid in as earnest money prior to the signing of the preliminary sale agreement,
- the remaining 90% of the net sale price, i.e. PLN 7 290 thousand will be paid no later than within 5 business days after the execution of the final sale agreement.

According to the preliminary agreement, the final sale agreement is scheduled to be executed before July 31, 2018, provided that the General Shareholders Meeting of Orbis S.A. will grant its consent for the sale of the hotels (this condition was met on April 4, 2018).

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

Exercise of hotel acquisition option by a subsidiary Katerinska Hotel s.r.o.

On February 13, 2018, the subsidiary, Katerinska Hotel s.r.o. with its registered address in Prague, notified the owners of the Century Old Town Prague MGallery by Sofitel located in Prague about the exercise of its right to acquire the hotel under the current leasing agreement of that hotel.

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

Transaction of real property purchase for new hotel construction in Cracow

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

Rescheduling of the closing of the hotel "Sofitel Budapest Chain Bridge" sale and management back transaction.

The date of closing of the transaction was extended till June 1, 2018, by consent of the parties to the transaction (the seller – Accor Pannonia Hotels Zrt. with its corporate seat in Budapest and the purchaser - two controlled subsidiaries of Starwood Capital Group), signed on March 23, 2018. A mutually agreed extension of the closing date is related to recent changes in the Hungarian legislation, which in light of complexity of the transaction required the parties to adjust the transaction process. At the same time, the Issuer confirms that the financial conditions of the transaction have not been changed.

(figures quoted in PLN thousand, unless otherwise stated)

4.4 Hotel portfolio of the Orbis Group

The Orbis Group is the largest hotel operator in Poland and in Central & Eastern Europe. As at the end of March 2018, the Group's network comprised a total of 128 hotels with over 21.0 thousand rooms. The majority of these hotels (71 establishments) operate in Poland.

Hotel portfolio	31.03.2018	31.12.2017	31.03.2017	31.03.2018/ 31.03.2017
Number of hotels, of which:	**128**	**124**	**116**	**10.3%**
Owned and leased hotels	74	74	78	-5.1%
Managed hotels	14	13	10	40.0%
Franchised hotels	40	37	28	42.9%
Number of rooms, of which in:	**20 982**	**20 420**	**19 741**	**6.3%**
Owned and leased hotels	14 531	14 527	15 085	-3.7%
Managed hotels	1 936	1 791	1 571	23.2%
Franchised hotels	4 515	4 102	3 085	46.4%

Change in the number of managed hotels in the first quarter of 2018 is the result of opening of the ibis Styles Budapest Airport in January 2018, while the change in the number of franchised hotels was caused by launch of operations of the following hotels operating based on franchise agreements:

- Mercure Terme Maribor Piramida in Slovenia (as of February 2018),
- ibis Styles Therme Maribor in Slovenia (as of February 2018),
- Mercure Tetovo in Macedonia (as of February 2018),
- ibis Styles Warszawa City (as of March 2018)

and termination of cooperation under the franchise agreement with the Mercure Zamość Stare Miasto hotel at the end of 2017.

Change in the number of hotels as compared to March 31, 2017, was additionally caused by:
a) sale and franchise-back transactions relating to the following hotels:

- Mercure Jelenia Góra (as a franchised hotel as of April 2017),
- Mercure Karpacz Resort (as a franchised hotel as of April 2017),
- Mercure Toruń (as a franchised hotel as of October 2017),
- ibis Zabrze (as a franchised hotel as of October 2017),

b) opening of new hotels based on management agreements:

- Mercure Sighisoara Binderbubi in Romania (September 2017),
- Mercure Belgrade Excelsior in Serbia (September 2017),
- Mercure Bucharest in Romania (October 2017),

c) launch of operations of the following hotels under a franchise agreement:

- ibis Styles Grudziądz (as of April 2017),
- Novotel Sarajevo in Bosnia and Herzegovina (as of September 2017),
- ibis Styles Skopje in Macedonia (as of November 2017),
- MGallery Tarcin Forest Resort in Bosnia and Herzegovina (as of November 2017),
- ibis Styles Arad in Romania (as of December 2017).

(figures quoted in PLN thousand, unless otherwise stated)

4.5 Financial results of the Orbis Group

In the first quarter of 2018, the Orbis Group incurred loss before tax amounting to PLN 4.9 million, while in the first quarter of 2017, its loss stood at PLN 12.2 million (result improved by 59.4%).

Income statement – analytical approach	1st quarter of 2018	1st quarter of 2017	change (%)
Net sales	271 465	265 951	2.1%
Net sales „like-for-like"	*271 465*	*258 464*	*5.0%*
EBITDAR	53 708	56 905	-5.6%
Operating EBITDA	40 387	38 128	5.9%
EBITDA „like-for-like"	*40 387*	*37 499*	*7.7%*
Operating loss (EBIT) without the effects of one-off events	(1 529)	(3 474)	56.0%
Operating loss (EBIT)	(1 388)	(365)	-280.3%
Net result from financing activities	(3 553)	(11 792)	69.9%
Loss before tax	(4 941)	(12 157)	59.4%

In the first quarter of 2018, the Group's net sales were at the level of PLN 271.5 million, i.e. rose by 2.1% as compared to the figures for the first quarter of 2017.

The continued positive business trends in the countries of the Central and Eastern Europe, high demand for hospitality services as well as numerous promotions and flexible pricing strategy adjusted to current conditions on individual markets contributed to an increase in the Occupancy Rate and the Average Room Rate and, consequently, the Revenue per Available Room (RevPAR) in the Group's hotels.

During 3 months of 2018, the Revenue per Available Room (RevPAR) in owned hotels[1] of the Orbis Group stood at PLN 136.0, i.e. was by 5.8% higher compared to the like-for-like figures for the first quarter of 2017. During the reporting period, customers of Orbis Group hotels paid on average PLN 222.7 per room, i.e. 3.8% more than in Q1 2017. Moreover, during the period from January to March 2018, the Occupancy Rate in owned hotels increased by 1.2 p.p. as compared to the data for the first quarter of 2017, up to 61.1%.

Operating ratios of owned hotels	1st quarter of 2018	1st quarter of 2017	change (%)	1st quarter of 2018	1st quarter of 2017	change (%)
	as reported			like-for-like		
Orbis Hotel Group						
Occupancy Rate (%)	61.1	59.5	1.6 p.p.	61.1	59.9	1.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	222.7	212.5	4.8%	222.7	214.6	3.8%
Revenue per Available Room (RevPAR) in PLN	136.0	126.5	7.5%	136.0	128.5	5.8%

A detailed list of the Orbis Group's operational ratios for Q1 2018 from various angles was attached as Appendix No. 1 to this Report.

There were no significant changes in the **structure of Group's revenue** from major products and services versus the first quarter of 2017. In the first quarter of 2018, room revenue totalled PLN 177.9 million, which accounted for 65.5% of all the Group's revenues. The room revenue increased by 3.0% as compared to the figures for the first quarter of the past year.

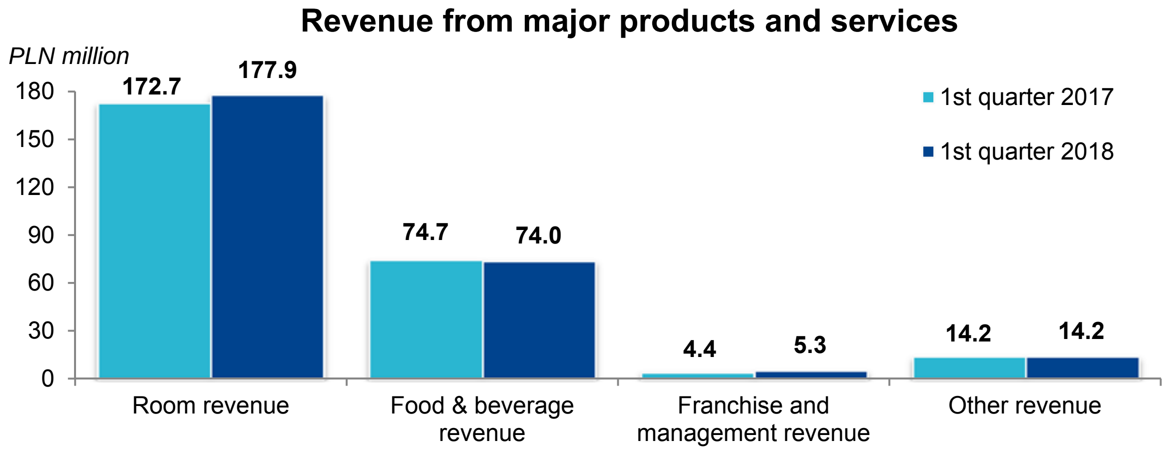
[1] Incl. the results of owned and leased hotels of the following companies: Orbis S.A., UAB Hekon, Katerinska Hotel s.r.o., Accor Pannonia Hotels Zrt., Accor Pannonia Slovakia s.r.o., Accor Hotels Romania s.r.l.

The food&beverage revenue in Q1 2018 was similar to Q1 2017. The food&beverage revenue of the entire Group stood at PLN 74.0 million and accounted for 27.3% of the consolidated revenue.

Revenue from franchise and management contributed 2.0% to the Group's total revenues and grew by 20.5% as compared to the figures for the first quarter of the past year. It is particularly attributable to the expansion of the Group's hotel portfolio from 28 franchised hotels as at March 31, 2017, to 40 hotels at the end of the first quarter of 2018.

The other revenue, which is mainly derived from lease of property and car park spaces, accounted for 5.2% of consolidated revenue (PLN 14.2 million) and remained at the same level as compared to the corresponding period of the past year.

The structure of Orbis Group sales broken down into products/services in the first quarter of 2018 and 2017 was as follows:



The **operating expenses** of the Orbis Group (including rental expense and depreciation/amortisation) totalled PLN 273.9 million, i.e. grew insignificantly, by 1.3%, as compared to Q1 2017. The growing Occupancy Rate in the Group's hotels in Q1 2018 versus Q1 2017 resulted in the increase of direct operating costs, although the share of individual types of costs in net sales remained unchanged as compared to the past year. The greatest increase was reported in the cost of outsourced services, mainly commissions for sales agents, staff outsourcing costs, cleaning costs as well as maintenance and repair costs. Compared to the first quarter of 2017, the employee benefits' expenses also increased as a result of higher employment, increase in staff turnover costs, as well as salary and wage increases. Drop in the expense of raw materials and energy used is attributable to energy savings.

In the reporting period, the rental expenses went down as a result of buyout of the formerly leased Sofitel Budapest Chain Bridge hotel. At the same time, depreciation and amortisation in Q1 2018 remained at a similar level as in Q1 2017.

Despite increase in operating expenses, the **operating EBITDA grew by 5.9% up to PLN 40.4 million**, while the operating result excluding one-off events amounted to PLN -1.5 million, i.e. improved by 56.0% against the corresponding period of 2017.

In Q1 2018, the Orbis Group reported positive result of PLN 0.1 million from one-off events. Gain of PLN 0.9 million from the sale of non-hotel real property located in Karpacz was reduced by restructuring costs and other one-off events totalling PLN 0.8 million. In the first quarter of 2017, the Group reported a gain of PLN 3.9 million from the sale of two hotels, namely the Mercure Jelenia Góra hotel and the Karpacz Resort hotel, which reduced the costs of restructuring and other one-off events by PLN 0.8 million in aggregate. As a result, the Group generated operating loss (EBIT) in the amount of PLN -1.4 million as compared to the operating loss of PLN 0.4 million in Q1 2017.

During 3 months of 2018, the Group generated higher result on financing activities as compared to the first quarter of the past year as a result of exchange rate gains on the balance of cash held and transactions in foreign currencies (in Q1 2017, the Group reported exchange rate losses).

The Orbis Group ended the first quarter of 2018 with a net loss of PLN 4.4 million, compared to a net loss of PLN 11.2 million in the first quarter of 2017, which means an improvement of the result by 60.7%.

(figures quoted in PLN thousand, unless otherwise stated)

4.6 Segment reporting

The Orbis Group distinguishes two reportable operating segments:

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

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

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

4.6.1 Results per operating segments

As at March 31, 2018, 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.

On the other hand, as at March 31, 2017, the individual operating segments included:
- the Up&Midscale segment: 4 Sofitel hotels, 21 Novotel hotels, 17 Mercure hotels and 1 MGallery hotel;
- the Economy segment: 23 ibis hotels, 9 ibis budget hotels and 3 ibis Styles hotels.

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

1st quarter of 2018	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**205 383**	**57 489**	**8 593**	**271 465**
Sale to external clients	205 383	57 489	8 593	271 465
EBITDAR	**53 959**	**20 277**	**(20 528)**	**53 708**
Operating EBITDA	**43 211**	**18 094**	**(20 918)**	**40 387**
Depreciation and amortisation	(30 681)	(10 080)	(1 155)	(41 916)
Operating profit/(loss) without the effects of one-off events	**12 530**	**8 014**	**(22 073)**	**(1 529)**
Result of one-off events	0	0	141	141
Operating profit/(loss) (EBIT)	**12 530**	**8 014**	**(21 932)**	**(1 388)**
Finance income/(costs)	(236)	(167)	(3 150)	(3 553)
Income tax	0	0	553	553
Net profit/(loss)	**12 294**	**7 847**	**(24 529)**	**(4 388)**
Capital expenditure	23 024	17 199	523	**40 746**

(figures quoted in PLN thousand, unless otherwise stated)

1st quarter of 2017	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**203 169**	**55 504**	**7 278**	**265 951**
Sale to external clients	203 169	55 504	7 278	265 951
EBITDAR	**56 603**	**19 852**	**(19 550)**	**56 905**
Operating EBITDA	**40 593**	**17 575**	**(20 040)**	**38 128**
Depreciation and amortisation	(29 344)	(11 107)	(1 151)	(41 602)
Operating profit/(loss) without the effects of one-off events	**11 249**	**6 468**	**(21 191)**	**(3 474)**
Result of one-off events	0	0	3 109	3 109
Operating profit/(loss) (EBIT)	**11 249**	**6 468**	**(18 082)**	**(365)**
Finance income/(costs)	(184)	(376)	(11 232)	(11 792)
Income tax	0	0	996	996
Net profit/(loss)	**11 065**	**6 092**	**(28 318)**	**(11 161)**
Capital expenditure	214 219	94 520	366	**309 105**

In the first quarter of 2018, the revenues of the Up&Midscale segment accounted for 75.7% of consolidated revenues and were by 1.1% higher as compared to revenues in the first quarter of 2017. This growth is above all attributable to higher Occupancy Rate (growth by 1.4 p.p.) accompanied by higher Average Room Rates (growth by 5.4%).

Revenues of the economy hotels' segment accounted for 21.2% of the Group's revenues and rose by 3.6%. The reported growth momentum is the result of higher Average Room Rates (growth by 3.9%) and higher occupancy rate (growth by 1.6 p.p.).

The performance of both the segments as compared to the past year was also impacted by sale and franchise-back transactions of the following hotels: the Mercure Jelenia Góra hotel, the Mercure Karpacz Resort hotel, the Mercure Toruń hotel and the ibis Zabrze hotel.

Operating ratios of owned hotels by main category	1st quarter of 2018	1st quarter of 2017	change (%)	1st quarter of 2018	1st quarter of 2017	change (%)
	as reported			like-for-like		
Economy Hotels						
Occupancy Rate (%)	63.2	61.6	1.6 p.p.	63.2	61.9	1.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	153.2	147.4	3.9%	153.2	148.3	3.3%
Revenue per Available Room (RevPAR) in PLN	96.8	90.7	6.7%	96.8	91.7	5.6%
Up&Midscale Hotels (3 stars and more)						
Occupancy Rate (%)	59.9	58.5	1.4 p.p.	59.9	58.9	1.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	261.5	248.1	5.4%	261.5	251.4	4.0%
Revenue per Available Room (RevPAR) in PLN	156.7	145.0	8.1%	156.7	147.9	5.9%

(figures quoted in PLN thousand, unless otherwise stated)

4.6.2 Results per geographical region

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

As at March 31, 2018, 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.

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

- Poland: 3 Sofitel hotels, 13 Novotel hotels, 12 Mercure hotels, 13 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.

1st quarter of 2018	Geographical segments				Mutual eliminations and consolidation adjustments	Consolidated value
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**171 925**	**60 280**	**20 261**	**19 215**	**(216)**	**271 465**
Sale to external clients	171 709	60 280	20 261	19 215	0	271 465
Sale to other segments	216	0	0	0	(216)	0
EBITDAR	**30 246**	**12 495**	**4 827**	**6 142**	**(2)**	**53 708**
Operating EBITDA	**28 387**	**8 444**	**1 418**	**2 140**	**(2)**	**40 387**
Depreciation and amortisation	(31 838)	(6 574)	(3 148)	(356)	0	(41 916)
Operating profit/(loss) without the effects of one-off events	**(3 451)**	**1 870**	**(1 730)**	**1 784**	**(2)**	**(1 529)**

1st quarter of 2017	Geographical segments				Mutual eliminations and consolidation adjustments	Consolidated value
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**174 101**	**54 122**	**18 692**	**19 208**	**(172)**	**265 951**
Sale to external clients	173 929	54 122	18 692	19 208	0	265 951
Sale to other segments	172	0	0	0	(172)	0
EBITDAR	**36 160**	**9 332**	**5 043**	**6 370**	**0**	**56 905**
Operating EBITDA	**34 081**	**460**	**1 674**	**1 913**	**0**	**38 128**
Depreciation and amortisation	(31 513)	(6 794)	(2 926)	(369)	0	(41 602)
Operating profit/(loss) without the effects of one-off events	**2 568**	**(6 334)**	**(1 252)**	**1 544**	**0**	**(3 474)**

(figures quoted in PLN thousand, unless otherwise stated)

In geographic terms, the highest share to the Group's net sales in the first quarter of 2018 was contributed by hotels located in Poland (63.3%) and in Hungary (22.2%). Net sales generated by hotels in the Czech Republic and in other countries accounted for, respectively, 7.5% and 7.1% of consolidated sales.

Poland

Selected figures and operating ratios of owned hotels located in Poland	1st quarter of 2018	1st quarter of 2017	% change
Net sales	171 709	173 929	-1.3%
Capital expenditure	30 368	9 203	230%
Occupancy Rate (%)	61.0	59.6	1.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	219.1	211.5	3.6%
Revenue per Available Room (RevPAR) in PLN	133.7	126.1	6.0%
Clients: Business	64.0%	68.5%	-4.5 p.p.
Clients: Leisure	36.0%	31.5%	4.5 p.p.

Hotels operating in Poland generated net sales of PLN 171.7 million, which constitutes 63.3% of the consolidated sales for the first quarter of 2018. Polish hotels reported slightly lower sales (decline by 1.3%) as compared to the corresponding period of the past year. The decline in sales is attributable to the level of room revenue and food&beverage revenue due to a reduced number of hotels as compared to the first quarter of 2017 despite higher Occupancy Rate and Average Room Rate (ARR) as compared to the past year.

The largest increase in the quantity of rooms sold was reported in the segment of individual guests, which was possible thanks to a flexible pricing policy tailored to the conditions on different markets. The highest sales growth in this segment was reported in the Warsaw, Cracow and Tri-City markets. The number of rooms sold also increased in the tourist group segment. The highest dynamics was achieved in the Cracow and Wrocław markets.

The MICE segment reported a decrease due to a smaller number of business groups, which was caused, among other things, by absence one-off major events and conferences such as those held during the first quarter of 2017 and lower demand. The corporate guests segment also slowed down mainly due to the finalization of last year's projects.

Hungary

Selected figures and operating ratios of owned hotels located in Hungary	1st quarter of 2018	1st quarter of 2017	% change
Net sales	60 280	54 122	11.4%
Capital expenditure	10 126	295 521	-96.6%
Occupancy Rate (%)	58.7	55.7	3.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	226.9	213.3	6.4%
Revenue per Available Room (RevPAR) in PLN	133.2	118.7	12.2%
Clients: Business	50.2%	49.8%	0.4 p.p.
Clients: Leisure	49.8%	50.2%	-0.4 p.p.

Hotels in Hungary generated operating revenues of PLN 60.3 million, accounting for 22.2% of consolidated revenues of the Orbis Group. Higher-than-last-year's results (by 11.4%), both in the rooms and food&beverage segments, were achieved due to higher Occupancy Rates and higher Average Room Rate.

(figures quoted in PLN thousand, unless otherwise stated)

Significant increase in the number of rooms sold was possible thanks to high demand for hotel services in Budapest. All the hotels in this market achieved higher operating revenues. The largest increase in the number of rooms sold was reported in the MICE segment and was generated by a larger number of business groups and conferences organised. Almost all the brands reported growth in this segment (the highest growth was achieved by ibis and Novotel hotels). High demand throughout the whole Q1 2018 also lasted in the segment of individual guests staying for both tourist and business purposes. On the other hand, the corporate guest segment declined due to higher number of long-term projects completed by key accounts in the past year.

The Czech Republic

Selected figures and operating ratios of owned hotels located in the Czech Republic	1st quarter of 2018	1st quarter of 2017	% change
Net sales	20 261	18 692	8.4%
Capital expenditure	131	4 302	-97.0%
Occupancy Rate (%)	61.6	62.0	-0.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	215.0	187.7	14.5%
Revenue per Available Room (RevPAR) in PLN	132.4	116.5	13.6%
Clients: Business	39.8%	37.3%	2.5 p.p.
Clients: Leisure	60.2%	62.7%	-2.5 p.p.

In the first quarter of 2018, revenues generated by hotels located in the Czech Republic amounted to PLN 20.3 million (7.5% of the total revenues of the Group). These hotels reported a growth in operating income as compared to the corresponding period of the past year thanks to higher Average Room Rate. The Occupancy Rate in the first quarter of 2018 was slightly below the past year's level.

The highest growth momentum in the Czech Republic was achieved in the segment of individual guests staying for both business and tourist purposes, above all by ibis and Novotel brands, among others thanks to promotional offers and a greater number of bookings through online distribution channels. The number of rooms sold in the corporate segment also increased. On the other hand, decrease was reported in the segment of business groups as compared to the first quarter of 2017, mainly due to a much smaller number of business customers in the ibis brand (many one-off projects were completed last year). The number of rooms sold in the tourist group segment also went down.

Other countries

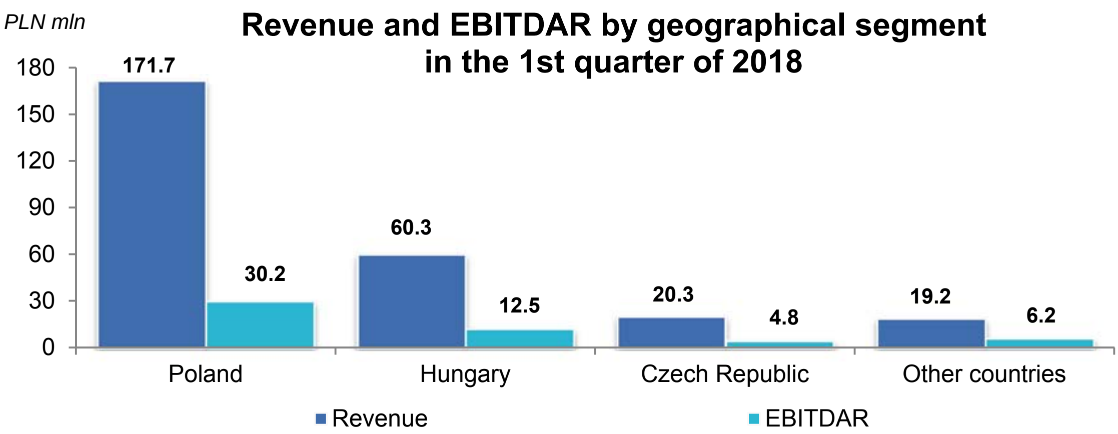
Selected figures and operating ratios of owned hotels located in other countries	1st quarter of 2018	1st quarter of 2017	% change
Net sales	19 215	19 208	0.0%
Capital expenditure	121	79	53.2%
Occupancy Rate (%)	71.2	71.1	0.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	260.5	260.2	0.1%
Revenue per Available Room (RevPAR) in PLN	185.5	185.1	0.2%
Clients: Business	64.4%	62.1%	2.3 p.p.
Clients: Leisure	35.6%	37.9%	-2.3 p.p.

Revenues for the period of 3 months of 2018 generated in other countries, where the hotels of the Group are located, reached the level of PLN 19.2 million, i.e. 7.1% of the consolidated revenues. Hotels located in Lithuania, Slovakia and Romania generated sales revenues at a comparable level as in the past year.

The Novotel in Vilnius achieved higher operating revenues as compared to the first quarter of the past year thanks to higher Average Room Rate despite the Occupancy Rate being slightly lower than in the past year. Increase in the number of guests was reported both in the MICE segment (due to a larger number of business groups) and the corporate guest segment (thanks to demand from regular clients). On the other hand, a significant drop was reported in the segment of individual guests staying both for both business and leisure.

Slovakia is represented by two hotels located in Bratislava: Mercure and ibis. Room revenue was slightly higher than in the first quarter of the past year thanks to higher Occupancy Rate in the ibis hotel and despite a lower Average Room Rate. In the reporting period, the increase in the number of rooms sold concerned primarily the segment of tourist groups and individual guests. The corporate guest segment grew thanks to key accounts' bookings. On the other hand, the business groups segment was at past year's level.

The Novotel in Bucharest achieved a growth in operating revenues thanks to higher Average Room Rate with the Occupancy Rate being slightly below the past year's level. Increase in the number of rooms sold was reported in the segment of business groups and corporate guests. Other segments reported a decline, which was highest in the segment of tourist groups. However, guest segmentation change has positively impacted the Average Room Rate, contributing to higher room revenues.



(figures quoted in PLN thousand, unless otherwise stated)

4.7 Operating segment revenue per type of service and geographical area

The tables below present the Group's revenues for the first quarter of 2018 and the first quarter of 2017 per type of services and geographical areas with their reconciliation to the operating segments presented in Section 4.6.1.

1st quarter of 2018	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Revenue per type of service:	**205 383**	**57 489**	**8 593**	**271 465**
Room revenue	134 110	43 793	0	177 903
Food & beverage revenue	62 402	11 632	0	74 034
Franchise and management revenue	0	0	5 325	5 325
Other revenue	8 871	2 064	3 268	14 203
Revenue per geographical area:	**205 383**	**57 489**	**8 593**	**271 465**
Poland	130 858	36 266	4 585	171 709
Hungary	48 583	10 043	1 654	60 280
Czech Republic	10 659	9 469	133	20 261
Other countries	15 283	1 711	2 221	19 215

1st quarter of 2017	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Revenue per type of service:	**203 169**	**55 504**	**7 278**	**265 951**
Room revenue	130 344	42 277	0	172 621
Food & beverage revenue	63 606	11 130	0	74 736
Franchise and management revenue	0	0	4 424	4 424
Other revenue	9 219	2 097	2 854	14 170
Revenue per geographical area:	**203 169**	**55 504**	**7 278**	**265 951**
Poland	133 718	36 287	3 924	173 929
Hungary	44 532	8 198	1 392	54 122
Czech Republic	9 187	9 412	93	18 692
Other countries	15 732	1 607	1 869	19 208

4.8 Seasonality or cyclicality of operations

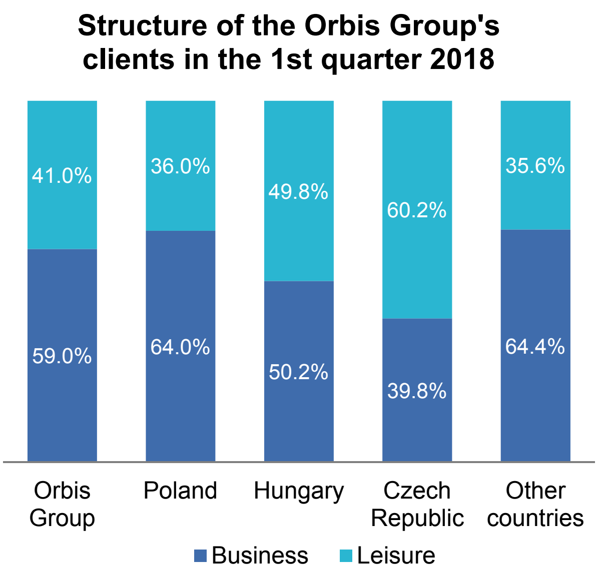
Sales of the Orbis Group throughout the year are marked by seasonality. Usually, the major value of sales is generated during the third quarter of the year. The second quarter of the year is the second best in terms of contribution to sales volume. The first quarter is the last in terms of sales.

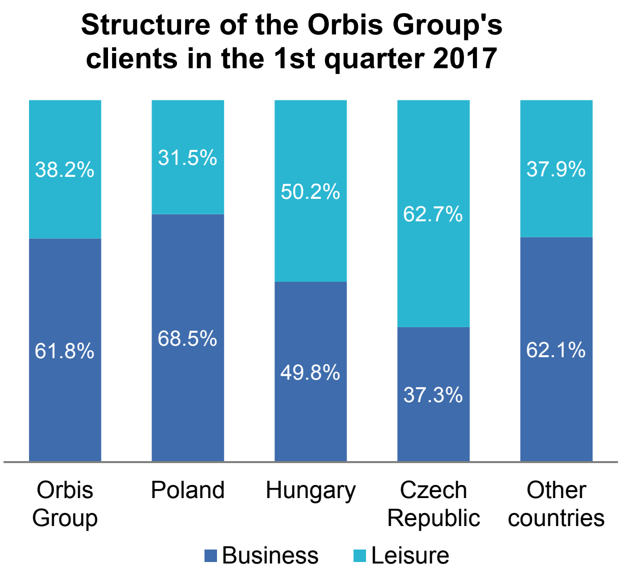
Net sales	2018		2017		2016	
	PLN `000	% share of annual revenue	PLN `000	% share of annual revenue	PLN `000	% share of annual revenue
1st quarter	271 465	-	265 951	18.2%	247 214	17.9%
2nd quarter			413 579	28.4%	392 660	28.4%
3rd quarter			421 924	28.9%	396 374	28.7%
4th quarter			356 619	24.5%	346 631	25.0%
Total	**271 465**	**-**	**1 458 073**	**100.0%**	**1 382 879**	**100.0%**

4.9 Clients of the Orbis Group

Business clients accounted for 59% of customers in hotels of the Orbis Group in the first quarter of 2018. They formed the predominant group in the Group's hotels in Poland and in other countries (64.0% and 64.4% of all customers respectively). Conversely, in the Czech Republic it was tourists who formed the most numerous group of hotel customers, respectively accounting for 60.2% of all the customers.

The client mix of the Orbis Group and in the countries where the Group operates is as follows:





4.10 Statement of financial position

On March 31, 2018, Orbis Group's assets totalled PLN 2 910.7 million, i.e. decreased by PLN 8.6 million as compared to December 31, 2017.

The major component of the Group's assets are non-current assets, accounting for 81.7% of total assets. The predominant item of non-current assets are property, plant and equipment valued at PLN 2 237.6 million, accounting for 76.9% of total assets. Due to the type of business pursued, the major item of property, plant and equipment are buildings and structures as well as land and titles to perpetual usufruct of land. Property, plant and equipment did not change significantly as compared with its value as at December 31, 2017. The value of property, plant and equipment as at the end of Q1, 2018, was impacted by depreciation and amortisation (PLN -41.1 million), reclassification of the Novotel Szeged hotel located in Hungary and non-hotel real property located in Wrocław as assets held for sale and capital expenditure (PLN +40.6 million).

Intangible assets (mainly goodwill) valued at PLN 111.0 million also constitute a major item of non-current assets. The contribution of intangible assets to the Group's assets was at 3.8% at the end of March 2018.

Under the current assets item, the most important sub-item are cash and cash equivalents of PLN 192.7 million, accounting for 6.6% of total assets. As regards current assets, the most significant changes in the first quarter of 2018 versus December 31, 2017, occurred with regard income tax receivables and other current receivables.

Growth of the income tax receivables item in the first quarter of 2018 versus December 31, 2017, and March 31, 2017, results predominantly from the change in the reconciliation of payments to the tax office in 2018 and adoption of the advance payment method (applicable to Polish companies).

A major item of current assets as at March 31, 2018, were other current receivables (PLN 43.3 million). This item comprises predominantly of receivables from sale of tangible assets, VAT receivables and prepayments. As at March 31, 2018, the Company held receivables resulting from the sale of tangible assets of PLN 4.0 million concerned the sale of the Mercure Mrągowo Resort & SPA hotel. As at the end of 2017, the value of receivables resulting from sale of tangible assets amounted to PLN 7.9 million and concerned the sale of the Mercure Mrągowo Resort & SPA hotel, and sale of the Mercure Kasprowy hotel in Zakopane. Moreover, at the end on March 2017 the value of receivables resulting from sale of tangible assets amounted to PLN 29.8 million and concerned the sale of Mercure Jelenia Góra hotel, Mercure Karpacz Resort hotel, Mercure Mrągowo Resort & SPA hotel and Mercure Kasprowy hotel in Zakopane.

On the other hand, increase in the balance of short term accrued expenses from PLN 7.9 million at the end of 2017 up to PLN 22.9 million as at March 31, 2018, is attributable to the seasonal higher level of prepayments in Q1, mainly fees for perpetual usufruct of land and property lease costs.

Trade receivables and assets classified as held for sale increased significantly as compared to March 31, 2017.

The growth of trade receivables as at March 31, 2018, (year-on-year) was caused mainly by increase of sales in the MICE segment.

As at March 31, 2018, the Orbis Group reported assets of PLN 216.7 million classified as assets held for sale, which included non-current assets of the Sofitel Budapest Chain Bridge hotel in Hungary, the Novotel Szeged hotel in Hungary, the ibis budget Toruń hotel, the Mercure Cieszyn hotel, the ibis Styles Bielsko-Biała hotel, as well as real property in Toruń with an uncompleted building which was originally planned to be an ibis hotel, and a non-hotel real property located in Poznań.

As at December 31, 2017, this item also included the right of perpetual usufruct of land and buildings located in Karpacz, at Konstytucji 3 Maja Street, which was sold in March 2018, and it did not include the real property in Wrocław and the Novotel Szeged hotel in Hungary.

On the other hand, as at March 31, 2017, assets classified as held for sale included the right of perpetual usufruct of land at Heweliusza Street in Gdańsk.

The Orbis Group financed its assets predominantly from equity. As at March 31, 2018, the Group's equity accounted for 71.5% of the total equity and liabilities (PLN 2 079.8 million). On the other hand, the Group's net debt stood at PLN 366.5 million, i.e. accounted for 17.6% of equity.

As at March 31, 2018 the Group has an overdraft in the current account of PLN 56.7 million, incurred by Accor Pannonia Hotels Zrt. (at the end of 2017, it equalled PLN 40.9 million.). As at March 31, 2017, Orbis S.A. had liabilities under borrowings in the total amount of PLN 123.1 million. In December 2017 Orbis made an early repayment of the full amount of this loan, incurred by the company under a loan agreement executed in 2014 with the Bank Polska Kasa Opieki S.A. and Société Générale S.A.

As at March 31, 2018, Orbis S.A. had long-term, interest-bearing liabilities related to the issue of bonds in the amount of PLN 502.5 million (17.3% of liabilities). The bonds mature in 2020 and 2021.

The biggest item of current liabilities of the Group as at March 31, 2018, was trade payables (34.5%). Decrease in the balance of trade payables is connected with lower occupancy in March than at the end of 2017, resulting in decreased purchases in the Group's hotels.

A significant item of liabilities comprises other current liabilities (24.4%), including mainly tax and social security liabilities (taxes payable and disputable fees for the right to perpetual usufruct of land) and accrued expenses of employee benefits (also for bonus payments and unused holiday leaves). A lower level of these liabilities as at March 31, 2018, as compared to the end of March 2017 results mainly from recognition, as at March 31, 2017, of the liability caused by adjustment of the purchase price of 5 Hotel Kft. in the amount of PLN 8.1 million (the payment was made on April 3, 2017) and the tax of PLN 7.3 million on this transaction. On the other hand, the lower level of other current liabilities as compared to the end of 2017 results from lower accrued liabilities, including mainly lower liabilities towards employees.

A much higher level of deferred revenue as at March 31, 2018, results predominantly from prepayments received for accommodation services during the spring and summer period.

Decline of liabilities associated with tangible assets in the first quarter of 2017 results in particular from recognition of capital expenditure incurred for the modernisation of the following hotels: the Novotel Poznań Centrum hotel, the ibis Styles Warszawa Centrum hotel, the Novotel Warszawa Airport hotel, the Novotel Warszawa Centrum hotel and the ibis Poznań Centrum hotel.

4.11 Statement of changes in equity

As at March 31, 2018, equity amounted to PLN 2 079.8 million against PLN 2 080.9 million at the end of 2017.

The retained earnings of the Orbis Group include a net loss of PLN 4.4 million for the first quarter of 2018. This value was also impacted by data restatement at the beginning of the first quarter of 2018 in connection with the implementation of IFRS 15 *Revenue from Contracts with Customers* in 2018.

On the other hand, the foreign currency translation reserve changed from PLN -10.7 million at the end of 2017 up to PLN -6.2 million at the end of March 2018. The change resulted from translating foreign operations into the currency of presentation (PLN). The increase in average foreign exchange rates as at the end of March 2018 as compared to December 31, 2017, had a positive impact on the level of foreign currency translation reserve (foreign currency rates applied for translation of financial statements of foreign subsidiaries are presented in Section 5.9).

4.12 Statement of cash flows

During the first three months of 2018, the net cash flows of the Orbis Group amounted to PLN -23.6 million (PLN -287.3 million in the first quarter of 2017). Cash flows comprised:

- **Cash flows from operating activities**
  Cash flows of PLN 12.2 million (PLN 23.6 million in Q1 2017) were generated from operating activities during the reporting period. The decrease in cash flows from operating activities was mainly due to the change in the balance of current assets and higher income tax paid in advance.
- **Cash flows from investing activities**
  The main reason for the cash outflow of PLN -48.4 million in the first quarter of 2018 (PLN -307.2 million in the first quarter of 2017) was the expenditure on property, plant and equipment relating to investments in the construction of new hotels and modernization of the existing hotels (more information available under Section 4.14).

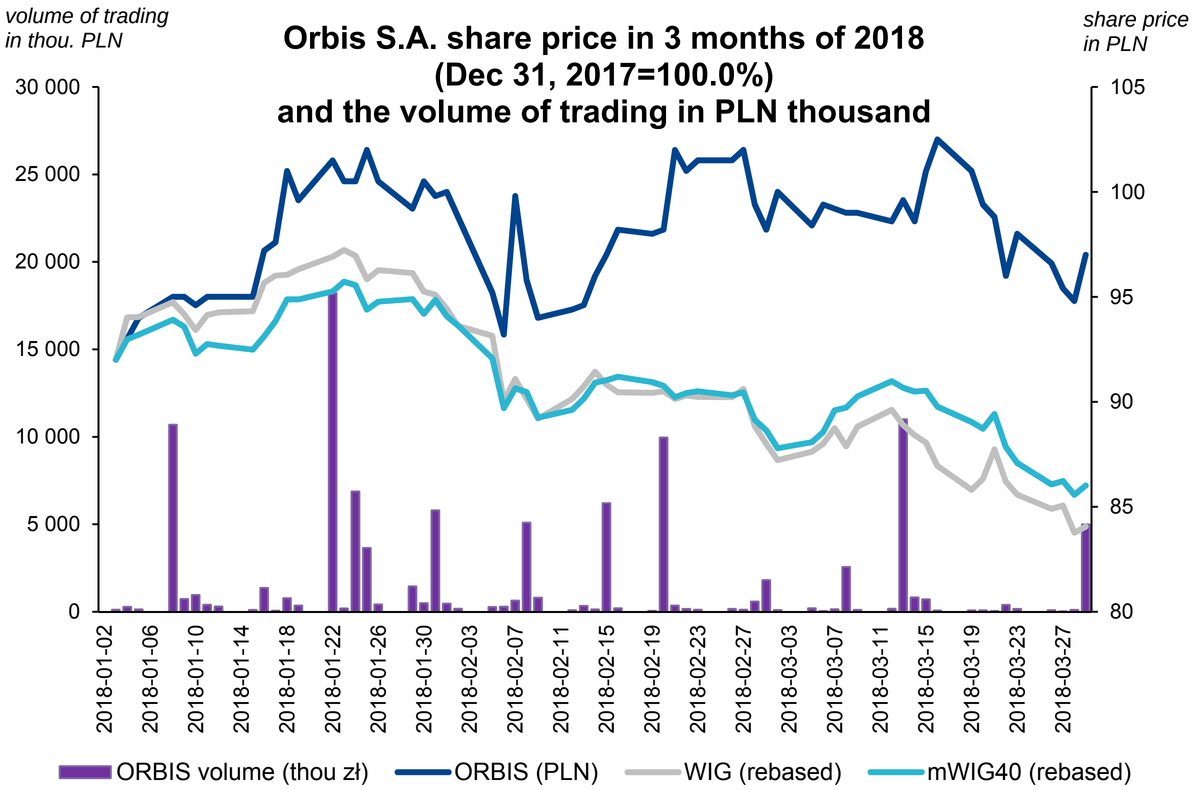
In the first quarter of 2017, capital expenditures totalling PLN 314.2 million were spent mainly on the buyout of the following five leased hotels by Accor Pannonia Hotels Zrt.: the Mercure Budapest Korona hotel, the ibis Styles Budapest Center hotel, the ibis Budapest City hotel, the ibis Budapest Centrum hotel and the Mercure Budapest Buda hotel. Under this transaction, the Hungarian subsidiary made payments of EUR 64.1 million (approx. PLN 283.0 million).

In the first quarter of 2018, the Group reported inflows of PLN 1.9 million from investing activities generated by the sale of non-hotel property in Karpacz. Other financial inflows are related to advance payments received on account of the sale of the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biała hotel, as well as a non-hotel real property located in Poznań (PLN 1.5 million in aggregate). In addition, other inflows from investing activities included payment of another instalment of receivables (PLN 3.9 million) related to the sale of the Mercure Kasprowy hotel in Zakopane.

- **Cash flows from financing activities**
  The Group's cash flows from financing activities were positive during the period of three months of 2018 and amounted to PLN 12.6 million. They include an overdraft facility in the amount of PLN 15.6 million taken out by a subsidiary Accor Pannonia Hotels Zrt. and the repayment of interest of PLN -3.0 million on borrowings (loans and bonds).

4.13 Share price

From January 1 to March 31, 2018, the price of Orbis S.A. shares ranged from PLN 92.0 (as at January 3) to PLN 102.5 (during the stock exchange session on March 16). The spread between the highest and the lowest quotations was PLN 10.5, which accounted for 11% of the lowest price. The Orbis share closing price at the end of the first quarter of 2018 stood 11% above mWIG40 index, and by 13% above the WIG index. On March 29, 2018, Orbis S.A. shares achieved the level of PLN 97,0 which represents an increase by 5.0% as compared to PLN 92.5 as at the end of 2017. During the first quarter of 2018, the average trading volume in Orbis stocks equalled PLN 1.7 million (16 700 shares).



(figures quoted in PLN thousand, unless otherwise stated)

4.14 Capital expenditure

In the first quarter of 2018, capital expenditure of the Orbis Group amounted to PLN 40.7 million (PLN 309.1 million in the corresponding period of the past year).

Capital expenditure of the Group	1st quarter of 2018	1st quarter of 2017
Leased hotels buyback	0	291 025
Development projects	35 903	13 548
Other expenditure	4 843	4 532
Total	**40 746**	**309 105**

A total sum of PLN 35.9 million was appropriated in the first quarter of 2018 for the following investment projects:

- **ibis Styles Warszawa Centrum**. This new economy hotel in the Group's portfolio is under development in the vicinity of the existing ibis budget Warszawa Centrum hotel. The hotel is being built in accordance with BREEAM-certification standards (certification for green buildings) and will have 178 rooms (on 5 floors of the building), 4 conference rooms, a restaurant and a bar. The construction of this new hotel is now at the final phase of erecting the building structure, and the estimated deadline for completion of the hotel is Q4 2018. The total estimated expenditure for this hotel construction is above PLN 48 million.
- **Novotel Poznań Centrum**. In 2018, the modernization of the hotel scheduled for years 2016 - 2018, related to the split of the hotel and a partial rebranding into ibis, was continued. In the last year, the modernization of 246 rooms in the Novotel and 142 rooms in the ibis hotel was completed, while in the first quarter of 2018, another 128 rooms were renovated. Moreover, since the beginning of 2018, works related to rearrangement of public areas were carried out in the hotel, including large conference rooms, the restaurant and the bar; construction works were also commenced in the fitness area. The modernization of the hotel will also include installations and technical equipment of the hotel. Completion of the work is planned for Q3 2018. The total estimated expenditure for this investment project during the period 2016-2018 will come to approx. PLN 59 million.
- **Novotel Kraków City West**. Modernization works commenced at the end of 2016 involve 28 rooms with bathrooms, leisure area (saunas and fitness areas), replacement of part of installations and technical equipment as well as facade and window replacement. Most of the bathrooms and a few rooms were modernised up to the end of March 2018 (the rooms are being modernised in accordance with the latest Novotel brand guidelines - N'Room), works on the entrance to the hotel were completed, the western part of the façade was renovated and the renovation of the swimming pool was started. The total estimated expenditure for this investment project during the period 2016 - 2018 will come to approx. PLN 22 million.
- **Sofitel Warszawa Victoria**. As part of the next phase of the Sofitel Warszawa Victoria hotel modernization works, which commenced in 2017, 107 rooms, corridors on the 3rd and 4th floors of the hotel and the SPA were modernized in the first quarter of 2018. Work on another 60 rooms will continue in the coming months of 2018. The total estimated expenditure for this investment project will come to approx. PLN 20 million.
- **Mercure Budapest City Center**. The modernization of hotel rooms on all 7 floors of the building, which was commenced at the end of 2016, is carried out under the theme 'Budapest's monuments and tourist attractions'. Mock-up rooms were completed in 2017, most of the hotel's rooms were completely renovated. In the first quarter of 2018, the works focused on modernisation of other hotel rooms and the lobby; 12 additional rooms and a fitness area. The total estimated expenditure for this investment project during the period 2016 - 2018 will come to approx. EUR 4.1 million.
- **Mercure Budapest Buda.** In Q4 2017 major renovation works aimed at transforming the hotel from the current Mercure brand into a combo hotel (i. e. two hotels of different brands, ibis and Mercure, operating in the same building) were started. The new hotel will have 250 renovated rooms operating under the Mercure brand and 150 new ibis rooms. The investment is scheduled to be completed in Q2 2019 and the total estimated project cost during the years 2017 - 2019 amounts to approx. EUR 8.8 million.

(figures quoted in PLN thousand, unless otherwise stated)

- **Mercure Budapest Korona.** The hotel's modernization scheduled for the period 2017 - 2020 envisages the renovation of all the hotel rooms, conference rooms and public areas on all floors of the building. The investment is to be completed in Q2 2020 and the total estimated cost of the investment is to come to approx. EUR 9.9 million.

Furthermore, in the first quarter of 2018 a plot of land was purchased in **Cracow, at 8 Worcella Street**, for the purpose of building a new hotel in this location. Orbis is currently analysing technical and operational aspects of this investment, which will predetermine the selection of the best-suited brand in the economy segment for the hotel. The total planned expenditure for the construction of this new hotel during the period between 2018 and 2020 will exceed PLN 47 million.

On the other hand, the construction of the new **ibis Styles Szczecin** hotel on the plot of land where the Orbis Arkona hotel was previously located is currently at the phase of preparation for the commencement of construction works scheduled to start in June this year. In 2017, a building permit was granted and a building design was completed. The hotel is planned to have 148 rooms on 6 floors. Due to the location of the hotel in the historical part of the city, the building's façade will blend with the historical buildings in the vicinity.

The construction of the new **ibis hotel in Vilnius** was also continued in the first quarter of 2018. In Q3 2016, UAB Hekon signed a preliminary agreement on acquisition of the hotel building together with parking spaces, which will be built by the seller, UAB Merko Būstas with its registered office in Vilnius. The hotel is to offer 164 rooms on 7 floors, 2 conference rooms, a bar and a restaurant. Installation works are currently being completed in the building which was erected in 2017, contracts for hotel furniture, fixtures and equipment (FF&E) have been signed. The final purchase agreement will be executed by June 30, 2018, after the seller has fulfilled the conditions laid down in the preliminary agreement, related in particular to the construction and obtaining a permit for occupancy of the ibis hotel and ensuring that the hotel is free of any burdens and encumbrances. The opening of the hotel is scheduled for Q3 2018. The total estimated expenditure for the construction of the hotel during the period 2016–2018 will exceed EUR 11 million.

Other expenditure incurred in Q1 2018 (PLN 4.8 million) was allocated for upgrading the standard of hotels operating in the Group, upgrading their security standards, fire safety and IT investments.

The most important investments implemented during the period of three months of 2018 include rearrangement of 23 rooms and a corridor on the 25th floor of the Novotel Warszawa Centrum hotel, modernisation of 55 rooms and bathrooms in the Novotel Katowice Centrum hotel, renovation of 36 rooms (excluding bathrooms) in the ibis budget Warszawa Centrum hotel, and rearrangement of 32 rooms with bathrooms in the ibis Krakow Centrum hotel.

As regards IT and digital services expenditure, in the first quarter of 2018 the Group completed successive hotels' migration to the AccorHotels reception system and continued replacement of fiscal printers in accordance with legal requirements and IT standards. The remaining IT expenses were allocated for the planned replacement and modernization of existing IT infrastructure in hotels and the Head Office to ensure compliance with the security policy, eliminate obsolete solutions and meet current business needs.

4.15 Human resources

In the first quarter of 2018, the average employment in the Orbis Group stood at 4 022 full time equivalents, having risen by 0.5% compared to the same period of last year. Employment level decline in Poland is caused primarily by the sale of four hotels.

Average employment (in full-time equivalents)	1st quarter of 2018	1st quarter of 2017	% change
Poland	2 565	2 621	-2.1%
Hungary	966	906	6.6%
Czech Republic	223	216	3.2%
Other countries	268	258	3.9%
Total	**4 022**	**4 001**	**0.5%**

In the 1st quarter of 2018 the Orbis Hotel Group completed over 2 109 training days for nearly 1 213 employees (2 036 participants) in the form of both traditional and e-learning training courses.

4.16 Social Responsibility (CSR)

Data Protection

Following the new EU regulation on data privacy requirements that enter into force on May 25th 2018, the first 3 months of 2018 were dedicated to fully align Orbis procedures and properly incorporate new European Union General Data Protection Regulation (GDPR) in all Orbis operational & corporate processes. The Orbis Data Protection Officer is overseeing Group's data protection strategy and ensures its compliance with GDPR requirements. The Data Protection Officer reports directly to the Management Board of the Company.

The scope of works in the 1st quarter of 2018 linked to the GDPR program of Orbis Group was focused on:

1. Finalization of Orbis Privacy Policy;
2. Up-dating of Orbis Security Policy;
3. Verification and deployment of the Joint Data Controllership Agreement;
4. Final mapping of processes of data flows;
5. Orbis data protection awareness program & workshops – in the first quarter of 2018, all in all 180 hotels' employees and managers were trained;
6. Final tests of GDPR implementation.

The Orbis GDPR Program is under deployment through the Ethics & CSR Committee of the Orbis Supervisory Board and with the support of the Orbis CSR Operational Committee.

Low-carbon hotels – green constructions & reduction of food waste

The carbon footprint of Orbis hotels is related to energy and food consumption. Therefore, we are constantly reducing our impact on the climate change by deploying low-carbon investments and BREEAM green certification for all new Orbis constructions - ibis Vilnius in Lithuania and ibis Styles Warszawa.

Moreover, we deploy the *Healthy and Sustainable Food Charter* in order to tackle the issue of food sustainability (i.e. downsizing the food waste) and protect agricultural biodiversity.

Low carbon hotels are one of Orbis priorities.

Orbis – a responsible employer

On January 26th, the Gala Evening of Pomeranian Employers (Pracodawcy Pomorza), an association regrouping more than 1,000 companies from the North of Poland, awarded the region's best employers at the Exhibition and Convention Centre in Gdańsk. Orbis won the trophy in the "Responsible & Sensitive Employer" category for the strong commitment in implementing Planet 21 program and for the adequate working conditions and opportunities to progress for Orbis talents. 7 of Orbis hotels in the north of Poland were awarded: Sofitel Grand Sopot, Mercure Gdansk Old Town, Novotel Gdansk Marina, Novotel Gdansk Centrum, Mercure Gdansk Posejdon, Mercure Gdynia Centrum & ibis Gdansk Old Town.

As Orbis attaches great importance to respecting the rights of our employees - including promoting their diversity, Women at AccorHotels Generation corporate network (WAAG) have initiated an empowerment program focused on avoiding burn-out for mature women-employees in Poland. Almost 20 employees have started an intensive series of professional, reinforcing workshops (24 hours of courses).

While the labour market in Eastern Europe stays very challenging and competitive, the further deployment of the Heartist® project – aiming at letting Orbis talents to be natural & authentic while servicing guests and the ongoing cultural change in all the AccorHotels across the region are bringing positive effects – an increase in the commitment of the teams and a positive impact on the Reputation Performance Score.

We are also extremely proud that Aon Hewitt, who realised the 2017 “Employee Satisfaction & Engagement Survey” in 120 companies across Poland, has decided in the 1st quarter of 2018 – on the base of benchmarking Orbis results with other employers, to recognise Orbis as the Aon Best Employer in Poland as part of the Aon Global Best Employers programme. To achieve recognition through the Aon Best Employers programme, Orbis was assessed on 4 measures: engagement index, leadership index, performance culture index and employer brand index. A proper information campaign will follow in 2nd quarter of 2018 in Poland.

4.17 Position of the Management Board as regards viability of previously published forecasts

The Orbis Group has not made public any forecasts of its 2018 results.

4.18 Factors to affect the Orbis Hotel Group’s operations in subsequent quarters

The hotel market is strongly correlated with economic trends. Thanks to stable growth of the economy in recent years in Poland and in other countries of the Central and Eastern Europe, where the Group Orbis operates, growth of the hospitality industry ratios that depict the condition of the hotel market, such as the Occupancy Rate, the Average Room Rate, and the Revenue per Available Room is observable. The macroeconomic forecasts are still optimistic for the hospitality industry in the coming months. Due to very good results achieved in 2017, both in connection with the high Occupancy Rate (the average for the entire Group was 74.0%) and the Revenue per Available Room (PLN 249.6), it is expected that the latter factor will remain the main driver of growth in 2018.

Macroeconomic Factors

The stable economic growth and favourable economic conditions are expected to continue in the region of Central and Eastern Europe in 2018. The GDP is forecasted to grow in 2018 in the majority of the countries, in which the Group operates its hotels, however, the GDP growth dynamics will be lower than in 2017. According to the International Monetary Fund projections (IMF, World Economic Outlook, April 2018), the real Gross Domestic Product in 2018 will be as follows: 4.1% in Poland, 3.8% in Hungary, 3.5% in the Czech Republic, 5.1% in Romania, 4.0% in Slovakia and 3.2% in Lithuania.

The low unemployment rate which prevails both in Poland and other regions of the Central and Eastern Europe (presently the unemployment rate in Poland equals 4.4% according to EUROSTAT February 2018 data) is the factor which makes it difficult to find the right employee. In the current conditions which are turning into employees’ market, it is a challenge for employers to retain employees and reinforce their loyalty so that they want to continue to be part of the organization.

The factor that has a positive impact on the performance of the hospitality industry is a visible improvement of the prosperity of the region’s population which translates into their purchasing power. It also makes people more inclined to travel. At the same time, guests’ expectations as to the level of service offered and the standards of accommodation are rising. This poses another challenge for the industry, if it is to be competitive.

Poland and in other countries of the Central and Eastern Europe are an attractive destination for Western European tourists. This is due to several factors: relatively low prices in these countries, improving level of service offered (not only by hotels), and the improvement of transportation infrastructure (i.e. new roads, railway connections and low-cost airline connections). The growth in the hotel market of the Central and Eastern Europe is also correlated with the perception of the entire region as safe in the face of continued economic and political uncertainty and terrorist threat in the Western Europe.

The propensity to travel will also be impacted by a range of cultural and sporting events. Poland and other countries of the Central and Eastern Europe more and more often host a number of European or international events that attract international guests, thus directly contributing to growth of the hospitality industry.

Portfolio management

Asset management and development of the Group's hotel portfolio is an important pillar of its strategy. The Group continues its efforts to expand its market share. In 2018, the Group will finalise the construction of two of its subsidiary hotels which it plans to open in the second half of the year, namely the ibis Styles Warszawa hotel and the ibis Vilnius hotel in Lithuania. Furthermore, successive modernizations of the Group's hotels are carried out whereby hotel space is adapted to the requirements of modern tourists.

In order to optimize the hotel portfolio, the Group focuses on high-return investments, at the same time executing sale and franchise-back transactions of hotels that are of non-strategic importance for the Group. In addition, in 2017 the Group expanded its portfolio by adding the Adagio brand, the No. 1 aparthotel brand in Europe that offers aparthotel rentals while operating like a hotel (per night).

Furthermore, to optimize the hotel business by eliminating lease-associated costs, in 2018 the Group plans the buyout of the presently leased Century Old Town Prague MGallery by Sofitel located in the Czech Republic.

The Group also intends to continue its development based on the asset light model. In the first quarter of 2018, another 4 franchise agreements were signed for hotels located in Poland, Bosnia & Herzegovina, Hungary and Lithuania (556 rooms in aggregate). These agreements reinforce the presence of hotel brands in the countries of the Central and Eastern Europe without the need to make capital expenditure in hotel construction and maintenance.

Competition in the hospitality market

The hospitality market in Poland is still a developing market. At the same time, our country is perceived as attractive destination for tourists and the demand for hospitality services in Poland is on the rise. Statistics reveal that the number of visitors to our country continues to grow, which translates into the rise in the number of people staying in hotels. In 2018, the number of hotels in the market will continue to growth robustly which will contribute to intensifying competitive struggle, especially in terms of price. Warsaw and Budapest continue to offer high investment potential (despite numerous new hotels being built in these cities).

According to analysts, Warsaw alone will have more than 5 000 new rooms within the coming 3 years. Many new hotel facilities are built in Poland and other countries in the region, including hotels to operate under well-known international brands. Hotels to be operated by local operators are also being built. Moreover, venues that combine the function of an office building or a commercial facility with a hotel are gaining in popularity. To effectively compete with the long-blooming private apartment rental market, operating amongst others via the AirBnB reservation platform, hotel operators more and more often decide to enter the aparthotel segment (the segment of apartments rented like hotels, i.e. per night). To attract guests, hotels will have to stand out against their competition and offer more attractions, amenities and will need to provide different types of personalized service.

Basic risks and threats viewed as factors of significance for the development of the Group are described in Note 31 to the Consolidated Financial Statements for 2017.

(figures quoted in PLN thousand, unless otherwise stated)

5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.1 Basic information about the Issuer

The Group's parent company is Orbis Spółka Akcyjna with its corporate seat in Warsaw, 16 Bracka Street, 00-028 Warsaw, Poland. The parent company of the Group is entered in the Register of Business Operators maintained by the District Court in Warsaw, XII Commercial Division of the National Court Register under the number KRS 0000022622. According to the Polish Classification of Business Activity [PKD], the Company's business operations are classified under section I, item 5510Z.

5.2 Business operations

The scope of core business operations of Orbis S.A. includes mainly:

- hotels and other lodging units,
- food and beverage services,
- activities related to organisation of fairs, exhibitions and congresses,
- lease and management of own or leased real estate,
- management of real estate on mandate basis.

The term of Orbis S.A. and the companies forming the Group is unlimited.

The Orbis Group is the largest hotel operator in Poland and Central & Eastern Europe. As at the end of March, the Group's structure comprised 128 hotels located in 12 countries. The Orbis Group hotels operate under Accor brands: Sofitel, Pullman, MGallery, Novotel, Mercure, ibis, ibis Styles and ibis budget.

5.3 The Issuer's shareholders

As at the day of publication of these financial statements, the shareholders who hold at least 5% of the total number of votes at the General Meeting of Orbis S.A. Shareholders included:

Shareholder	Number of shares and votes	% of the total number of shares and votes at the GM
Accor S.A.	24 276 415	52.69
of which: subsidiary 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

According to Orbis S.A. Statutes, each share carries one vote at the General Meeting of Shareholders.

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.

An Extraordinary General Meeting of Shareholders was held on April 4, 2018, and the following shareholders holding at least 5% of the total number of votes participated in this Meeting:

- Accor S.A. 24 276 415 shares (52.69% of all the shares),
  of which Accor Polska Sp. z o.o. 2 303 849 shares (4.99% of all the shares),
- Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK 4 605 000 shares (9.99% of all the shares),
- Nationale-Nederlanden Otwarty Fundusz Emerytalny 4 500 000 shares (9.77% of all the shares),
- Metlife OFE 2 400 000 shares (5.21% of all the shares).

As at the date of publication of these financial statements, the Company did not have any information about agreements that may in the future bring about changes in the proportionate holding of shares by the present shareholders.

Orbis' strategic investor is AccorHotels - world-leading travel & lifestyle group offering unique experiences in more than 4.3 thousand hotels, resorts and residences, as well as in over 10.0 thousand private homes around the globe. Benefiting from dual expertise as an investor and operator through its HotelServices and HotelInvest divisions, AccorHotels is present in 100 countries where it operates under 25 brands, ranging from luxury to economy segments. AccorHotels employs approx. 250 thousand employees worldwide.

AccorHotels shares are listed at the Euronext Paris stock exchange (ISIN code: FR0000120404) and traded at the OTC market in the United States (code: ACRFY).

5.4 Statutory bodies of the Issuer

The Management Board

During the period from January 1 till March 31, 2018, Orbis S.A. Management Board was composed of the following Members:

- Gilles Clavie – President of the Management Board, Chief Executive Officer,
- Ireneusz Węgłowski – Vice-President of the Management Board,
- Marcin Szewczykowski – Member of the Management Board, Finance Director,
- Dominik Sołtysik - Member of the Management Board.

The Supervisory Board

During the period from January 1, 2018, till March 31, 2018, Orbis S.A. Supervisory Board was composed of the following Members:

- Jan Ozinga – Chairman, (resigned from the position of Chairman and member of the Supervisory Board, effective as of April 6, 2018),
- Pierre Boisselier – Member (appointed member of the Supervisory Board effective as of April 7, 2018),
- Jean-Jacques Dessors – Member (resigned from his position of a Supervisory Board Member effective as of March 2, 2018),
- Artur Gabor – Independent Member,
- Franck Gervais – Member (appointed member of the Supervisory Board effective as of April 4, 2018),
- Christian Karaoglanian – Member,
- Jacek Kseń – Independent Member,
- Jean-Jacques Morin – Member,
- Laurent Picheral – Member,
- Andrzej Procajło – Member,
- Andrzej Przytuła – Member,
- Jarosław Szymański – Member.

5.5 The holding of Orbis S.A. shares by members of the Supervisory Board and the Management Board

As at the day of publication of this report, Vice-President of the Management Board, Mr. Ireneusz Andrzej Węgłowski, held 3 000 Orbis S.A. shares. Other members of the Management Board did not hold any Company shares. Among members of the Supervisory Board, only Mr. Jacek Kseń held 600 shares in Orbis S.A. as at December 31, 2017, which were sold on January 12, 2018 (300 shares) and January 16, 2018 (300 shares). As at the date of publication of this report, Mr. Jacek Kseń did not hold any shares in Orbis S.A.

Except for Mr. Jacek Kseń, no changes occurred in respect of the holding of Orbis S.A. shares by members of the Management Board and the Supervisory Board in the first quarter of 2018.

5.6 Share capital and dividends paid

As at March 31, 2018, the share capital of Orbis S.A. comprised the share capital disclosed in the amount set out in the Statutes and entered in the court register, adjusted for effects of hyperinflation, i.e.:

- Number of shares – 46 077 008,
- Par value per share - PLN 2,
- Share capital set out in the Statutes of Orbis S.A. – PLN 92 154 thousand,
- Hyperinflation restatement of share capital – PLN 425 600 thousand,
- Carrying amount of share capital – PLN 517 754 thousand.

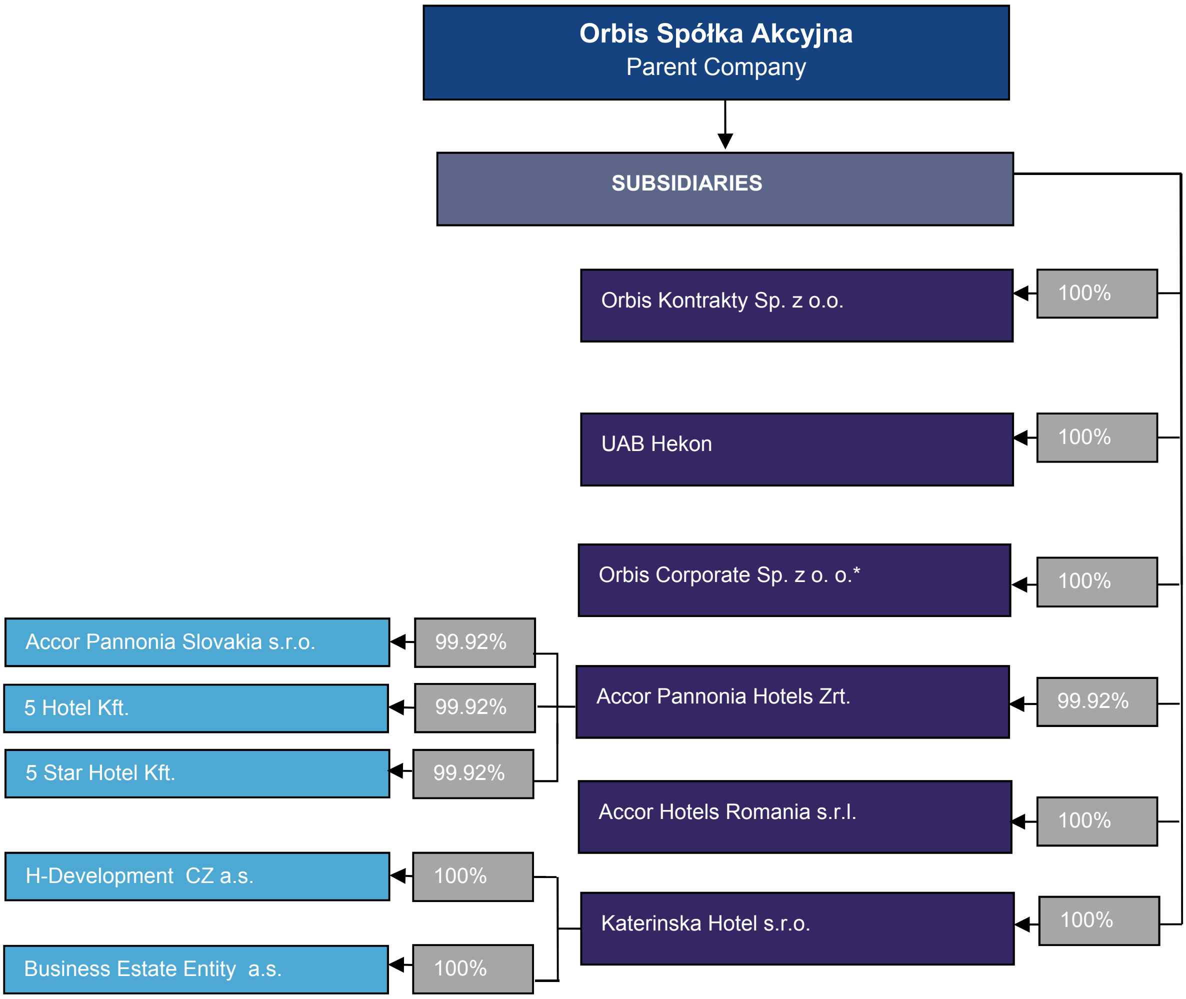
During the first quarter of 2018 and till the date of publication of this report, the value of Orbis S.A. share capital did not change.

By the date of publication of this report, the decision concerning the distribution of Orbis S.A.'s net profit for 2017 has not been approved. The Management Board of Orbis S.A. decided to submit to the General Meeting of Orbis S.A. Shareholders for approval the motion for distribution of the net profit for the financial year 2017 in the amount of PLN 126 603 thousand as follows:

- Allocation of the amount of PLN 73 723 thousand for payment of dividend to shareholders – that is PLN 1.60 per share,
- Allocation of the amount of PLN 52 880 thousand in the retained earnings of the Company for statutory goals.

5.7 The structure of the Group

As at March 31, 2018, the Orbis Group comprised the following companies:



** The Company excluded from consolidation, it does not pursue business activities*

In the first quarter of 2018 there were no changes in the structure of the Orbis Group.

5.8 Description of principal accounting policies

These condensed interim consolidated financial statements have been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" and in compliance with the International Financial Reporting Standards, applicable to interim financial reporting, adopted by the European Union, published and binding as at the date of these financial statements.

The principal accounting policies applied in the preparation of the consolidated financial statements were set out in Note 2.4 to the annual consolidated financial statements for 2017. The accounting policies have been consistently applied to all the years presented in the financial statements and did not change substantially except as set out below.

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

Section 5.8.1 describes the impact of the new accounting principles on individual areas of the accounting policy and the restatement of data as at the date of the first application of the new standards, i.e. January 1, 2018. Furthermore, to ensure comparability of data for particular periods, the impact of IFRS 15 application on the results of the Orbis Group in the first quarter of 2018 and on items of the statement of financial position as at March 31, 2018, was presented.

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 financial statements of the companies forming the Group have been prepared in the currency of the primary economic environment in which the respective companies operate (in "the functional currency"). The consolidated financial statements are prepared in the Polish zloty (PLN), which is the presentation and functional currency of the parent company.

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

5.8.1 The impact of new standards application on the financial statements

IFRS 15 "Revenue from Contracts with Customers"

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

The new accounting policy applicable to revenue recognition, applied by the Group as from January 1, 2018, has been presented in item 5.8.2.

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

(figures quoted in PLN thousand, unless otherwise stated)

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

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

	January 1, 2018 (no IFRS 15 impact)	IFRS 15 impact	January 1, 2018 (restated data)
Non-current assets	**2 392 340**	**273**	**2 392 613**
Deferred tax assets	15 912	273	16 185
Current assets	**325 869**	-	**325 869**
Assets classified as held for sale	**201 093**	-	**201 093**
TOTAL ASSETS	**2 919 302**	**273**	**2 919 575**
Equity	**2 080 877**	**(1 163)**	**2 079 714**
Equity attributable to owners of the parent	**2 080 676**	**(1 163)**	**2 079 513**
Retained earnings	1 440 378	(1 163)	1 439 215
Non-controlling interests	**201**	**-**	**201**
Non-current liabilities	**548 571**	**1 436**	**550 007**
Deferred revenue	12 202	1 436	13 638
Current liabilities	**289 854**	**-**	**289 854**
TOTAL EQUITY AND LIABILITIES	**2 919 302**	**273**	**2 919 575**

The impact of IFRS 15 application on the financial statements for Q1 2018

	3 months of 2018 (no IFRS 15 impact)	IFRS 15 impact	3 months of 2018 (as reported)
Net sales	271 533	(68)	271 465
EBITDAR	**53 776**	**(68)**	**53 708**
Operating EBITDA	**40 455**	**(68)**	**40 387**
Operating loss without the effects of one-off events	**(1 461)**	**(68)**	**(1 529)**
Operating loss	**(1 320)**	**(68)**	**(1 388)**
Loss before tax	**(4 873)**	**(68)**	**(4 941)**
Income tax	**540**	**13**	553
Net loss for the period	**(4 333)**	**(55)**	**(4 388)**
- attributable to owners of the parent	(4 330)	(55)	(4 385)
- attributable to non-controlling interests	(3)	0	(3)
Total comprehensive income/(loss) for the period	**159**	**(55)**	**104**

(figures quoted in PLN thousand, unless otherwise stated)

	March 31, 2018 (no IFRS 15 impact)	IFRS 15 impact	March 31, 2018 (as reported)
Non-current assets	**2 378 434**	**286**	**2 378 720**
Deferred tax assets	16 705	286	16 991
Current assets	**315 310**	**-**	**315 310**
Assets classified as held for sale	**216 711**	**-**	**216 711**
TOTAL ASSETS	**2 910 455**	**286**	**2 910 741**
Equity	**2 081 036**	**(1 218)**	**2 079 818**
Equity attributable to owners of the parent	**2 080 838**	**(1 218)**	**2 079 620**
Retained earnings	1 436 048	(1 218)	1 434 830
Non-controlling interests	**198**	**-**	**198**
Non-current liabilities	**549 478**	**1 395**	**550 873**
Deferred revenue	12 127	1 395	13 522
Current liabilities	**279 941**	**109**	**280 050**
Deferred revenue	42 023	109	42 132
TOTAL EQUITY AND LIABILITIES	**2 910 455**	**286**	**2 910 741**

IFRS 9 "Financial instruments"

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

According to IFRS 9, financial asset is measured at amortised cost if both of the following conditions are met:

- the asset is held by a Group whose objective is to hold assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI, solely payment of principal and interest).

On the other hand, a financial asset is measured at Fair Value Through Other Comprehensive Income (FVTOCI), if both of the following conditions are met:

- the asset is held by Group in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI, solely payment of principal and interest).

Other financial assets are measured at Fair Value Through Profit or Loss (FVTP&L).

IFRS 9 did not change the classification of financial liabilities.

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

(figures quoted in PLN thousand, unless otherwise stated)

	Classification according to:		Value according to IAS 39 and IFRS 9 as at January 1, 2018
	IAS 39	IFRS 9	
Financial assets			
Cash and cash equivalents	Loans and receivables (amortised cost)	Amortised cost	214 844
Other financial assets	Loans and receivables (amortised cost)	Amortised cost	6 944
Trade receivables and other short-term receivables	Loans and receivables (amortised cost)	Amortised cost	83 237

IFRS 9 also implements changes in the loss impairment model by replacing the incurred loss model with the expected loss model. As of January 1, 2018, the Group implemented the expected credit loss model in accordance with the simplified approach permitted under IFRS 9. The following arguments justify the adoption of this model:

- the receivables of the Group did not contain a significant financing component within the scope of IFRS 15, i.e. there was no significant financing component that could adjust the promised amount of consideration,
- the receivables met the condition of maturity of one year or less.

The simplified approach permits recognition of lifetime credit losses. The approach uses a provision matrix that takes into account historical information on credit losses and the expectations about the future. To create a provision matrix, the Group:

- determined a default definition, and
- estimated the probability of default (PD).

Counterparty default is defined by the Group to have occurred when the receivables are above 180 days overdue.

The probability of default (PD) is estimated based on the number of days of counterparty payment delay. To estimate the PD parameter, the Group graded risk into five risk groups:

1. not overdue,
2. from 1 to 30 days overdue,
3. from 31 to 90 days overdue,
4. from 91 to 180 days overdue,
5. above 180 days overdue (default).

For each of the groups specified above the Group estimates the PD parameter taking into account the historical payment of sales invoices by the counterparty.

The value of expected credit loss is calculated by multiplying the level of receivables in a given risk group by the estimated PD parameter.

In addition, when estimating the expected credit loss, in accordance with IFRS 9, the Group takes into account the potential impact of macroeconomic factors on different markets where the Group operates.

With due regard for the above approach to calculation of expected credit losses, the value of receivables is also revaluated individually, particularly with respect to:

- receivables from debtors in liquidation or bankruptcy,
- receivables challenged by debtors and overdue receivables, where according to assessment of the debtor's assets and financial condition, the repayment of the contractual value of receivables is not likely (under such circumstances, the doubtful receivables impairment loss may be created for 100% of the previously recognized debt),
- other overdue receivables as well as receivables which are not overdue, where the risk of their non-recovery is significant according to the individual assessment of the Management Board.

As a result of individual assessment, despite the receivables being more than 180 days overdue, if the Group has a reliable and formalised counterparty payment declaration, the creation of the impairment loss may be suspended.

Furthermore, IFRS 9 also amended IAS 1 (paragraph 82 (ba)), i.e. from 1 January 2018, an impairment loss on receivables must be presented separately in the statement of comprehensive income (before the separation, it was recognised under Other expenses by nature). The Group also restated the comparative data for the first quarter of 2017. The introduced changes affect the presentation only and have no impact on the result.

IFRS 9 also changed recognition of derivatives embedded within a hybrid (combined) contract. According to IAS 39, a derivative embedded in other financial instruments or derivatives that are not closely related to their hosts must be separately accounted for (if the requirements set in the standard were met). According to IFRS 9, if a hybrid contract (with an embedded derivative) is a financial asset (within the scope of IFRS 9), then classification and measurement requirements applicable to such contract depend on the business model and contractual cash flows. Such derivative embedded within a hybrid (combined) contract is not accounted for separately.

As regards hedge accounting, the Group decided to continue the classification and measurement approach in line with IAS 39 "Financial Instruments: Recognition and Measurement" in accordance with the paragraph 2 of IAS 39.

When implementing the IFRS 9 "Financial Instruments", the Group availed of the option provided for in paragraph 7.2.15 of the standard, i.e. it did not restate the data relating to past periods. The amounts of asset impairment losses calculated as at January 1, 2018, in accordance with the adopted model of expected credit losses did not differ significantly from the amounts of impairment losses already recognised in the financial statements as at December 31, 2017. Therefore, the Group did not adjust the initial balance of the Group's retained earnings as a result of IFRS 9 implementation.

5.8.2 Revenue recognition accounting policy

The revenue accounting principles applied by the Group as from January 1, 2018, are presented below. Apart from recognition of one-off fee for network entrance (the so-called Entrance Fee), the principles of recognising the Group's individual revenues have not changed as a result of IFRS 15 implementation.

Revenue recognition

Sales revenues are recognised at a point in time and to the extent depicting the Group's satisfaction of the performance obligation to transfer the promised goods or services. Obligation is performed when the control over the asset is passed to the customer. Revenues from sales are recognised at the transaction price, i.e. the amount of consideration which an entity expects in exchange for transferring the promised goods or services.

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

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

- Sales of hotel services – this is revenue from renting out rooms in hotels owned or leased by the Group. Revenue from sales of hotel services is recognised when the service is provided, i.e. when the room is rented by the customer to the extent depicting the provision of the service by the Group.
- Sales of food&beverage services – they include revenue from sales of food and beverages in hotels owned or leased. The revenue is recognised when the products/goods are handed over to the customer. This group of revenues also includes revenues from the organization of conferences, banquets and events.
- Other revenue – includes income from auxiliary services provided by hotels (among others, rental of parking places, sports and leisure services), as well as revenue from renting out non-hotel properties. These revenues are recognised at a point in time and to the extent depicting the provision of the service.
- Revenue from franchise fees – the Group receives franchise fees in connection with the licenses it grants for using brands owned by the Group, usually under long-term agreements with the hotel owners. The Group charges its franchisees the following fees:
    - One-off entrance fees (charged for joining the hotel network). The fee is non-refundable and is usually calculated as the product of the number of rooms at a given hotel and a rate per room specified in the agreement. Revenue from one-off entrance fees should be recognised over time during the whole term of the agreement giving rise to a certain fee (i.e. during the term of operation of a hotel, which usually equals 10 years). The fee is connected with other franchise fees and is not separate from the other services, hence the revenue from such fees should be recognised gradually, over the period when the obligations under these agreements are performed.

(figures quoted in PLN thousand, unless otherwise stated)

  - Flexible charges for use of the trademark, the know-how, marketing support, hotel affiliation with the global distribution and reservation systems, and participation in loyalty programs. Flexible charges are calculated as a percentage of revenue from provision of hotel room accommodation service by franchised hotels specified in the contract. Revenue from flexible charges are recognised at a point in time of the provision of the service for franchised hotels by the Group.
- Management fees – these fees are paid by hotels managed by the Group, usually on the basis of long-term management agreements executed with hotel owners. The management revenue comprises the basic fee, usually calculated as a percentage of hotel revenue, and an additional management fee defined as a specific percentage of the hotel's operating profit before tax. Moreover, under management agreements, the Group charges variable fees (fee for using the trademark, marketing fee, distribution fee) calculated as contractually-determined percentages of the revenue from the hotel services provided by the managed hotels.

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

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

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

5.9 Currency exchange rates

Items of statements of financial position of foreign subsidiary companies were translated into the Polish currency at the average exchange rate quoted by the National Bank of Poland as at March 31, 2018. Items of the income statement, statement of comprehensive income and statements of cash flows of foreign subsidiary companies were translated into the Polish currency at the exchange rates being the arithmetic mean of average exchange rates quoted by the National Bank of Poland at the day ending each month of the first quarter of 2018 and the first quarter of 2017. Exchange rates used to translate statements of foreign subsidiary companies are presented in the table below:

Currency	Average exchange rate in the reporting period		Exchange rate at the end of the reporting period		
	3 months ended March 31, 2018	3 months ended March 31, 2017	March 31, 2018	December 31, 2017	March 31, 2017
EUR/PLN	4.1784	4.2891	4.2085	4.1709	4.2198
HUF/PLN	0.0134	0.0139	0.0135	0.0134	0.0137
CZK/PLN	0.1648	0.1586	0.1659	0.1632	0.1559
RON/PLN	0.8968	0.9485	0.9034	0.8953	0.9277

(figures quoted in PLN thousand, unless otherwise stated)

5.10 Borrowings

As at March 31, 2018, Orbis S.A. did not have any liabilities arising from credit facilities. On December 29, 2017, Orbis S.A. made an early repayment of the credit facility based on a credit facility agreement of December 19, 2014 executed with Bank Polska Kasa Opieki S.A. and Société Générale S.A. for a total amount of PLN 480 000 thousand, of which PLN 476 445 thousand was drawn.

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 March 31, 2018, subsidiary Accor Pannonia Hotels Zrt. had overdraft liabilities of PLN 56.7 million (EUR 13 485 thousand).

During 3 months of 2018, Orbis S.A. paid PLN 159 thousand as interest on credit facilities.

Borrowings	As at:		
	March 31, 2018	December 31, 2017	March 31, 2017
Liabilities arising from credit facilities (principal outstanding)	0	0	123 512
Credit facilities valued at amortised cost	0	0	(445)
Overdrafts	56 703	40 873	0
Total borrowings	**56 703**	**40 873**	**123 067**

The amount of undrawn credit lines under overdrafts of the Orbis Group as at March 31, 2018, was PLN 51.2 million, of which the credit lines undrawn by Orbis S.A. amounted to PLN 20.0 million, those of Accor Pannonia Hotels Zrt.: PLN 6.3 million (i.e. EUR 1.5 million) and those of Katerinska Hotel s.r.o.: PLN 24.9 million (i.e. CZK 150.0 million). The remaining Group companies did not have undrawn credit lines under overdrafts.

5.11 Issue, redemption and repayment of debt and equity securities

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

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

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

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

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

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

(figures quoted in PLN thousand, unless otherwise stated)

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

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

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

In the first quarter of 2018, Orbis S.A. paid PLN 2 884 thousand of interest on issued bonds.

Bonds	As at:		
	March 31, 2018	December 31, 2017	March 31, 2017
Liability resulting from the bond issue (outstanding)	500 000	500 000	500 000
Valuation of bonds at amortised cost	2 458	1 778	2 069
Total bonds	**502 458**	**501 778**	**502 069**

5.12 Financial instruments

5.12.1 Fair value of financial instruments

As at March 31, 2018, and December 31, 2017, and March 31, 2017, the only 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 were derivative instruments, i.e. interest rate swap.

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

	As at March 31, 2018		As at December 31, 2017		As at March 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	192 707	192 707	214 844	214 844	248 499	248 499
Other financial assets	6 944	6 944	6 944	6 944	19 649	19 649
Trade receivables and other non-current receivables	75 154	75 154	83 237	83 237	86 377	86 377
Financial liabilities						
Borrowings	56 703	56 703	40 873	40 873	123 067	124 867
Debt securities - bonds issued	502 458	504 500	501 778	504 500	502 069	506 600
Derivative instruments (liabilities)	74	74	74	74	199	199
Trade payables and other non-current and current payables	122 174	122 174	142 698	142 698	138 547	138 547

According to the Management Board, as at March 31, 2018, and December 31, 2017, and March 31, 2017, the carrying amount of financial instruments of the Group, except for liabilities arising from credit facilities and issued bonds, approximated their fair value.

(figures quoted in PLN thousand, unless otherwise stated)

The fair value of liabilities arising from credit facilities, in respect of which the repayment deadlines of the principal amount and interest are known, was determined as the present value of future cash flows, discounted at a current interest rate. The carrying amount is accepted as the fair value of overdraft facilities.

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

The fair value of a derivative instrument was determined as 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.

5.12.2 Hedge accounting

To reduce the risk of changing interest rates and hedge future cash flows, on September 15, 2015, Orbis S.A. entered into a pay-floating receive-fixed Interest Rate Swap with the bank Société Générale S.A. The amount of the hedging instrument is PLN 150 million, which accounts for 50% of the value of the first tranche of bonds issued in the amount of PLN 300 million. The swap matures on June 26, 2018. Interest payment dates fall every six months, starting from June 27, 2016, and have been correlated with dates of payment of interest on bonds. 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 the first quarter of 2018, no ineffectiveness arising from cash flow hedges occurred that would require to be disclosed in the financial result of the Group.

5.13 Changes in estimates of amounts

5.13.1 Impairment of assets

Movements in impairment loss in 1Q 2018	Impairment loss on:						
	property, plant & equipment	investment property	intangible assets	assets held for sale	shares	receivables	financial assets
As at January 1, 2018	**(49 241)**	**(578)**	**(376)**	**(14 692)**	**(47)**	**(6 997)**	**(457)**
Recognised impairment loss	0	0	0	0	0	(477)	0
Reversed impairment loss	0	0	0	0	0	894	0
Impairment loss not subject to reversal *	1 283	4	0	0	0	0	0
Exchange differences on translation	(264)	0	(3)	0	0	(17)	(1)
As at March 31, 2018	**(48 222)**	**(574)**	**(379)**	**(14 692)**	**(47)**	**(6 597)**	**(458)**

** 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.*

In the first quarter of 2018 and in 2017, no circumstances occurred in the Group that would indicate a need to recognise impairment losses on inventories.

(figures quoted in PLN thousand, unless otherwise stated)

5.13.2 Provisions for liabilities

Movements in provisions in the first quarter of 2018	Provision for:				
	jubilee awards	retirement & disability benefits	litigations	restructuring	other liabilities
As at January 1, 2018	**15 017**	**7 243**	**777**	**1 588**	**5 666**
Provision recognised in the period	376	65	0	29	253
Provision utilised in the period	(376)	(65)	0	(159)	0
Provision released in the period	0	0	0	0	(21)
Exchange differences on translation	0	1	0	1	13
As at March 31, 2018, of which:	**15 017**	**7 244**	**777**	**1 459**	**5 911**
Short-term provisions	2 005	1 075	777	1 459	1
Long-term provisions	13 012	6 169	0	0	5 910

5.14 Deferred tax assets and liabilities

Deferred tax	As at:		Impact on statement of comprehensive income
	March 31, 2018	December 31, 2017	
Deferred tax assets	16 991	15 912	1 079
Deferred tax liabilities	4 473	3 969	(504)
Change in deferred tax assets and liabilities, of which:			**575**
impact on profit or loss			165
impact on the initial balance of retained earnings			273
impact on other comprehensive income (incl. exchange differences on translation)			137

5.15 Contingent assets and liabilities

5.15.1 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 the 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 before the date specified above, the Buyer shall pay to Orbis S.A. a contractual penalty of a total sum of PLN 2 000 thousand on a 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., a contractual joint 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 title 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.

On February 8, 2018 Orbis S.A. (the Seller) and De Silva Górny Śląsk Sp. z o.o. (the Buyer) executed a preliminary conditional agreement for the sale of organized parts of the enterprise, i.e. the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biała hotel. According to the agreement, if by July 31, 2018, the buyer executes the final sale and purchase agreement concerning one of the organized parts of the enterprise and fails to fulfil the obligation to execute the final sale and purchase agreement of the second organized part of the enterprise for reasons attributable to the buyer, the buyer must to pay a contractual penalty to Orbis S.A. in the total amount of PLN 3 000 thousand by December 31, 2018.

5.15.2 Liabilities arising from credit facility agreements, lease agreements, bonds issue and the applicable law

As at March 31, 2018, Orbis S.A. had no liabilities under borrowings. On December 29, 2017, Orbis S.A. made a premature repayment of total amount of the loan incurred under the agreement of December 19, 2014, executed with Bank Polska Kasa Opieki S.A. and Société Générale S.A., based on which 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 (land and mortgage registers No. KW WA4M/00193711/1 and No. KW 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 appraisers as at May 19, 2017, by the valuation survey dated June 1, 2017, was PLN 773 176 thousand. The book value of these real properties as at March 31, 2018, is PLN 226 954 thousand.

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

5.15.3 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 with a validity date until January 25, 2018. Subsequently the guarantee amount was reduced to PLN 6 484 thousand, and its validity was extended. The guarantee expired on 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. kept in 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.

5.15.4 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.

5.16 Legal claims

Litigation pending before courts, arbitration or public administration bodies:

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. Accordingly, Orbis summoned PARP to reach a settlement agreement, but PARP failed to respond. 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. According to the statement of reasons, the Court shared the arguments put forward by Orbis S.A. and additionally ruled on the existence of the obligation to pay a contractual penalty under § 7 of the notary deed of February 22, 2007.

Furthermore, as at March 31, 2018, 11 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),
- Łódź (Novotel Łódź Centrum)

In the Group's opinion, fee revaluations made by Mayors of respective cities are either unjustified or calculations should be based on different rates. As at the end of the reporting period, the accumulated value of the fees challenged by the Group totals PLN 8 040 thousand and is disclosed in other current liabilities.

5.17 Related party transactions

Within the meaning of IAS 24, parties related to the Group 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.

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

Purchases of services from related parties comprise mainly:

- franchise fees;
- reservation fees;
- fees for using IT applications;
- costs connected with the Le Club Accorhotels loyalty program.

(figures quoted in PLN thousand, unless otherwise stated)

Figures presented below concern transactions with the Accor Group companies.

Sales and purchases	1st quarter of 2018	1st quarter of 2017
Net sales of services	**1 770**	**1 570**
- to the parent company	1 542	1 249
- to other Accor Group companies	228	321
Purchases of goods and services	**13 584**	**12 354**
- from the parent company	10 198	8 796
- from other Accor Group companies	3 386	3 558

Receivables and payables	As at:		
	March 31, 2018	December 31, 2017	March 31, 2017
Trade receivables	**4 001**	**4 459**	**3 937**
- from the parent company	3 784	3 973	3 590
- from other Accor Group companies	217	486	347
Trade payables	**9 670**	**8 980**	**11 747**
- to the parent company	8 911	7 809	10 928
- to other Accor Group companies	759	1 171	819

No impairment loss was recognised on the presented receivables.

Transactions with related companies are executed at arms' length.

Benefits (including wages and salaries, awards, post-employment benefits and retirement benefits) paid in accordance with contractual obligations to the Members of the Management Board and the Supervisory Board of Orbis S.A. in 3-month periods ended March 31, 2018, and March 31, 2017, amounted to PLN 1 033 thousand and PLN 1 008 thousand, respectively.

No transactions involving transfer of rights or 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., Orbis S.A. 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., Orbis S.A. subsidiaries and associates.

5.18 Important events after the reporting period

Important events after the reporting period include the signing, on April 20, 2018, of real property sale agreement, asset and employees' transfer agreement and management agreement by the Hungarian company Accor Pannonia Hotels Zrt. This transaction involves the sale and management of the Novotel Szeged. The total net price of the above transaction equals HUF 770.0 million and will be increased by the value of some of the current assets established as at the closing date of the transaction. The sum of HUF 770.0 million will be paid on the transaction closing date, i.e. on May 8, 2018.

CONDENSED INTERIM FINANCIAL STATEMENTS OF ORBIS S.A.

MGallery Tarcin Forest Resort & SPA

(figures quoted in PLN thousand, unless otherwise stated)

6 CONDENSED INTERIM FINANCIAL STATEMENTS OF ORBIS S.A.

6.1 Income statement

	3 months ended March 31, 2018	3 months ended March 31, 2017
Net sales	**171 954**	**174 132**
Outsourced services	(43 243)	(42 027)
Employee benefit expense	(61 148)	(56 663)
Raw materials and energy used	(30 983)	(32 232)
Taxes and charges	(7 518)	(7 563)
Other expenses by nature	(1 725)	(1 584)
Impairment of receivables	(53)	(21)
Net other operating income/(expenses)	(235)	(216)
EBITDAR	**27 049**	**33 826**
Rental expense	(1 859)	(2 079)
Operating EBITDA	**25 190**	**31 747**
Depreciation and amortisation	(31 835)	(31 510)
Operating profit/(loss) without the effects of one-off events	**(6 645)**	**237**
Result on sale of real property	879	3 947
Restructuring cost	0	(677)
Operating profit/(loss)	**(5 766)**	**3 507**
Finance income	6 307	2 435
Finance costs	(3 573)	(21 664)
Loss before tax	**(3 032)**	**(15 722)**
Income tax expense	519	2 367
Net loss for the period	**(2 513)**	**(13 355)**
Loss per ordinary share		
Basic and diluted loss per share (in PLN)	(0.05)	(0.29)

(figures quoted in PLN thousand, unless otherwise stated)

6.2 Statement of comprehensive income

	3 months ended March 31, 2018	3 months ended March 31, 2017
Net loss for the period	**(2 513)**	**(13 355)**
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain/losses arising from the defined benefit plan		
Income tax relating to items that will not be reclassified subsequently	0	(22)
Items that may be reclassified subsequently to profit or loss:		
The effective portion of the of the gain or loss on the hedging instrument entered into for cash flow hedges	0	(82)
Income tax relating to items that may be reclassified subsequently	0	15
Other comprehensive loss after tax	**0**	**(89)**
Total comprehensive loss for the period	**(2 513)**	**(13 444)**

(figures quoted in PLN thousand, unless otherwise stated)

6.3 Statement of financial position

Assets	As at:		
	March 31, 2018	December 31, 2017	March 31, 2017
Non-current assets	**2 507 203**	**2 517 115**	**2 560 873**
Property, plant and equipment	1 578 165	1 587 720	1 628 146
Investment property	6 046	6 099	10 278
Intangible assets, of which:	109 911	110 488	111 505
- goodwill	107 252	107 252	107 252
Investments in subsidiaries	467 529	467 529	465 921
Loans granted	330 263	329 500	329 144
Derivative financial instruments	0	885	0
Other financial assets	6 944	6 944	10 944
Deferred tax assets	7 159	6 637	4 086
Other non-current assets	1 186	1 313	849
Current assets	**184 696**	**195 240**	**209 833**
Inventories	3 792	3 839	3 620
Trade receivables	25 318	28 250	21 980
Income tax receivables	5 360	506	2 453
Other current receivables	21 328	15 969	43 719
Loans granted	74 126	68 866	14 973
Derivative financial instruments	0	837	0
Cash and cash equivalents	54 772	76 973	123 088
Assets classified as held for sale	**31 111**	**23 514**	**1 193**
TOTAL ASSETS	**2 723 010**	**2 735 869**	**2 771 899**

(figures quoted in PLN thousand, unless otherwise stated)

Equity and Liabilities	As at:		
	March 31, 2018	December 31, 2017	March 31, 2017
Equity	**2 051 683**	**2 056 754**	**1 990 875**
Share capital	517 754	517 754	517 754
Reserves	133 272	133 272	133 171
Retained earnings	1 400 657	1 405 728	1 339 950
Non-current liabilities	**540 103**	**538 551**	**616 447**
Borrowings	0	0	87 778
Bonds	502 458	501 778	502 069
Deferred revenue	13 522	12 202	3 926
Other non-current liabilities	5 329	5 777	4 970
Provision for retirement benefits and similar obligations	18 794	18 794	17 704
Current liabilities	**131 224**	**140 564**	**164 577**
Borrowings	0	0	35 289
Other financial liabilities	74	74	199
Trade payables	45 301	52 486	45 074
Liabilities associated with tangible assets	6 139	18 024	5 508
Deferred revenue	28 720	14 142	26 768
Other current liabilities	46 040	50 729	47 920
Provision for retirement benefits and similar obligations	3 014	3 014	2 669
Provisions for liabilities	1 936	2 095	1 150
TOTAL EQUITY AND LIABILITIES	**2 723 010**	**2 735 869**	**2 771 899**

(figures quoted in PLN thousand, unless otherwise stated)

6.4 Statement of changes in equity

	Share capital	Reserves	Retained earnings	Total
Twelve months ended December 31, 2017				
Balance as at January 1, 2017	**517 754**	**133 238**	**1 353 327**	**2 004 319**
- net profit for the period	0	0	126 603	126 603
- other comprehensive income/(loss)	0	34	(479)	(445)
Total comprehensive income for the period	**0**	**34**	**126 124**	**126 158**
- dividends	0	0	(73 723)	(73 723)
Balance as at December 31, 2017	**517 754**	**133 272**	**1 405 728**	**2 056 754**
of which: three months ended March 31, 2017				
Balance as at January 1, 2017	**517 754**	**133 238**	**1 353 327**	**2 004 319**
- net loss for the period	0	0	(13 355)	(13 355)
- other comprehensive income/(loss)	0	(67)	(22)	(89)
Total comprehensive loss for the period	**0**	**(67)**	**(13 377)**	**(13 444)**
Balance as at March 31, 2017	**517 754**	**133 171**	**1 339 950**	**1 990 875**
Three months ended March 31, 2018				
Balance as at January 1, 2018 (reported)	**517 754**	**133 272**	**1 405 728**	**2 056 754**
- adjustment for IFRS 9	0	0	(1 395)	(1 395)
- adjustment for IFRS 15	0	0	(1 163)	(1 163)
Balance as at January 1, 2018 (restated)*	**517 754**	**133 272**	**1 403 170**	**2 054 196**
- net loss for the period	0	0	(2 513)	(2 513)
Total comprehensive loss for the period	**0**	**0**	**(2 513)**	**(2 513)**
Balance as at March 31, 2018	**517 754**	**133 272**	**1 400 657**	**2 051 683**

* *description of restatement in Section 8.4*

(figures quoted in PLN thousand, unless otherwise stated)

6.5 Statement of cash flows

	3 months ended March 31, 2018	3 months ended March 31, 2017
OPERATING ACTIVITIES		
Loss before tax	**(3 032)**	**(15 722)**
Adjustments:	**20 748**	**33 842**
Depreciation and amortisation	31 835	31 510
Foreign exchange (gain)/loss	(3 769)	17 305
Interest and other borrowing costs	857	1 953
Gain from investing activities	(860)	(4 047)
Change in receivables	(6 300)	(10 232)
Change in liabilities, excluding borrowings	(14 056)	(13 379)
Change in deferred revenue	13 153	12 178
Change in provisions	(159)	(1 935)
Change in inventories	47	483
Other adjustments	0	6
Cash generated from operations	**17 716**	**18 120**
Income taxes paid	(4 257)	(34)
Net cash generated by operating activities	**13 459**	**18 086**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment and intangible assets	1 841	10 234
Interest received	275	334
Other investing cash inflows	5 445	0
Payments for property, plant and equipment and intangible assets	(40 515)	(19 194)
Net cash used in investing activities	**(32 954)**	**(8 626)**
FINANCING ACTIVITIES		
Interest paid and other financing cash outflows resulting from received borrowings	0	(918)
Interest paid and other financing cash outflows resulting from bonds	(2 884)	(2 864)
Net cash used in financing activities	**(2 884)**	**(3 782)**
Change in cash and cash equivalents	**(22 379)**	**5 678**
Effects of exchange rate changes on the balance of cash held in foreign currencies	178	(548)
Cash at the beginning of the period	**76 973**	**117 958**
Cash at the end of the period	**54 772**	**123 088**

7 COMMENTS ON ORBIS S.A. RESULTS IN THE FIRST QUARTER OF 2018

7.1 External environment

Information on the macroeconomic landscape and the condition of the hospitality industry is provided in Section 4.1 of the Consolidated Financial Statements of the Orbis Group.

7.2 Income statement

In the first quarter of 2018, Orbis S.A. generated net loss of PLN 2.5 million as compared to the net loss of PLN 13.4 million in the first quarter of 2017.

Income statement – analytical approach	1st quarter of 2018	1st quarter of 2017	Change	
			PLN `000	%
Net sales	**171 954**	**174 132**	**(2 178)**	**-1.3**
of which:				
Room revenue	112 748	113 468	(720)	-0.6
Food & beverage revenue	46 951	48 731	(1 780)	-3.7
Franchise and management revenue	2 836	2 189	647	29.6
Other revenue	9 419	9 744	(325)	-3.3
EBITDAR	**27 049**	**33 826**	**(6 777)**	**-20.0**
Operating EBITDA	**25 190**	**31 747**	**(6 557)**	**-20.7**
Operating profit/(loss) (EBIT)	**(5 766)**	**3 507**	**(9 273)**	**-**
Net result from financing activities	2 734	(19 229)	21 963	-
of which: foreign exchange differences	*3 663*	*(17 059)*	*20 722*	-
Loss before tax	**(3 032)**	**(15 722)**	**12 690**	**80.7**
Net loss	**(2 513)**	**(13 355)**	**10 842**	**81.2**

Net sales of Orbis S.A. stood at PLN 172.0 million in the first quarter of 2018, i.e. decreased slightly (by 1.3%) as compared to the first quarter of the past year. This is in particular the result of the sale of four subsidiary hotels in 2017 (the Mercure Jelenia Góra hotel, the Mercure Karpacz Resort hotel, the Mercure Toruń Centrum hotel and the ibis Katowice Zabrze hotel) which operate as franchised hotels after the sale transaction as well as the effect of transfer, on February 1, 2017, of the Mercure Częstochowa Centrum hotel and the ibis Częstochowa hotel to the franchisee.

Notwithstanding the sale of the above properties, Orbis hotels reported an increase of both the Occupancy Rate and the Average Room Rate during the first quarter of 2018 versus the corresponding period of 2017, which resulted in growth of the Revenue per Available Room (both in terms of the reported and like-for-like figures). Majority of the Company's hotels reported an improvement in room revenues, with the largest growth achieved by hotels from Poznań, Cracow and the Tri-City. The increase in RevPAR was achieved thanks to the introduction of a flexible pricing strategy adjusted to the conditions of individual markets, introduction of seasonal promotional offers and attractive business packages.

Food and beverage revenues also decreased slightly (by 3.7%), particularly due to a decrease in the number of hotels as compared with the first quarter of 2017. At the same time, franchise and management revenues rose as a result of sale and franchise-back of the Mercure Jelenia Góra hotel, the Mercure Karpacz Resort hotel, the Mercure Toruń Centrum hotel and the ibis Katowice Zabrze hotel as well as the opening of new managed or franchised hotels. Other revenues, including revenues from rental of real property and parking spaces totalled PLN 9.4 million and decreased slightly as compared to the past year.

Operating expenses (including rental expense and depreciation/amortisation) totalled PLN 178.4 million during the reporting period, i.e. increased slightly by 2.7% as compared to the first quarter of 2017. The share of individual types of costs in the net sales remained unchanged as compared to the corresponding period of the past year. The largest costs in the company included the costs of employee benefits (35.6%), followed by outsourced services (25.1%) and depreciation and amortization and materials and energy used (18.5% and 18.0%, respectively). As compared to Q1 2017, increase was reported above all in the costs of employee benefits (as a result of salary increases and higher costs associated with employee turnover) as well as costs of outsourced services, such as distribution services (resulting from, among others, increase in hotel occupancy), cleaning services and advertising services. Lower costs of materials and energy used are attributable to energy savings.

As a result of the above changes, **EBITDAR amounted to PLN 27.0 million, operating EBITDA amounted up to PLN 25.2 million**, while the operating result excluding one-off events amounted to PLN -6.6 million.

In the first quarter of 2018, Orbis S.A. generated a **positive result on one-off events of PLN 0.9 million** (profit from the sale of a non-hotel property located in Karpacz). In the first quarter of 2018, the company generated a profit of PLN 3.9 million from the sale of two Mercure hotels, namely the Jelenia Góra hotel and the Karpacz Resort hotels, which was reduced by the restructuring costs of PLN 0.7 million. Consequently, the operating result (EBIT) totalled PLN -5.8 million as compared to the profit of PLN 3.5 million in Q1 2017.

In the first quarter of 2018, the company reported a reversal of the result on financing activities. During the period from January to March 2018, Orbis generated a **positive result on financing activities totalling PLN 2.7 million** as compared to a loss of PLN 19.2 million in the corresponding period of 2017. High financial costs incurred by the Company in the first quarter of 2017 resulted primarily from unrealised foreign exchange differences on a loan granted to a subsidiary, Accor Pannonia Hotels Zrt. in 2016, which in turn contributed to the increase in financial income in the first quarter of 2018. Moreover, in Q1 2018, the Company recognized PLN 2.4 million of financial income on interest accrued on loans granted to subsidiaries (PLN 2.1 million in Q1 2017) and PLN 3.6 million of financial expenses related to debt service (i.e. PLN 1.0 million less as compared with Q1 2017 due to the repayment in full of the loan in December 2017).

Orbis S.A. ended the first quarter of 2018 with a net loss of PLN 2.5 million as compared to loss of PLN 13.4 million during the corresponding period of 2017.

7.3 Orbis S.A. financial results per operating segments

Orbis S.A. pursues hospitality business in Poland and distinguishes two reportable operating segments:
- Up&Midscale Hotels that comprise hotels of the Sofitel, Novotel and Mercure brands,
- Economy Hotels that include ibis, ibis budget and ibis Styles hotels.

As at March 31, 2018, the individual operating segments included:
- the Up&Midscale segment: 3 Sofitel hotels, 13 Novotel hotels and 9 Mercure hotels,
- the Economy segment: 12 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel.

While as at March 31, 2017, the individual operating segments included:
- the Up&Midscale segment: 3 Sofitel hotels, 13 Novotel hotels and 12 Mercure hotels,
- the Economy segment: 13 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel.

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

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

Exclusions contain reconciliations of data pertaining to segment data relating to income statement items for the first quarter of 2018 and the first quarter of 2017.

(figures quoted in PLN thousand, unless otherwise stated)

The following tables present figures pertaining to revenues, results as well as capital expenditure of the operating segments of Orbis S.A. for the first quarter of 2018 and the first quarter of 2017. The figures presented below include the results of owned and leased hotels.

First quarter of 2018	Operating segments		Unallocated operations and exclusions	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**130 858**	**36 266**	**4 830**	**171 954**
Sale to external clients	130 858	36 266	4 830	171 954
EBITDAR	**34 523**	**12 977**	**(20 451)**	**27 049**
Operating EBITDA	**32 664**	**12 977**	**(20 451)**	**25 190**
Depreciation and amortisation	(23 919)	(6 933)	(983)	(31 835)
Operating profit/(loss) without the effects of one-off events	**8 745**	**6 044**	**(21 434)**	**(6 645)**
Result of one-off events	0	0	879	879
Operating profit/(loss) (EBIT)	**8 745**	**6 044**	**(20 555)**	**(5 766)**
Finance income/(costs)	(50)	(2)	2 786	2 734
Income tax expense	0	0	519	519
Net profit/(loss)	**8 695**	**6 042**	**(17 250)**	**(2 513)**
Capital expenditure	12 980	17 073	312	**30 365**

First quarter of 2017	Operating segments		Unallocated operations and exclusions	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**133 718**	**36 287**	**4 127**	**174 132**
Sale to external clients	133 718	36 287	4 127	174 132
EBITDAR	**38 526**	**13 493**	**(18 193)**	**33 826**
Operating EBITDA	**36 507**	**13 433**	**(18 193)**	**31 747**
Depreciation and amortisation	(22 823)	(7 779)	(908)	(31 510)
Operating profit/(loss) without the effects of one-off events	**13 684**	**5 654**	**(19 101)**	**237**
Result of one-off events	0	0	3 270	3 270
Operating profit/(loss) (EBIT)	**13 684**	**5 654**	**(15 831)**	**3 507**
Finance income/(costs)	10	0	(19 239)	(19 229)
Income tax expense	0	0	2 367	2 367
Net profit/(loss)	**13 694**	**5 654**	**(32 703)**	**(13 355)**
Capital expenditure	4 964	3 943	296	**9 203**

(figures quoted in PLN thousand, unless otherwise stated)

7.4 Operating segment revenue per type of service

The tables below present the revenues of Orbis S.A. for the first quarter of 2018 and the first quarter of 2017 per type of services with their reconciliation to the operating segments presented in Section 7.3.

First quarter of 2018	Operating segments		Unallocated operations and exclusions	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Revenue per type of service:	**130 858**	**36 266**	**4 830**	**171 954**
Room revenue	85 307	27 441	0	112 748
Food & beverage revenue	39 626	7 325	0	46 951
Franchise and management revenue	0	0	2 836	2 836
Other revenue	5 925	1 500	1 994	9 419

First quarter of 2017	Operating segments		Unallocated operations and exclusions	TOTAL
	Up&Midscale Hotels	Up&Midscale Hotels		
Revenue per type of service:	**133 718**	**36 287**	**4 127**	**174 132**
Room revenue	85 786	27 682	0	113 468
Food & beverage revenue	41 656	7 075	0	48 731
Franchise and management revenue	0	0	2 189	2 189
Other revenue	6 276	1 530	1 938	9 744

7.5 Statement of financial position

On March 31, 2018, Orbis S.A.'s assets totalled PLN 2 723.0 million, i.e. decreased by PLN 12.9 million as compared to the end of 2017.

The major component of the Group's assets are non-current assets, accounting for 92.1% of total assets. The predominant item of non-current assets are property, plant and equipment valued at PLN 1 578.2 million, accounting for 58.0% of total assets. Due to the type of business pursued, the major item of property, plant and equipment are buildings and structures as well as land and titles to perpetual usufruct of land. Property, plant and equipment decreased by PLN 9.6 million as compared with the value of this item as at December 31, 2017. It resulted mainly from depreciation charge for the first quarter of 2018 (PLN 31.2 million) and reclassification of the non-hotel real property located in Wrocław as assets held for sale (in connection with the preliminary sale agreement signed in March 2018), which in aggregate exceeded the value of incurred capital expenditure (PLN 30.4 million). More detailed description of capital expenditure is presented in Section 4.14.

The second biggest item of the statement of financial position of Orbis S.A. in terms of share in the total carrying amount of assets/equity and liabilities is investments in subsidiaries, valued at PLN 467.5 million (17.2% of assets). More detailed information about Orbis investments in subsidiaries is contained in Section 8.5.

The major component of non-current assets are also intangible assets valued at PLN 109.9 million, including the goodwill of PLN 107.3 million, which has been recognized as from the moment of takeover of the subsidiary, i.e. as of the date of purchase of shares in Hekon-Hotele Ekonomiczne S.A. The intangible assets' contribution to the assets of Orbis S.A. was at 4.0% at the end of March 2018.

As regards non-current assets, 13.2% of their value at the end of March 2018 are non-current loans granted. On March 31, 2018, Orbis had a total of PLN 404.4 million of receivables under loans granted to subsidiaries, of which PLN 330.3 was classified as non-current loans and PLN 74.1 as current loans. More detailed information about granted loans is presented in Section 8.8.

As regards current assets, the most significant changes in the first quarter of 2018 occurred with regard to cash and cash equivalents, other current receivables and income tax receivables.

Under the current assets item, the most important sub-item are cash and cash equivalents of PLN 54.8 million, accounting for 2.0% of total assets. The decrease in this item (by PLN 22.2 million, i.e. 28.8%) as compared to December 2017 was caused mainly by negative cash flows from investing activities (more detailed information in Section 7.7).

Other current receivables (PLN 21.3 million as at the end of March of 2018) comprise predominantly of receivables from sale of tangible assets, VAT receivables and prepayments. As at March 31, 2018, the Company had a current receivable of PLN 4.0 million from the sale of the Mercure Mrągowo Resort & SPA hotel (PLN 3.0 million from this transaction was reported under non-current assets, other financial assets sub-item). At the end of 2017, current receivables from the sale of non-current assets included an additional PLN 3.9 million from the sale of the Mercure Kasprowy hotel in Zakopane (paid at the beginning of January this year), while as at March 31, 2017, the Company had receivables of PLN 29.8 million from the sale of non-current assets (68.1% of the total other current receivables), including PLN 21.3 million from the sale of the Mercure Jelenia Góra hotel and the Mercure Karpacz Resort hotel, PLN 4.5 million from the sale of the Mercure Mrągowo Resort & SPA hotel and PLN 3.9 million from the sale of the Mercure Kasprowy hotel in Zakopane. Furthermore, at the end of Q1 2018, the company reported VAT receivables of PLN 2.9 million as compared to VAT liabilities of PLN 1.8 million at the end of March 2017. On the other hand, increase in the balance of short term accrued expenses from PLN 1.5 million as at the end of 2017 to PLN 13.9 million as at March 31, 2018, is attributable to the seasonal higher level of prepayments in Q1, mainly fees for perpetual usufruct of land.

Moreover, growth of the income tax receivables item in the first quarter of 2018 versus December 31, 2017, and March 31, 2017, results predominantly from the change in the reconciliation of payments to the tax office in 2018 and adoption of the advance payment method.

As at March 31, 2018, Orbis S.A. also reported assets of PLN 31.1 million classified as assets held for sale, which included assets of the ibis budget Toruń hotel, the Mercure Cieszyn hotel, the ibis Styles Bielsko-Biała hotel, as well as real property in Toruń with an uncompleted building which was originally planned to be an ibis hotel, and a non-hotel real property located in Poznań and Wrocław. As at December 31, 2017, this item also included the right of perpetual usufruct of land and buildings located in Karpacz, at Konstytucji 3 Maja Street, which was sold in March 2018; assets classified as assets held for sale did not include the real property in Wrocław (the preliminary sale and purchase agreement was signed in March 2018).

Orbis S.A. finances its assets predominantly from equity which accounted for 75.3% of the total equity and liabilities (PLN 2 051.7 million) as at March 31, 2018. The external capital equalled PLN 671.3 million, of which 80.5% were non-current liabilities and long-term provisions.

As at March 31, 2018, Orbis S.A. had long-term, interest-bearing liabilities related to the issue of bonds in the amount of PLN 502.5 million (18.5% of liabilities). The bonds mature in 2020 and 2021.

On March 31, 2018, the net debt of Orbis S.A. stood at PLN 447.7 million, i.e. accounted for 21.8% of equity.

The biggest item of current liabilities of the Company as at March 31, 2018, was trade payables (34.5%) and other current liabilities (35.1%), including above all liabilities under taxes and social insurance and accrued expenses of employee benefits (incl. bonuses and unused employee leaves) as well as statutory liabilities (mainly under the challenged fees for the title to perpetual usufruct of land). A lower level of these liabilities as at March 31, 2018, as compared to the end of December 2017 results predominantly from the drop in the balance of provisions for employee benefits due to payout of bonuses and awards in the first quarter of 2018.

Decline of trade payables is associated with lower Occupancy Rate in March as compared to the end of the year 2017, thus resulting in a drop of purchases in Orbis S.A. hotels.

A much higher level of deferred revenue as at March 31, 2018, results predominantly from prepayments received for accommodation services during the spring and summer period (94.8% of the sum total). Moreover, this item includes an advance payment against the sale price for the Mercure Cieszyn hotel, the ibis Styles Bielsko-Biała hotel and the real property located in Poznań at Prusimska Street.

Decline of liabilities associated with tangible assets in the first quarter of 2018 results in particular from recognition of capital expenditure incurred for the modernisation of the following hotels: the Novotel Poznań Centrum and the ibis Poznań Centrum (combo), the ibis Styles Warszawa Centrum hotel, the Novotel Warszawa Airport hotel and the Novotel Warszawa Centrum hotel.

7.6 Statement of changes in equity

On March 31, 2018, equity amounted to PLN 2 051.7 million against PLN 2 056.8 million at the end of 2017. The decrease resulted from the posting of net loss for the first quarter of 2018, amounting to PLN 2.5 million, to retained earnings as well as restatement of data at the beginning of the first quarter of 2018 in connection with the implementation of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* in 2018.

7.7 Statement of cash flows

During the first three months of 2018, the net cash flows of Orbis S.A. amounted to PLN -22.4 million (PLN +5.7 million in the first quarter of 2017). Cash flows comprised:

- **Cash flows from operating activities**
  Despite higher operating results of most of Orbis hotels in the first quarter of 2018 (achieved both thanks to higher rates and occupancy growth), the absence of operating results from hotels sold in 2017 in conjunction with higher employee costs and outsourced services, as well as the change of the income tax reconciliation in 2018 (change to the advance method) directly resulted in the decrease in cash flows from operating activities as compared to the corresponding period of the previous year. Accordingly, the Company reported positive cash flows from operating activities of PLN 13.5 million (versus PLN 18.1 million in the first quarter of 2017).

- **Cash flows from investing activities**
  Capital expenditure of PLN 40.5 million incurred in the first quarter of 2018 (of which more than PLN 13.0 million for the purchase of a plot of land at Worcella Street in Cracow) were partially offset by other capital inflows including payment of a successive instalment (PLN 3.9 million) for the sale of the Mercure Kasprowy hotel in Zakopane and advances against the future sale transactions of the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biała hotel (PLN 0.8 million in total), as well as for sale of a non-hotel property in Poznań (PLN 0.7 million). In addition, in Q1 2018 the company received PLN 1.8 million from the sale of real property in Karpacz. As a result, the Company generated negative cash flows from investing activities of PLN -33.0 million (as compared to PLN -8.6 million in the corresponding period of 2017).

- **Cash flows from financing activities**
  In the period of 3 months of 2018 Orbis S.A. generated negative cash flows from financing activities of PLN 2.9 million resulting from the payment of interest on issued bonds. In the past year Orbis S.A. incurred financial expenses by PLN 0.9 million higher than in the first quarter of 2018 in connection with the payment of interest on borrowings as at March 31, 2017.

8 NOTES TO THE FINANCIAL STATEMENTS

8.1 General information

8.1.1 Basic information about the Issuer

The attached financial statements present the financial figures of Orbis Spółka Akcyjna with its corporate seat in Warsaw, ul. Bracka 16 Street, 00-028 Warsaw. The Company is entered into the Register of Business Operators maintained by the District Court in Warsaw, XII Commercial Division of the National Court Register under the number KRS 0000022622.

8.1.2 Business operations

According to the Polish Classification of Business Activity [PKD], Orbis S.A.'s business operations are classified under section I, item 5510Z.

Orbis S.A. is Poland's largest hotel company that employs 2.6 thousand persons (average full-time equivalent employment). As at March 31, 2018, the Company operated a network of 47 hotels (9 369 rooms) in 14 cities, towns and resorts in Poland. The hotels owned by Orbis S.A. operate under the following Accor brands: Sofitel, Novotel, Mercure, ibis, ibis budget and ibis Styles.

Orbis S.A. is the sole licensor of Accor brands in 16 countries of Eastern and Central Europe. As at the balance sheet date, 40 hotels (offering a total of 4 515 rooms) operated under franchise agreements and 14 hotels (with a total of 1 936 rooms) operated under management agreements.

As at March 31, 2018, Orbis S.A. was the parent company of the Orbis Group. The structure of the Group is presented in Section 5.7 of the Consolidated Financial Statements of the Orbis Group.

8.2 The Issuer's shareholders

Orbis S.A. shareholding structure as at the day of publication of this report is presented in Section 5.3 of the Consolidated Financial Statements of the Orbis Group.

8.3 The holding of Orbis S.A. shares by members of the Supervisory Board and the Management Board

Information on the holding of Orbis S.A. shares by members of the Company's statutory bodies is provided in Section 5.5 of the Consolidated Financial Statements of the Orbis Group.

8.4 Description of principal accounting policies

These condensed interim separate financial statements have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting* and in compliance with the International Financial Reporting Standards, applicable to interim financial reporting, adopted by the European Union, published and binding as at the date of these financial statements.

The principal accounting policies applied in the preparation of the separate financial statements were set out in Note 2.4 to the annual separate financial statements for 2017. The accounting policies have been consistently applied to all the years presented in the financial statements and did not change substantially except for the change of regulations resulting from the implementation of the new standards.

Since January 1, 2018, the Company has modified its accounting principles in connection with the entry into force of the new accounting standards, i.e. IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. The impact of the new accounting principles on individual areas of accounting was presented in Section 5.8.1 of this report.

(figures quoted in PLN thousand, unless otherwise stated)

The tables below present the classification and value of the Company's financial assets at the first application of IFRS 9:

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

The tables below present the restatement of data as at the first day of new standard implementation, i.e. January 1, 2018.

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

	January 1, 2018 (no IFRS 15 & IFRS 9 impact)	IFRS 15 impact	IFRS 9 impact	January 1, 2018 (restated data)
Non-current assets	**2 517 115**	**273**	**(558)**	**2 516 830**
Derivative financial instruments	885	-	(885)	0
Deferred tax assets	6 637	273	327	7 237
Current assets	**195 240**	-	**(837)**	**194 403**
Derivative financial instruments	837	-	(837)	0
Assets classified as held for sale	**23 514**	-	**-**	**23 514**
TOTAL ASSETS	**2 735 869**	**273**	**(1 395)**	**2 734 747**
Equity	**2 056 754**	**(1 163)**	**(1 395)**	**2 054 196**
Retained earnings	1 405 728	(1 163)	(1 395)	1 403 170
Non-current liabilities	**538 551**	**1 436**	**-**	**539 987**
Deferred revenue	12 202	1 436	-	13 638
Current liabilities	**140 564**	**-**	**-**	**140 564**
TOTAL EQUITY AND LIABILITIES	**2 735 869**	**273**	**(1 395)**	**2 734 747**

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

On the other hand, when implementing the IFRS 9 *Financial Instruments*, the Company availed of the option provided for in paragraph 7.2.15 of the standard, i.e. it did not restate the data relating to past periods. In the retained earnings the Company included, as at January 1, 2018, the adjustment for recognition of a floor derivative embedded in loans granted to subsidiaries and deferred tax. Unlike IAS 39, according to IFRS 9, a derivative is not accounted for separately. On the other hand, the amounts of impairment losses calculated as at January 1, 2018, in accordance with the adopted model of expected credit losses did not differ significantly from the amounts of impairment losses already recognised in the financial statements as at December 31, 2017, therefore the Company did not adjust the initial balance of the Company's retained earnings as a result of IFRS 9 implementation.

(figures quoted in PLN thousand, unless otherwise stated)

The impact of IFRS 15 application on the financial statements for Q1 2018

In order to ensure comparability of data for particular periods, the tables below present the impact of the IFRS 15 application on the results of Orbis S.A. for the first quarter of 2018 and on the items of the statement of financial position as at March 31, 2018.

	3 months of 2018 (no IFRS 15 impact)	IFRS 15 impact	3 months of 2018 (as reported)
Net sales	172 022	(68)	**171 954**
EBITDAR	**27 117**	**(68)**	**27 049**
Operating EBITDA	**25 258**	**(68)**	**25 190**
Operating loss without the effects of one-off events	**(6 577)**	**(68)**	**(6 645)**
Operating loss	**(5 698)**	**(68)**	**(5 766)**
Loss before tax	**(2 964)**	**(68)**	**(3 032)**
Income tax	**506**	**13**	519
Net loss for the period	**(2 458)**	**(55)**	**(2 513)**
Total comprehensive loss for the period	**(2 458)**	**(55)**	**(2 513)**

	March 31, 2018 (no IFRS 15 impact)	IFRS 15 impact	March 31, 2018 (as reported)
Non-current assets	**2 506 917**	**286**	**2 507 203**
Deferred tax assets	6 873	286	7 159
Current assets	**184 696**	**-**	**184 696**
Assets classified as held for sale	**31 111**	**-**	**31 111**
TOTAL ASSETS	**2 722 724**	**286**	**2 723 010**
Equity	**2 052 901**	**(1 218)**	**2 051 683**
Retained earnings	1 401 875	(1 218)	1 400 657
Non-current liabilities	**538 708**	**1 395**	**540 103**
Deferred revenue	12 127	1 395	13 522
Current liabilities	**131 115**	**109**	**131 224**
Deferred revenue	28 611	109	28 720
TOTAL EQUITY AND LIABILITIES	**2 722 724**	**286**	**2 723 010**

(figures quoted in PLN thousand, unless otherwise stated)

8.5 Investments in subsidiaries

The table below presents basic information about subsidiaries.

Name of subsidiary	% share of share capital	% share of voting rights at the GM	Country of registration	Business operations	Method of investment recognition	Share / interest value at cost	Revaluation adjustment	Carrying amount of shares / interests
Orbis Corporate Sp. z o.o.	directly 100.00%	directly 100.00%	Poland	tourism, transport, hotel and F&B services	cost	45	(45)	0
Orbis Kontrakty Sp. z o.o.	directly 100.00%	directly 100.00%	Poland	organisation of purchasing	cost	100	0	100
UAB Hekon	directly 100.00%	directly 100.00%	Lithuania	hotel and F&B services	cost	13 688	0	13 688
Katerinska Hotel s.r.o.	directly 100.00%	directly 100.00%	Czech Republic	hotel and F&B services	cost	279 260	0	279 260
Accor Pannonia Hotels Zrt.	directly 99.92%	directly 99.92%	Hungary	hotel and F&B services	cost	82 677	0	82 677
Accor Hotels Romania S.R.L.	directly 100.00%	directly 100.00%	Romania	hotel and F&B services	cost	91 804	0	91 804
Total						**467 574**	**(45)**	**467 529**

The table below presents information on the companies in which Orbis S.A. holds interests indirectly.

Investments in subsidiaries	% share of equity	% share of votes at the GM	Country of registration	Business operations
H-DEVELOPMENT CZ a.s.	indirectly 100.00%	indirectly 100.00%	Czech Republic	real property services
Business Estate Entity a.s.	indirectly 100.00%	indirectly 100.00%	Czech Republic	real property rental
Accor Pannonia Slovakia s.r.o.	indirectly 99.92%	indirectly 99.92%	Slovakia	hotel and F&B services
5 Hotel Kft.	indirectly 99.92%	indirectly 99.92%	Hungary	real property rental
5 Star Hotel Kft.	indirectly 99.92%	indirectly 99.92%	Hungary	real property rental

In the first quarter of 2018 there were no changes in investments in subsidiaries.

8.6 Borrowings

Information on borrowings is presented in Section 5.10 of the Consolidated Financial Statements of the Orbis Group.

8.7 Issue, redemption and repayment of debt and equity securities

Information on issue, redemption and repayment of debt and equity securities is presented in Section 5.11 of the Consolidated Financial Statements of the Orbis Group.

8.8 Loans granted

As at March 31, 2018, receivables under granted loans included loans granted to the following subsidiaries:

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

Pursuant to the agreement, both these loans should be repaid no later than by December 31, 2019, and the repayment of each loan should not be less than EUR 1.5 million by the end of 2018.

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

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

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

On **May 25, 2017,** Orbis S.A. granted to **Accor Pannonia Hotels Zrt.** with its corporate seat in Budapest a loan in the amount of **EUR 12.5 million** in order to finance the agreement of buy-back of the Sofitel Budapest Chain Bridge hotel, operated by the Hungarian company under lease agreements. The transaction of buy-back of the hotel was completed by acquisition of 100% of the share capital of company HVB Leasing Maestoso Kft. with its corporate seat in Budapest, which owns this hotel.

The interest rate on the loan was determined as a variable rate equal to EURIBOR 6M, plus interest rate margin of 2.5%. Pursuant to the agreement, if EURIBOR 6M is lower than zero, the loan interest rate equals the interest rate margin, i.e. 2.5%. According to the annex to the loan agreement executed in March 2018, the final loan repayment date (incl. interest accrued for the period from January 1, 2018) is not later than June 30, 2018.

On the other hand, on **June 1, 2017,** Orbis S.A. and **UAB Hekon** with its registered address in Vilnius signed a loan agreement whereupon Orbis granted a loan to the Lithuanian company in the amount of **EUR 1.0 million** to finance the acquisition of a hotel building located in Vilnius, including the ownership title to the land and parking spaces. On **July 27, 2017,** Orbis S.A. granted to **UAB Hekon** another loan of **EUR 1.0 million** for the same purpose, and on **October 31, 2017**, another **PLN 3.0 million**.

The interest rate on both the loans was determined as a variable rate equal to EURIBOR 6M, plus interest rate margin of 2.5%. Pursuant to the agreements, if EURIBOR 6M is lower than zero, the loan interest rate equals the interest rate margin, i.e. 2.5%. Interest is payable for 6-month periods, at the end of June and December of each year. The date of repayment of the first loan is December 31, 2018, the second loan, February 28, 2019, and the third, May 31, 2019.

(figures quoted in PLN thousand, unless otherwise stated)

8.9 Financial instruments

8.9.1 Fair value of financial instruments

As at March 31, 2018, December 31, 2017 and March 31, 2017, the only assets and liabilities that were subject to measurement at fair value following their initial recognition and were recognised at fair value in the statement of financial position were derivative instruments, i.e. interest rate swap.

The table on the following page 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 March 31, 2018		As at December 31, 2017		As at March 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	54 772	54 772	76 973	76 973	123 088	123 088
Loans granted	404 389	404 389	398 366	398 366	344 117	344 117
Derivative financial instruments (assets)	0	0	1 722	1 722	0	0
Other financial assets	6 944	6 944	6 944	6 944	10 944	10 944
Trade receivables and others current receivables	29 847	29 847	37 420	37 420	52 282	52 282
Investment in subsidiaries - excluded from the scope of IFRS 9 and IAS 39 (before January 1, 2018)	467 529	-	467 529	-	465 921	-
Financial liabilities						
Borrowings	0	0	0	0	123 067	124 867
Debt securities - bonds issued	502 458	504 500	501 778	504 500	502 069	506 600
Derivative financial instruments (liabilities)	74	74	74	74	199	199
Trade payables and other current and non-current liabilities	57 634	57 634	76 816	76 816	56 434	56 434

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

The Company does not disclose the fair value in respect of interests and shares in subsidiaries. Shares in subsidiaries and jointly controlled entities (joint ventures) are excluded from the scope of IFRS 9 (for the periods from January 1, 2018) and IAS 39 (for the periods before January 1, 2018) and in accordance with the Company's accounting policy, are measured at cost less impairment losses.

The fair value of liabilities arising from credit facilities was determined as at March 31, 2017 as the present value of future cash flows, discounted at a current interest rate.

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

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

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

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

(figures quoted in PLN thousand, unless otherwise stated)

8.9.2 Hedge accounting

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

8.10 Changes in estimates of amounts

8.10.1 Impairment of assets

Movements in impairment loss in 1Q 2018	Impairment loss on:				
	property, plant & equipment	investment property	assets held for sale	investment in subsidiaries and other companies	receivables
As at January 1, 2018	**(14 941)**	**(578)**	**(14 692)**	**(47)**	**(3 069)**
Recognised impairment loss	0	0	0	0	(249)
Reversed impairment loss	0	0	0	0	196
Impairment loss not subject to reversal *	187	4	0	0	0
As at March 31, 2018	**(14 754)**	**(574)**	**(14 692)**	**(47)**	**(3 122)**

** The value of impairment recognised in the previous periods, which cannot be reversed (due to IAS 36, according to which the net book value of property, plant and equipment and investment property arising from the reversal of an impairment should not exceed the amount that would have been determined if no impairment had been recognised).This value of impairment is recognised as accumulated depreciation. As a result, the balance of impairment as at the end of the period equals the amount reversible in the event of expiry of circumstances underlying the impairment.*

In the first quarter of 2018 and in 2017, no circumstances occurred in Orbis S.A. that would indicate a need to recognise impairment losses on inventories.

8.10.2 Provisions for liabilities

Movements in provisions in 1Q 2018	Provision for:			
	jubilee awards	retirement & disability benefits	litigations	restructuring
As at January 1, 2018	**15 017**	**6 791**	**777**	**1 318**
Provision recognised in the period	376	65	0	0
Provision utilised in the period	(376)	(65)	0	(159)
As at March 31, 2018, of which:	**15 017**	**6 791**	**777**	**1 159**
Short-term provisions	2 005	1 009	777	1 159
Long-term provisions	13 012	5 782	0	0

(figures quoted in PLN thousand, unless otherwise stated)

8.11 Deferred tax assets and liabilities

Deferred tax	As at:		Impact on statement of comprehensive income
	March 31, 2018	December 31, 2017	
Deferred tax assets	20 737	21 628	(891)
Deferred tax liabilities	(13 578)	(14 991)	1 413
Total:	**7 159**	**6 637**	**522**
impact on profit or loss			(78)
impact on initial balance of retained earnings			600

8.12 Legal claims

Description of major litigations pending before courts, arbitration or public administration bodies is provided in Section 5.16 of the Consolidated Financial Statements of the Orbis Group.

8.13 Related party transactions

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

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

Costs of purchase of services from the Accor Group companies comprise mainly:
- franchise fees,
- reservation fees,
- fees for the use of IT applications,
- costs connected with the Le Club Accorhotels loyalty program.

Revenue from the sale of services to subsidiaries comprise mainly management fees (Orbis Kontrakty Sp. z o.o.).

Purchases from subsidiary companies comprise predominantly mutually provided services.

Finance income comprises interest on loans granted to Hungarian subsidiary Accor Pannonia Hotels Zrt. and to the Lithuanian subsidiary UAB Hekon (more information on the loan granted is provided in Section 8.8).

Related parties transactions – revenues	1st quarter of 2018	1st quarter of 2017
Net sales of services	**865**	**765**
- to the parent company	393	365
- to other Accor Group companies	227	196
- to subsidiaries	245	204
Total sales	**865**	**765**
Finance income	**2 432**	**2 097**
- from subsidiaries	2 432	2 097
Total revenue	**3 297**	**2 862**

(figures quoted in PLN thousand, unless otherwise stated)

Related parties transactions - expenses	1st quarter of 2018	1st quarter of 2017
Purchases of services	**8 833**	**7 670**
- from the parent company	6 603	5 429
- from other Accor Group companies	2 125	2 241
- from subsidiaries	105	0
Total purchases	**8 833**	**7 670**

Receivables and payables	As at:		
	March 31, 2018	December 31, 2017	March 31, 2017
Trade receivables	**454**	**1 850**	**610**
- from the parent company	83	778	370
- from other Accor Group companies	51	321	164
- from subsidiaries	320	751	76
Receivables under loans granted	**404 389**	**398 366**	**344 117**
- to subsidiaries	404 389	398 366	344 117
Total receivables	**404 843**	**400 216**	**344 727**
Trade payables	**7 098**	**8 478**	**7 489**
- to the parent company	4 770	5 622	7 169
- to other Accor Group companies	17	963	320
- to subsidiaries	2 311	1 893	0
Total payables	**7 098**	**8 478**	**7 489**

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

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

Transactions with related companies are executed at arms' length.

Benefits (including wages and salaries, awards, post-employment benefits and retirement benefits) paid in accordance with contractual obligations to the Members of the Management Board and the Supervisory Board of Orbis S.A. in 3-month periods ended March 31, 2018, and March 31, 2017, amounted to PLN 1 033 thousand and PLN 1 008 thousand, respectively.

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

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

8.14 Important events after the reporting period

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

(figures quoted in PLN thousand, unless otherwise stated)

APPENDIX 1: OPERATING RATIOS OF THE ORBIS GROUP

Owned hotels[2]

Operating ratios of owned hotels by main category	1st quarter of 2018	1st quarter of 2017	change (%)	1st quarter of 2018	1st quarter of 2017	change (%)
	as reported			like-for-like		
Orbis Hotel Group						
Occupancy Rate (%)	61.1	59.5	1.6 p.p.	61.1	59.9	1.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	222.7	212.5	4.8%	222.7	214.6	3.8%
Revenue per Available Room (RevPAR) in PLN	136.0	126.5	7.5%	136.0	128.5	5.8%
Economy Hotels						
Occupancy Rate (%)	63.2	61.6	1.6 p.p.	63.2	61.9	1.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	153.2	147.4	3.9%	153.2	148.3	3.3%
Revenue per Available Room (RevPAR) in PLN	96.8	90.7	6.7%	96.8	91.7	5.6%
Up & Midscale Hotels (3 stars and more)						
Occupancy Rate (%)	59.9	58.5	1.4 p.p.	59.9	58.9	1.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	261.5	248.1	5.4%	261.5	251.4	4.0%
Revenue per Available Room (RevPAR) in PLN	156.7	145.0	8.1%	156.7	147.9	5.9%

Operating ratios of owned hotels by geographical segment	1st quarter of 2018	1st quarter of 2017	change (%)	1st quarter of 2018	1st quarter of 2017	change (%)
	as reported			like-for-like		
Poland						
Occupancy Rate (%)	61.0	59.6	1.4 p.p.	61.0	60.2	0.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	219.1	211.5	3.6%	219.1	214.6	2.1%
Revenue per Available Room (RevPAR) in PLN	133.7	126.1	6.0%	133.7	129.2	3.5%
Hungary						
Occupancy Rate (%)	58.7	55.7	3.0 p.p.	58.7	55.7	3.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	226.9	213.3	6.4%	226.9	213.3	6.4%
Revenue per Available Room (RevPAR) in PLN	133.2	118.7	12.2%	133.2	118.7	12.2%
Czech Republic						
Occupancy Rate (%)	61.6	62.0	-0.4 p.p.	61.6	62.0	-0.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	215.0	187.7	14.5%	215.0	187.7	14.5%
Revenue per Available Room (RevPAR) in PLN	132.4	116.5	13.6%	132.4	116.5	13.6%
Other countries						
Occupancy Rate (%)	71.2	71.1	0.1 p.p.	71.2	71.1	0.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	260.5	260.2	0.1%	260.5	260.2	0.1%
Revenue per Available Room (RevPAR) in PLN	185.5	185.1	0.2%	185.5	185.1	0.2%

[2] Include results of owned and leased hotels of the following companies: Orbis S.A., UAB Hekon, Katerinska Hotel s.r.o., Accor Pannonia Hotels Zrt., Accor Pannonia Slovakia s.r.o., Accor Hotels Romania s.r.l.

(figures quoted in PLN thousand, unless otherwise stated)

Managed and franchised hotels

Operating ratios of managed and franchised hotels by main category	1st quarter of 2018	1st quarter of 2017	change (%)	1st quarter of 2018	1st quarter of 2017	change (%)
	as reported			like-for-like		
Orbis Hotel Group						
Occupancy Rate (%)	52.8	53.5	-0.7 p.p.	56.6	53.9	2.7 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	184.7	186.4	-0.9%	190.6	186.6	2.1%
Revenue per Available Room (RevPAR) in PLN	97.6	99.8	-2.2%	108.0	100.5	7.5%
Economy Hotels						
Occupancy Rate (%)	53.9	52.6	1.3 p.p.	56.4	52.6	3.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	137.8	136.4	1.0%	137.1	136.4	0.5%
Revenue per Available Room (RevPAR) in PLN	74.3	71.7	3.6%	77.3	71.7	7.8%
Up & Midscale Hotels (3 stars and more)						
Occupancy Rate (%)	51.9	54.6	-2.7 p.p.	56.9	55.3	1.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	229.1	238.8	-4.1%	249.6	239.7	4.1%
Revenue per Available Room (RevPAR) in PLN	118.8	130.3	-8.8%	142.1	132.6	7.2%

Operating ratios of managed and franchised hotels by geographical segment	1st quarter of 2018	1st quarter of 2017	change (%)	1st quarter of 2018	1st quarter of 2017	change (%)
	As reported			like-for-like		
Poland						
Occupancy Rate (%)	48.7	44.5	4.2 p.p.	48.2	45.1	3.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	190.3	200.2	-4.9%	209.1	200.9	4.1%
Revenue per Available Room (RevPAR) in PLN	92.6	89.2	3.8%	100.7	90.5	11.3%
Hungary						
Occupancy Rate (%)	59.3	55.7	3.6 p.p.	61.8	55.7	6.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	223.0	252.2	-11.6%	286.8	252.2	13.7%
Revenue per Available Room (RevPAR) in PLN	132.2	140.4	-5.8%	177.1	140.4	26.1%
Czech Republic						
Occupancy Rate (%)	47.6	56.5	-8.9 p.p.	47.6	56.5	-8.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	164.8	140.7	17.1%	164.8	140.7	17.1%
Revenue per Available Room (RevPAR) in PLN	78.5	79.5	-1.3%	78.5	79.5	-1.3%
Other countries						
Occupancy Rate (%)	56.3	61.2	-4.9 p.p.	64.0	61.2	2.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	178.6	177.3	0.7%	176.4	177.3	-0.5%
Revenue per Available Room (RevPAR) in PLN	100.6	108.4	-7.2%	112.9	108.4	4.2%

APPENDIX 2: GLOSSARY OF TERMS

ARR – Average Room Rate, revenue from accommodation services divided by the number of roomnights sold

CAPEX – Capital Expenditure

CSR – Corporate Social Responsibility

EBIT – Earnings Before Interest & Taxes, operating result before interest and taxes

EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortisation, operating result before depreciation/amortisation, result from financing activities and taxes.

EBITDAR – Earnings Before Interest, Taxes, Depreciation, Amortisation, and Rent Expense, operating result before rent expense, depreciation/amortisation, effects of one-off events, result from financing activities and taxes.

Economy hotels – one of the two reportable operating segments of the Orbis Group that comprises hotels of the ibis, ibis Styles and ibis budget brands. These hotels have two or fewer stars.

Le Club Accorhotels (LCAH) – a free loyalty programme of the Accor Group hotels. Points may be earned not only at Accor hotels but also at Group's partners, including over 20 airlines such as Air France or Lufthansa. Le Club Accorhotels is 100% Internet-based, all benefits are available on-line where the Programme Member may manage his preferences, check bookings, select rewards and take advantage of personalised offers at preferential prices.

"Like-for-like" results - results of comparable hotel portfolio excluding the results of sold, closed and newly opened hotels.

MICE – Meetings, Incentives, Conventions, and Events, business tourism, a segment of tourism where trips are made in connection with pursued profession.

NOVO^2 – combination of a bar and a restaurant in Novotel's hotels. NOVO^2 is based on three values: Vitality (health) entails the selection of environmentally-friendly produce and a balanced diet; Connect-ainment (entertainment) to ensure that each guest will feel at ease thanks to international interior design and cuisine; Imagination (inspirations) is reflected in the presentation of the most intriguing culinary trends from all around the world.

Occupancy Rate – rooms occupied by hotel guests as a percentage of all available rooms.

RevPAR – Revenue Per Available Room, revenue from accommodation services divided by the number of available rooms (may be calculated as Occupancy Rate multiplied by the Average Room Rate).

Up & Midscale hotels – one of the two reportable operating segments of the Orbis Group that comprises hotels of the following brands: Sofitel, Pullman, MGallery, Novotel, Mercure and Orbis Hotels. These are hotels of upper or middle standard (three or more stars).

WAAG – Woman At Accor Generation, a women's network of the Accor Group/Orbis that supports women in pursuing their professional ambitions.

WineStone – a restaurant concept in Mercure hotels based on two elements: a collection of wines selected on the basis of sommeliers'' knowledge and experience, and dishes served on *les planches* – stone plates originating in the trendiest French restaurants.