Orbis Hotel Group

Orbis Group

Report for the First Half of 2018

Condensed Interim Consolidated Financial Statements

July 26, 2018

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(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED INCOME STATEMENT

for the first half of 2018 with comparable figures for the year 2017

	3 months ended June 30, 2018 *(unaudited)*	6 months ended June 30, 2018 *(unaudited)*	3 months ended June 30, 2017 *(unaudited)*	6 months ended June 30, 2017 *(unaudited)*
Net sales	**418 847**	**690 312**	**413 579**	**679 530**
Outsourced services	(83 627)	(151 887)	(83 278)	(147 555)
Employee benefit expense	(93 998)	(187 674)	(87 043)	(173 821)
Raw materials and energy used	(48 159)	(92 272)	(49 570)	(95 421)
Taxes and charges	(11 225)	(21 205)	(10 634)	(20 543)
Other expenses by nature	(3 498)	(6 537)	(3 470)	(6 498)
Impairment of receivables	19	436	67	(30)
Net other operating income/(expenses)	1 020	1 914	545	1 439
EBITDAR	**179 379**	**233 087**	**180 196**	**237 101**
Rental expense	(14 961)	(28 282)	(16 153)	(34 930)
Operating EBITDA	**164 418**	**204 805**	**164 043**	**202 171**
Depreciation and amortisation	(40 406)	(82 322)	(40 584)	(82 186)
Operating profit without the effects of one-off events	**124 012**	**122 483**	**123 459**	**119 985**
Result on sale of real property	128 469	129 348	(20)	3 927
Restructuring costs	132	103	(1 109)	(1 786)
Result of other one-off events	709	0	(896)	(1 057)
Operating profit	**253 322**	**251 934**	**121 434**	**121 069**
Finance income	1 192	1 448	481	873
Finance costs	(4 210)	(8 019)	(4 941)	(17 125)
Profit before tax	**250 304**	**245 363**	**116 974**	**104 817**
Income tax expense	(30 900)	(30 347)	(23 542)	(22 546)
Net profit for the period	**219 404**	**215 016**	**93 432**	**82 271**
- attributable to owners of the parent	219 275	214 890	93 408	82 254
- attributable to non-controlling interests	129	126	24	17
Earnings per ordinary share				
Basic and diluted profit attributable to owners of the parent for the period (in PLN)	4.76	4.66	2.03	1.79

(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the first half of 2018 with comparable figures for the year 2017

	3 months ended June 30, 2018 *(unaudited)*	6 months ended June 30, 2018 *(unaudited)*	3 months ended June 30, 2017 *(unaudited)*	6 months ended June 30, 2017 *(unaudited)*
Net profit for the period	**219 404**	**215 016**	**93 432**	**82 271**
Items that will not be reclassified subsequently to profit or loss:				
Actuarial gains/losses arising from the defined employee benefit plan				
Income tax relating to items that will not be reclassified subsequently				(22)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	11 473	15 965	4 523	(20 722)
The effective portion of the gain or loss on the hedging instrument entered into for cash flow hedges	75	75	70	(12)
Income tax relating to items that may be reclassified subsequently	(14)	(14)	(13)	2
Other comprehensive income/(loss), after tax	**11 534**	**16 026**	**4 580**	**(20 754)**
Total comprehensive income for the period	**230 938**	**231 042**	**98 012**	**61 517**
- attributable to owners of the parent	230 813	230 920	97 988	61 507
- attributable to non-controlling interests	125	122	24	10

(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at June 30, 2018, December 31, 2017 and June 30, 2017

Assets	As at:		
	June 30, 2018 *(unaudited)*	December 31, 2017 *(audited)*	June 30, 2017 *(unaudited)*
Non-current assets	**2 369 525**	**2 392 340**	**2 425 107**
Property, plant and equipment	2 232 250	2 251 515	2 261 011
Investment property	3 836	5 088	8 856
Intangible assets, of which:	110 428	111 568	112 102
- goodwill	107 252	107 252	107 252
Other financial assets	6 944	6 944	24 025
Deferred tax assets	14 932	15 912	18 292
Other non-current assets	1 135	1 313	821
Current assets	**705 848**	**325 869**	**362 429**
Inventories	6 185	6 785	6 642
Trade receivables	83 173	68 579	76 174
Income tax receivables	1 203	541	1 660
Other current receivables	32 647	35 120	35 334
Other current financial assets	620	0	0
Cash and cash equivalents	582 020	214 844	242 619
Assets classified as held for sale	**42 102**	**201 093**	**189 525**
TOTAL ASSETS	**3 117 475**	**2 919 302**	**2 977 061**

(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, continued

as at June 30, 2018, December 31, 2017 and June 30, 2017

Equity and Liabilities	As at:		
	June 30, 2018 *(unaudited)*	December 31, 2017 *(audited)*	June 30, 2017 *(unaudited)*
Equity	**2 237 033**	**2 080 877**	**1 938 470**
Equity attributable to owners of the parent	**2 236 710**	**2 080 676**	**1 938 298**
Share capital	517 754	517 754	517 754
Reserves	133 333	133 272	133 228
Retained earnings	1 580 382	1 440 378	1 290 622
Foreign currency translation reserve	5 241	(10 728)	(3 306)
Non-controlling interests	**323**	**201**	**172**
Non-current liabilities	**547 755**	**548 571**	**619 053**
Borrowings	0	0	70 266
Bonds	501 892	501 778	501 515
Deferred tax liabilities	2 095	3 969	4 820
Deferred revenue	12 987	12 202	12 351
Other non-current liabilities	5 908	5 777	5 045
Provision for retirement benefits and similar obligations	19 185	19 180	18 363
Provisions for liabilities	5 688	5 665	6 693
Current liabilities	**332 687**	**289 854**	**419 538**
Borrowings	0	40 873	89 559
Other financial liabilities	0	74	129
Trade payables	102 873	101 471	110 293
Liabilities associated with tangible assets	12 742	28 358	9 302
Current tax liabilities	16 345	1 758	6 799
Deferred revenue	41 684	23 623	42 054
Other current liabilities	154 175	88 251	157 715
Provision for retirement benefits and similar obligations	3 035	3 080	2 909
Provisions for liabilities	1 833	2 366	778
TOTAL EQUITY AND LIABILITIES	**3 117 475**	**2 919 302**	**2 977 061**

(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the first half of 2018 with comparable figures for the year 2017

	Equity attributable to owners of the parent				Non-controlling interest	Total
	Share capital	Reserves	Retained earnings	Foreign currency translation reserve		
Twelve months ended December 31, 2017						
Balance as at January 1, 2017	**517 754**	**133 238**	**1 282 113**	**17 409**	**162**	**1 950 676**
- net profit for the period	0	0	232 391	0	50	**232 441**
- other comprehensive income/(loss)	0	34	(403)	(28 137)	(11)	**(28 517)**
Total comprehensive income 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 *(audited)*	**517 754**	**133 272**	**1 440 378**	**(10 728)**	**201**	**2 080 877**
of which: six months ended June 30, 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	82 254	0	17	**82 271**
- other comprehensive income/(loss)	0	(10)	(22)	(20 715)	(7)	**(20 754)**
Total comprehensive income/(loss) for the period	**0**	**(10)**	**82 232**	**(20 715)**	**10**	**61 517**
- dividends	0	0	(73 723)	0	0	**(73 723)**
Balance as at June 30, 2017 *(unaudited)*	**517 754**	**133 228**	**1 290 622**	**(3 306)**	**172**	**1 938 470**
Six months ended June 30, 2018						
Balance as at January 1, 2018 (as reported)	**517 754**	**133 272**	**1 440 378**	**(10 728)**	**201**	**2 080 877**
- adjustment for IFRS 15	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 profit for the period	0	0	214 890	0	126	**215 016**
- other comprehensive income/(loss)	0	61	0	15 969	(4)	**16 026**
Total comprehensive income/(loss) for the period	**0**	**61**	**214 890**	**15 969**	**122**	**231 042**
- dividends	0	0	(73 723)	0	0	**(73 723)**
Balance as at June 30, 2018 *(unaudited)*	**517 754**	**133 333**	**1 580 382**	**5 241**	**323**	**2 237 033**

** description of restatement in Section 1.3.1*

(figures quoted in PLN thousand, unless otherwise stated)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the first half of 2018 with comparable figures for the year 2017

	6 months ended June 30, 2018 *(unaudited)*	6 months ended June 30, 2017 *(unaudited)*
OPERATING ACTIVITIES		
Profit before tax	**245 363**	**104 817**
Adjustments:	**(54 360)**	**80 384**
Depreciation and amortisation	82 322	82 186
Foreign exchange losses	9 885	4 696
Interest and other borrowing costs	7 051	8 451
Gain from investing activities	(143 654)	(1 544)
Change in receivables	(16 871)	(18 143)
Change in liabilities, excluding borrowings	(8 549)	(13 247)
Change in deferred revenue	15 761	19 509
Change in provisions	(464)	(1 944)
Change in inventories	159	414
Other adjustments	0	6
Cash generated from operations	**191 003**	**185 201**
Income taxes paid	(15 590)	(13 021)
Net cash generated by operating activities	**175 413**	**172 180**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment and intangible assets	332 893	31 595
Interest received	597	821
Other investing cash inflows	5 445	10 340
Leased hotels buyback	0	(468 056)
Other payments for property, plant and equipment and intangible assets	(106 181)	(59 318)
Loans granted	(597)	0
Other investing cash outflows	0	(8 764)
Net cash generated by/(used in) investing activities	**232 157**	**(493 382)**
FINANCING ACTIVITIES		
Proceeds from borrowings	0	54 452
Repayment of borrowings	(40 727)	(17 645)
Interest paid and other financing cash outflows resulting from received borrowings	(376)	(1 969)
Interest paid and other financing cash outflows resulting from issue of bonds	(7 117)	(7 096)
Net cash generated by/(used in) financing activities	**(48 220)**	**27 742**
Change in cash and cash equivalents	**359 350**	**(293 460)**
Effects of exchange rate changes on the balance of cash held in foreign currencies	7 826	(4 715)
Cash and cash equivalents at the beginning of the period	**214 844**	**540 794**
Cash and cash equivalents at the end of the period	**582 020**	**242 619**

1. BACKGROUND

The attached condensed interim consolidated financial statements of the Orbis Group for the first half of 2018 present a statement of financial position as at June 30, 2018, as well as at December 31, 2017 and June 30, 2017, statement of changes in equity for the first half of 2018, as well as for 2017 and the first half of 2017, income statement, statement of comprehensive income covering the data for 3 months ended June 30, 2018 and June 30, 2017 and for 6 months ended June 30, 2018 and June 30, 2017 and statement of cash flows, covering the data for the first half of 2018, as well as for 2017, as well as explanatory notes to the above-mentioned financial statements.

These financial statements comprise the parent company and its subsidiaries (jointly referred to as the "Orbis Group" or the "Group"). The Orbis Group carries out business in the hospitality industry.

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

The full list of companies forming the Orbis Group is presented in Note 2.1 to the financial statements. Changes in the composition of the Orbis Group as well as organisational and business changes since the date of publication of the last financial statements are outlined in Note 2.2 to the financial statements.

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

Items of statement of financial position of foreign subsidiary companies were translated into the Polish currency according to the average exchange rate quoted by the National Bank of Poland as at June 30, 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 according to the exchange rates being the arithmetic mean of average exchange rates quoted by the National Bank of Poland on the last day of each month of the first half of 2018 and the first half of 2017. All resulting foreign exchange differences are recognised as a component of equity.

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

CURRENCY	Average exchange rate in the reporting period		Exchange rate at the end of the reporting period		
	1st half of 2018	1st half of 2017	June 30, 2018	December 31, 2017	June 30, 2017
EUR/PLN	4.2395	4.2474	4.3616	4.1709	4.2265
HUF/PLN	0.0134	0.0137	0.0133	0.0134	0.0137
CZK/PLN	0.1659	0.1586	0.1683	0.1632	0.1611
RON/PLN	0.9104	0.9359	0.9361	0.8953	0.9269

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

1.1 BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed interim consolidated financial statements have been prepared in accordance with the International Accounting Standard 34 “Interim Financial Statements” and in compliance with the International Financial Reporting Standards applicable to interim financial reporting, accepted by the European Union, issued and effective as at the date of these financial statements.

The attached condensed interim consolidated financial statements of Orbis Group should be read in conjunction with the audited consolidated financial statements for the annual period from January 1, 2017 till December 31, 2017, including notes, and prepared in compliance with the International Financial Reporting Standards (IFRSs).

The basic accounting policies and calculation methods applied in the preparation of these condensed interim financial statements were presented in Note 2.4 to the annual consolidated financial statements of Orbis Group for the year 2017. These policies have been consistently applied to all the years presented in the financial statements and have not undergone any significant changes since the last annual financial statements, except for the changes resulting from amendments of regulations described in note 1.3 and the entry into force of new accounting standards: IFRS 15 and IFRS 9. For a description of the impact of the new standards, see Note 1.3.1.
Preparing financial statements in accordance with IFRSs requires applying certain key accounting estimates. The Management Board must also take a number of subjective decisions concerning the application of the Group’s accounting policies. The areas which are more complex or require a subjective judgment, as well as areas in which the assumptions and estimates are significant for the financial statements as a whole, are described in the notes to the attached financial statements.

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

These consolidated financial statements were approved by the Management Board on July 25, 2018.

1.2 POSITION OF THE MANAGEMENT BOARD OF ORBIS S.A. RELATED TO THE QUALIFICATION RAISED BY THE ENTITY AUTHORIZED TO AUDIT THE FINANCIAL STATEMENTS IN THE REPORT ON THE REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The report of the licensed auditor KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. on the review of the condensed interim consolidated financial statements of the Orbis Group for the period from January 1, 2018 to June 30, 2018 contains a qualification relating to the classification of the rights to perpetual usufruct of land.

The Management Board of Orbis S.A. is of the opinion that the accepted accounting treatment of rights to perpetual usufruct of land contributes to transparent and fair presentation of information on the economic standing of the Group.

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

Despite different interpretations of IAS 17, including treatment of the lease of land as operating lease on account of the fact that land usually has an unlimited period of economic utility, in the assessment of the Management Board the specific nature of the rights to perpetual usufruct of land makes it much more similar to ownership title than to any contractual right. Even without a detailed analysis of legal regulations that apply to perpetual usufruct, a number of elements vested in the perpetual usufructuary in a manner virtually identical to real property owner can easily be identified, namely:

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

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

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

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

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

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

Considering the specific features of the rights to perpetual usufruct of land, the Management Board and the Supervisory Board are of an opinion that these rights should be reported in accordance with the IAS 16 Property, Plant and Equipment.

The value of purchased perpetual usufruct of land as at June 30, 2018, amounted to PLN 58 932 thousand (which accounted for 1.9% of total assets), as at December 31, 2017, amounted to PLN 59 324 thousand (which accounted for 2.0% of total assets), and as at June 30, 2017, amounted to PLN 59 716 thousand (i.e. to 2.0% of total assets).

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

The value of the perpetual usufruct of land obtained free of charge, as recognized in the statement on financial position, amounted to PLN 248 853 thousand (8.0% of total assets) as at June 30, 2018, PLN 251 764 thousand (8.6% of total assets) as at December 31, 2017 and PLN 255 570 thousand (8.6% of total assets) as at June 30, 2017. The value of the related deferred tax liabilities amounted to PLN 47 282 thousand (1.5% of total equity and liabilities) as at June 30, 2018, PLN 47 835 thousand (1.6% of total equity and liabilities) as at December 31, 2017 and PLN 48 558 thousand (1.6% of total equity and liabilities) as at June 30, 2017.

If the rights to perpetual usufruct of land obtained free of charge had not been recognised in the statement of financial position, the financial result for the period of 6 months ended June 30, 2018, for the period of 12 months ended December 31, 2017, and for the period of 6 months ended June 30, 2017, taking into account deferred tax, would have been higher by, respectively, PLN 2 357 thousand (1.1% of net profit), PLN 6 707 thousand (2.9% of net profit) and PLN 3 624 thousand (4.4% of net profit) and the previous years' profit/loss as at June 30, 2018, as at December 31, 2017 and as at June 30, 2017 would have been lower by, respectively, PLN 203 928 thousand (6.5% of total equity and liabilities), PLN 210 636 thousand (7.2% of total equity and liabilities) and PLN 210 636 thousand (7.1% of total equity and liabilities).

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

In connection with the foregoing, the Management Board intends to consistently pursue its approach to the presentation of perpetual usufruct of land and until the entry into force of new provisions on leases and development of consistent interpretation of these regulations on the Polish market, the Board has no plans to revise the separate financial statements (more information about the influence of IFRS 16 can be found in Note 1.3 of these financial statements).

When evaluating the financial statements of Orbis Group for the period from January 1, 2018, to June 30, 2018, alike in the past years, the Supervisory Board has given due consideration to the arguments of the Management Board as well as to the auditor's position on the relevant issues. The Supervisory Board of Orbis S.A. agrees with and gives its positive opinion on the position of the Management Board of Orbis S.A. that the accepted accounting treatment of rights to perpetual usufruct of land contributes to transparent and fair presentation of information on the economic standing of the Group.

1.3 CHANGES IN ACCOUNTING POLICIES, CHANGES IN PRESENTATION OF DATA AND CORRECTION OF PRIOR PERIOD ERRORS

In 2018, no changes occurred in the accounting principles as compared to the last annual financial statements except for the changes of regulations, as presented below.

The following new standards, amendments to the existing standards and interpretation, issued by the International Accounting Standards Board (IASB) and adopted by the European Union, come into force in 2018:

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

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

- **IFRS 9 "Financial Instruments"** - adopted by the EU on November 22, 2016 (effective for annual periods beginning on or after January1, 2018),

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

- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on February 27, 2018 (effective for annual periods beginning on or after January 1, 2018),

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

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on March 28, 2018 (effective for annual periods beginning on or after January 1, 2018),

- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on February 7, 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018).

As at July 25, 2018, the following new standards and amendments to the existing standards have been issued by the IASB and adopted by the European Union but have not become effective yet:

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

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

Moreover, the following new standards, amendments to standards and new interpretation have been adopted by the International Accounting Standards Board (IASB) but not yet approved by the European Union as at July 25, 2018:

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

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

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - sale or contribution of assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

- **Amendments to IAS 19 "Employee Benefits" -** Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019),

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

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

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

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

The impact of applying the new IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments”, applicable since January 1, 2018, is presented in Note 1.3.1.

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

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

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

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

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

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

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

As at June 30, 2018, the Group was a party to an operating lease agreements concerning 10 hotels, of which 2 were variable lease agreements with no minimum fee and 1 concerned lease of office space in Prague, as well as lease agreements of 136 motorcars. Disclosures currently required by IAS 17, including information about the future minimum lease payments under those agreements, are presented in Note 9.

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

- Hotel lease agreements,
- Car lease agreements,
- Agreement concerning lease of office space in Prague.

Bearing in mind that as at June 30, 2018 the Group used mainly financing in the Polish zloty (PLN), the current cost of debt taken out by Orbis S.A. was assumed to be the marginal lending rate; it stood at approx. 3%. Had the Group first applied IFRS 16 as at June 30, 2018, the consolidated statement of financial position would recognize rights to use the aforementioned assets and lease liabilities at PLN 193 851 thousand. If the discount rate were higher/lower by 1.0%, the amount would be lower/higher by PLN 8 692 thousand.

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

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

According to the Management Board of the Parent Company, based on the literal wording of IFRS 16.9 according to which a lease means every contract that conveys to the client the right to control the use of the identified asset for a period of time in exchange for consideration, the right to perpetual usufruct of land could theoretically be regarded as lease. However, considering the specific nature of this right (described in Note 1.2 of these statements), its clear-cut classification as lease is difficult. Furthermore, major doubts arise as to whether the value of such lease liabilities can be reliably assessed, due to the difficulties in specifying the lease term, the relevant discount as well as due to lack of accurate and unequivocal legal analyses of the nature of fees (i.e. variable or fixed ones), which has a decisive importance for the classification and calculation of the liability.

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

1.3.1 THE IMPACT OF NEW STANDARDS APPLICATION ON THE FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2018

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

The impact of the new accounting principles on individual areas of the accounting policy and the restatement of data as at the date of the first application of the new standards, i.e. January 1, 2018, is described below. Furthermore, to ensure comparability of data for particular periods, the impact of IFRS 15 application on the results of the Orbis Group in the first half of 2018 and on items of the statement of financial position as at June 30, 2018, was presented.

(figures quoted in PLN thousand, unless otherwise stated)

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 note 1.3.2.

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.

The Group used full historical data in order to determine the influence of IFRS 15 on the opening balance of the Orbis Group financial statements for the first half of 2018. The tables below present the impact of applying the new accounting principles resulting from the implementation of IFRS 15 on the restatement of individual items of the statement of financial position as at January 1, 2018. Furthermore, to ensure comparability of data for particular periods, the subsequent tables present the impact of the IFRS 15 application on the results of the Orbis Group for the first half of 2018 and on the items of the statement of financial position as at June 30, 2018.

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

	January 1, 2018 (no IFRS 15 impact)	IFRS 15 impact	January 1, 2018 (restated)
Non-current assets	**2 392 340**	**273**	**2 392 613**
Deferred tax assets	15 912	273	16 185
Current assets	**325 869**	**-**	**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**

(figures quoted in PLN thousand, unless otherwise stated)

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

	1st half of 2018 (no IFRS 15 impact)	IFRS 15 impact	1st half of 2018 (as reported)
Net sales	690 877	(565)	690 312
EBITDAR	**233 652**	**(565)**	**233 087**
Operating EBITDA	**205 370**	**(565)**	**204 805**
Operating profit without the effects of one-off events	**123 048**	**(565)**	**122 483**
Operating profit	**252 499**	**(565)**	**251 934**
Profit before tax	**245 928**	**(565)**	**245 363**
Income tax expense	(30 454)	107	(30 347)
Net profit for the period	**215 474**	**(458)**	**215 016**
- attributable to owners of the parent	215 348	(458)	214 890
- attributable to non-controlling interests	126	-	126
Total comprehensive income/(loss) for the period	**231 500**	**(458)**	**231 042**

	June 30, 2018 (no IFRS 15 impact)	IFRS 15 impact	June 30, 2018 (as reported)
Non-current assets	**2 369 145**	**380**	**2 369 525**
Deferred tax assets	14 552	380	14 932
Current assets	**705 848**	-	**705 848**
Assets classified as held for sale	**42 102**	-	**42 102**
TOTAL ASSETS	**3 117 095**	**380**	**3 117 475**
Equity	**2 238 655**	**(1 622)**	**2 237 033**
Equity attributable to owners of the parent	**2 238 332**	**(1 622)**	**2 236 710**
Retained earnings	1 582 004	(1 622)	1 580 382
Non-controlling interests	**323**	-	**323**
Non-current liabilities	**545 885**	**1 870**	**547 755**
Deferred revenue	11 117	1 870	12 987
Current liabilities	**332 555**	**132**	**332 687**
Deferred revenue	41 552	132	41 684
TOTAL EQUITY AND LIABILITIES	**3 117 095**	**380**	**3 117 475**

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.

(figures quoted in PLN thousand, unless otherwise stated)

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.

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

IFRS 9 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. This duration was established based on Group's historical analysis of receivables repayments.

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 half of 2017. The introduced changes affect the presentation only and have no impact on the result.

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.

1.3.2 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.
    - 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.

(figures quoted in PLN thousand, unless otherwise stated)

2. COMPANIES FORMING THE GROUP

2.1 COMPANIES FORMING THE GROUP

The table below presents all direct and indirect subsidiaries of the issuer as at June 30, 2018.

SUBSIDIARY – NAME AND CORPORATE SEAT	% share of equity	% share of votes at the GM	core business
Katerinska Hotel s.r.o., Prague	directly 100%	directly 100%	hotel, F&B services
Accor Hotels Romania S.R.L., Bucharest	directly 100%	directly 100%	hotel, F&B services
UAB Hekon, Vilnius	directly 100%	directly 100%	hotel, F&B services
Orbis Kontrakty Sp. z o.o., Warsaw	directly 100%	directly 100%	organisation of purchasing
Orbis Corporate Sp. z o.o., Warsaw*	directly 100%	directly 100%	tourism, transport, hotel, F&B services
Accor Pannonia Hotels Zrt., Budapest	directly 99.92%	directly 99.92%	hotel, F&B services
H-DEVELOPMENT CZ a.s., Prague	indirectly 100%	indirectly 100%	real property services
Business Estate Entity a.s., Pilsen	indirectly 100%	indirectly 100%	real property rental
5 Hotel Kft., Budapest	indirectly 99.92%	indirectly 99.92%	real property rental
Accor-Pannonia Slovakia s.r.o., Bratislava	indirectly 99.92%	indirectly 99.92%	hotel, F&B services

** Company excluded from consolidation due to the immaterial share it contributes to the total assets/equity liabilities and net revenues of the Orbis Group.*

2.2 CHANGES IN THE STRUCTURE OF THE ORBIS GROUP

On May 31, 2018, a subsidiary company of Orbis S.A., i.e. Accor Pannonia Hotels Zrt. with its registered address in Budapest (the seller) and two controlled subsidiaries of the Starwood Capital Group (the buyer) finalised the sale transaction of a stake representing 100% of share capital of 5 Star Hotel Kft., the owner of the Sofitel Budapest Chain Bridge.

3. DESCRIPTION OF MAJOR EVENTS OF THE FIRST HALF OF 2018

The most important events of the first half of 2018 which affected the financial results 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 Worcella Street, for a net price of PLN 13 000 thousand. The property was purchased in order to implement an investment project (construction of a hotel), 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.

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

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

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

On May 9, 2018, Accor Pannonia Hotels Zrt. sold the Novotel Szeged hotel for a price of HUF 757.6 million. The transaction involved the sale of real property and the business conducted by the hotel. After the sale, the hotel will continue to operate under the Novotel brand based on a management agreement executed for a term of at least 10 years.

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

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

4. SEGMENT INFORMATION

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

4.1 OPERATING SEGMENTS

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

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

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

The tables on the following pages present figures pertaining to revenues, results as well as assets of the individual operating segments of the Orbis Group. Presented figures comprise results of owned and leased hotels.

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

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

As at June 30, 2018, the individual operating segments included:
- the Up&Midscale segment: 3 Sofitel hotels, 20 Novotel hotels, 14 Mercure hotels and 1 MGallery hotel;
- the Economy segment : 22 ibis hotels, 9 ibis budget hotels and 3 ibis Styles hotels.

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

On the other hand, as at June 30, 2017, the individual operating segments included:
- the Up&Midscale segment: 4 Sofitel hotels, 21 Novotel hotels, 15 Mercure hotels and 1 MGallery hotel;
- the Economy segment : 23 ibis hotels, 9 ibis budget hotels and 3 ibis Styles hotels.

(figures quoted in PLN thousand, unless otherwise stated)

Operating segment revenues and expenses are as follows:

Figures for the first half of 2018:

1ST HALF OF 2018	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**519 938**	**149 558**	**20 816**	**690 312**
Sale to external clients	519 938	149 558	20 816	690 312
EBITDAR	**202 931**	**70 546**	**(40 390)**	**233 087**
Operating EBITDA	**180 091**	**65 917**	**(41 203)**	**204 805**
Depreciation and amortisation	(59 953)	(20 089)	(2 280)	(82 322)
Operating profit/(loss) without the effects of one-off events	**120 138**	**45 828**	**(43 483)**	**122 483**
Result of one-off events	0	0	129 451	129 451
Operating profit/(loss) (EBIT)	**120 138**	**45 828**	**85 968**	**251 934**
Finance income/(costs)	(616)	(392)	(5 563)	(6 571)
Income tax expense	0	0	(30 347)	(30 347)
Net profit/(loss)	**119 522**	**45 436**	**50 058**	**215 016**

Figures for the second quarter of 2018:

2ND QUARTER OF 2018	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**314 555**	**92 069**	**12 223**	**418 847**
Sale to external clients	314 555	92 069	12 223	418 847
EBITDAR	**148 972**	**50 269**	**(19 862)**	**179 379**
Operating EBITDA	**136 880**	**47 823**	**(20 285)**	**164 418**
Depreciation and amortisation	(29 272)	(10 009)	(1 125)	(40 406)
Operating profit/(loss) without the effects of one-off events	**107 608**	**37 814**	**(21 410)**	**124 012**
Result of one-off events	0	0	129 310	129 310
Operating profit/(loss) (EBIT)	**107 608**	**37 814**	**107 900**	**253 322**
Finance income/(costs)	(380)	(225)	(2 413)	(3 018)
Income tax expense	0	0	(30 900)	(30 900)
Net profit/(loss)	**107 228**	**37 589**	**74 587**	**219 404**

(figures quoted in PLN thousand, unless otherwise stated)

Figures for the first half of 2017:

1ST HALF OF 2017	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**516 590**	**147 023**	**15 917**	**679 530**
Sale to external clients	516 590	147 023	15 917	679 530
EBITDAR	**206 538**	**71 280**	**(40 717)**	**237 101**
Operating EBITDA	**176 303**	**66 823**	**(40 955)**	**202 171**
Depreciation and amortisation	(58 021)	(21 857)	(2 308)	(82 186)
Operating profit/(loss) without the effects of one-off events	**118 282**	**44 966**	**(43 263)**	**119 985**
Result of one-off events	0	0	1 084	1 084
Operating profit/(loss) (EBIT)	**118 282**	**44 966**	**(42 179)**	**121 069**
Finance income/(costs)	(662)	(421)	(15 169)	(16 252)
Income tax expense	0	0	(22 546)	(22 546)
Net profit/(loss)	**117 620**	**44 545**	**(79 894)**	**82 271**

Figures for the second quarter of 2017:

2ND QUARTER OF 2017	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**313 421**	**91 519**	**8 639**	**413 579**
Sale to external clients	313 421	91 519	8 639	413 579
EBITDAR	**149 935**	**51 428**	**(21 167)**	**180 196**
Operating EBITDA	**135 710**	**49 248**	**(20 915)**	**164 043**
Depreciation and amortisation	(28 677)	(10 750)	(1 157)	(40 584)
Operating profit/(loss) without the effects of one-off events	**107 033**	**38 498**	**(22 072)**	**123 459**
Result of one-off events	0	0	(2 025)	(2 025)
Operating profit/(loss) (EBIT)	**107 033**	**38 498**	**(24 097)**	**121 434**
Finance income/(costs)	(478)	(45)	(3 937)	(4 460)
Income tax expense	0	0	(23 542)	(23 542)
Net profit/(loss)	**106 555**	**38 453**	**(51 576)**	**93 432**

(figures quoted in PLN thousand, unless otherwise stated)

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

AS AT JUNE 30, 2018	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 609 047	703 310	57 168	2 369 525
- goodwill	37 803	69 449	0	107 252
- financial assets	0	0	6 944	6 944
- deferred tax assets	0	0	14 932	14 932
Current assets, of which:	74 095	15 995	615 758	705 848
- cash and cash equivalents	0	0	582 020	582 020
Assets classified as held for sale	10 824	26 767	4 511	42 102
Investment expenditure	56 531	35 444	1 569	93 544

AS AT DECEMBER 31, 2017	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 635 439	704 140	52 761	2 392 340
- goodwill	37 803	69 449	0	107 252
- financial assets	0	0	6 944	6 944
- deferred tax assets	0	0	15 912	15 912
Current assets, of which:	57 879	9 251	258 739	325 869
- cash and cash equivalents	0	0	214 844	214 844
Assets classified as held for sale	179 710	16 759	4 624	201 093
Investment expenditure	483 776	123 998	14 326	622 100

AS AT JUNE 30, 2017	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 640 201	718 089	66 817	2 425 107
- goodwill	37 803	69 449	0	107 252
- financial assets	0	0	24 025	24 025
- deferred tax assets	0	0	18 292	18 292
Current assets, of which:	72 753	14 646	275 030	362 429
- cash and cash equivalents	0	0	242 619	242 619
Assets classified as held for sale	181 941	7 584	0	189 525
Investment expenditure	416 195	101 561	729	518 485

(figures quoted in PLN thousand, unless otherwise stated)

4.2 GEOGRAPHICAL INFORMATION

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

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

As at June 30, 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: 4 Novotel hotels, 3 Mercure hotels, 5 ibis hotels and 2 ibis Styles hotels,
- The Czech Republic: one hotel of each of the Novotel, Mercure and MGallery brands and 4 ibis hotels,
- Other countries (Lithuania, Romania, Slovakia): 2 Novotel hotels, 1 Mercure hotel and 1 ibis hotel.

As at December 31, 2017, the individual geographic segments included:

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

On the other hand, as at June 30, 2017, the individual geographic segments included:

- Poland: 3 Sofitel hotels, 13 Novotel hotels, 10 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.

Geographical segment revenues and costs/expenses are as follows:

1ST HALF OF 2018	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**429 600**	**158 864**	**56 714**	**45 643**	**(509)**	**690 312**
Sale to external clients	429 091	158 864	56 714	45 643	0	690 312
Sale to other segments	509	0	0	0	(509)	0
EBITDAR	**134 447**	**57 806**	**23 714**	**17 123**	**(3)**	**233 087**
Operating EBITDA	**130 692**	**49 159**	**16 724**	**8 233**	**(3)**	**204 805**
Depreciation and amortisation	(62 611)	(12 660)	(6 311)	(740)	0	(82 322)
Operating profit without the effects of one-off events	**68 081**	**36 499**	**10 413**	**7 493**	**(3)**	**122 483**

(figures quoted in PLN thousand, unless otherwise stated)

2ND QUARTER OF 2018	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**257 675**	**98 584**	**36 453**	**26 428**	**(293)**	**418 847**
Sale to external clients	257 382	98 584	36 453	26 428	0	418 847
Sale to other segments	293	0	0	0	(293)	0
EBITDAR	**104 201**	**45 311**	**18 887**	**10 981**	**(1)**	**179 379**
Operating EBITDA	**102 305**	**40 715**	**15 306**	**6 093**	**(1)**	**164 418**
Depreciation and amortisation	(30 773)	(6 086)	(3 163)	(384)	0	(40 406)
Operating profit without the effects of one-off events	**71 532**	**34 629**	**12 143**	**5 709**	**(1)**	**124 012**

1ST HALF OF 2017	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**422 081**	**158 512**	**55 213**	**44 147**	**(423)**	**679 530**
Sale to external clients	421 658	158 512	55 213	44 147	0	679 530
Sale to other segments	423	0	0	0	(423)	0
EBITDAR	**138 987**	**56 306**	**24 411**	**17 400**	**(3)**	**237 101**
Operating EBITDA	**135 031**	**40 384**	**17 678**	**9 081**	**(3)**	**202 171**
Depreciation and amortisation	(62 933)	(12 408)	(6 108)	(737)	0	(82 186)
Operating profit without the effects of one-off events	**72 098**	**27 976**	**11 570**	**8 344**	**(3)**	**119 985**

2ND QUARTER OF 2017	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**247 980**	**104 390**	**36 521**	**24 939**	**(251)**	**413 579**
Sale to external clients	247 729	104 390	36 521	24 939	0	413 579
Sale to other segments	251	0	0	0	(251)	0
EBITDAR	**102 827**	**46 974**	**19 368**	**11 030**	**(3)**	**180 196**
Operating EBITDA	**100 950**	**39 924**	**16 004**	**7 168**	**(3)**	**164 043**
Depreciation and amortisation	(31 420)	(5 614)	(3 182)	(368)	0	(40 584)
Operating profit without the effects of one-off events	**69 530**	**34 310**	**12 822**	**6 800**	**(3)**	**123 459**

(figures quoted in PLN thousand, unless otherwise stated)

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

AS AT JUNE 30, 2018	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Non-current assets, of which:	2 331 291	530 355	144 604	10 806	(647 531)	2 369 525
- goodwill	107 252	0	0	0	0	107 252
- financial assets	163 114	0	0	0	(156 170)	6 944
- deferred tax assets	5 592	801	8 500	39	0	14 932
Current assets, of which:	462 687	100 566	59 694	126 557	(43 656)	705 848
- cash and cash equivalents	359 148	63 146	48 072	111 654	0	582 020
Assets classified as held for sale	32 292	0	9 810	0	0	42 102
Investment expenditure	63 228	23 431	2 498	4 387	0	93 544

AS AT DEC. 31, 2017	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Non-current assets, of which:	2 513 511	539 842	153 421	6 746	(821 180)	2 392 340
- goodwill	107 252	0	0	0	0	107 252
- financial assets	336 444	0	0	0	(329 500)	6 944
- deferred tax assets	5 016	2 685	8 182	29	0	15 912
Current assets, of which:	211 120	56 516	43 101	86 661	(71 529)	325 869
- cash and cash equivalents	87 187	16 606	35 433	75 618	0	214 844
Assets classified as held for sale	23 514	177 579	0	0	0	201 093
Investment expenditure	93 559	516 039	9 675	2 827	0	622 100

(figures quoted in PLN thousand, unless otherwise stated)

AS AT JUNE 30, 2017	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Non-current assets, of which:	2 546 082	529 830	154 841	19 059	(824 705)	2 425 107
- goodwill	107 252	0	0	0	0	107 252
- financial assets	344 838	0	0	13 081	(333 894)	24 025
- deferred tax assets	3 962	6 063	8 552	21	(306)	18 292
Current assets, of which:	291 817	62 307	28 277	50 296	(70 268)	362 429
- cash and cash equivalents	161 086	22 527	18 296	40 710	0	242 619
Assets classified as held for sale	8 777	180 748	0	0	0	189 525
Investment expenditure	30 743	480 633	5 963	1 146	0	518 485

4.3 OPERATING SEGMENT REVENUE PER TYPE OF SERVICE AND GEOGRAPHICAL AREA

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

1ST HALF OF 2018	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Revenue per type of service:	**519 938**	**149 558**	**20 816**	**690 312**
Room revenue	354 476	118 024	0	472 500
Food & beverage revenue	146 726	26 810	0	173 536
Franchise and management revenue	0	0	13 551	13 551
Other revenue	18 736	4 724	7 265	30 725
Revenue per geographical area:	**519 938**	**149 558**	**20 816**	**690 312**
Poland	330 043	88 831	10 217	429 091
Hungary	126 661	27 406	4 797	158 864
Czech Republic	27 200	29 155	359	56 714
Other countries	36 034	4 166	5 443	45 643

(figures quoted in PLN thousand, unless otherwise stated)

2ND QUARTER OF 2018	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Revenue per type of service:	**314 555**	**92 069**	**12 223**	**418 847**
Room revenue	220 366	74 231	0	294 597
Food & beverage revenue	84 324	15 178	0	99 502
Franchise and management revenue	0	0	8 226	8 226
Other revenue	9 865	2 660	3 997	16 522
Revenue per geographical area:	**314 555**	**92 069**	**12 223**	**418 847**
Poland	199 185	52 565	5 632	257 382
Hungary	78 078	17 363	3 143	98 584
Czech Republic	16 541	19 686	226	36 453
Other countries	20 751	2 455	3 222	26 428

1ST HALF OF 2017	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Revenue per type of service:	**516 590**	**147 023**	**15 917**	**679 530**
Room revenue	346 002	116 022	0	462 024
Food & beverage revenue	150 375	26 100	0	176 475
Franchise and management revenue	0	0	10 089	10 089
Other revenue	20 213	4 901	5 828	30 942
Revenue per geographical area:	**516 590**	**147 023**	**15 917**	**679 530**
Poland	324 278	89 027	8 353	421 658
Hungary	131 164	24 347	3 001	158 512
Czech Republic	25 150	29 715	348	55 213
Other countries	35 998	3 934	4 215	44 147

2ND QUARTER OF 2017	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Revenue per type of service:	**313 421**	**91 519**	**8 639**	**413 579**
Room revenue	215 658	73 745	0	289 403
Food & beverage revenue	86 769	14 970	0	101 739
Franchise and management revenue	0	0	5 665	5 665
Other revenue	10 994	2 804	2 974	16 772
Revenue per geographical area:	**313 421**	**91 519**	**8 639**	**413 579**
Poland	190 560	52 740	4 429	247 729
Hungary	86 632	16 149	1 609	104 390
Czech Republic	15 963	20 303	255	36 521
Other countries	20 266	2 327	2 346	24 939

5. SEASONALITY OR CYCLICALITY OF OPERATIONS

Sales of the Orbis Group throughout the year are marked by seasonality. Usually, 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 fourth quarter is ranked as the third, and the first quarter as 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	418 847	-	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	**690 312**	**-**	**1 458 073**	**100.0%**	**1 382 879**	**100.0%**

(figures quoted in PLN thousand, unless otherwise stated)

6. INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

NET SALES	3 months ended June 30, 2018	6 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2017
Room revenue	294 597	472 500	289 403	462 024
Food & beverage revenue	99 502	173 536	101 739	176 475
Franchise and management revenue	8 226	13 551	5 665	10 089
Other revenue	16 522	30 725	16 772	30 942
Total net sales	**418 847**	**690 312**	**413 579**	**679 530**
of which: revenue from related parties	*1 212*	*2 273*	*1 078*	*2 187*

EXPENSES BY NATURE	3 months ended June 30, 2018	6 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2017
Depreciation and amortisation	(40 406)	(82 322)	(40 584)	(82 186)
Rental expense	(14 961)	(28 282)	(16 153)	(34 930)
Outsourced services	(83 627)	(151 887)	(83 278)	(147 555)
Employee benefit expense	(93 998)	(187 674)	(87 043)	(173 821)
Raw materials and energy used	(48 159)	(92 272)	(49 570)	(95 421)
Taxes and charges	(11 225)	(21 205)	(10 634)	(20 543)
Other costs by nature:	(3 498)	(6 537)	(3 470)	(6 498)
business trips	(1 233)	(2 231)	(1 202)	(2 060)
insurance premiums	(835)	(1 765)	(879)	(1 795)
royalties	(510)	(1 026)	(504)	(1 039)
other	(920)	(1 515)	(885)	(1 604)
Impairment of receivables	19	436	67	(30)
Total expenses by nature	**(295 855)**	**(569 743)**	**(290 665)**	**(560 984)**

OTHER OPERATING INCOME / (EXPENSES), NET	3 months ended June 30, 2018	6 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2017
Commissions received from business partners	979	2 325	828	1 891
Reversal of provision for costs of fees for perpetual usufruct of land	0	0	774	774
Reversal of provision for onerous contract	20	41	497	497
Indemnities received	109	220	455	522
Other	384	1 869	1 255	1 790
Total other operating income	**1 492**	**4 455**	**3 809**	**5 474**
Other provisions	113	(140)	(451)	(682)
Receivables redeemed and written off	(179)	(343)	(200)	(402)
Indemnities, fines and penalties paid	(35)	(86)	(44)	(62)
Costs of hotel closing and assets liquidation	(30)	(1 062)	(2 508)	(2 530)
Other	(341)	(910)	(61)	(359)
Total other operating expenses	**(472)**	**(2 541)**	**(3 264)**	**(4 035)**
Other operating income/(expenses), net	**1 020**	**1 914**	**545**	**1 439**

(figures quoted in PLN thousand, unless otherwise stated)

RESULT ON SALE OF REAL PROPERTY	3 months ended June 30, 2018	6 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2017
Net proceeds from disposal of real properties	325 946	327 946	0	26 500
Net value of real properties and other assets and liabilities disposed of	(182 102)	(183 208)	0	(22 432)
Additional costs related to disposal	(15 375)	(15 390)	(20)	(141)
Total result on sale of real property	**128 469**	**129 348**	**(20)**	**3 927**

In the first half of 2018, the Orbis Group finalised the following real property sale transactions:

- On March 29, 2018, Orbis S.A. executed a sale agreement of non-hotel real property located in Karpacz, at Konstytucji 3 Maja Street, including the right to perpetual usufruct of land and buildings. The revenue from the sale transaction of this property totalled PLN 2 000 thousand, and the profit on this transaction (incl. additional costs) totalled PLN 906 thousand.
- On May 9, 2018, a Hungarian subsidiary Accor Pannonia Hotels Zrt. sold the Novotel Szeged hotel for a price of PLN 10 152.6 thousand (HUF 757.6 million). The profit on this transaction (incl. additional costs of sale) totalled PLN 2 200.6 thousand.
- On May 31, 2018, Accor Pannonia Hotels Zrt. finalised sale transaction of the Sofitel Budapest Chain Bridge hotel. The revenue from this transaction totalled PLN 315 793.4 thousand (EUR 73.9 million), and the profit on this transaction (incl. additional costs) totalled PLN 126 241.5 thousand.

RESTRUCTURING COSTS	3 months ended June 30, 2018	6 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2017
Costs of employment restructuring	(267)	(426)	(1 482)	(2 467)
(Recognised)/released provisions for employment restructuring	399	529	373	681
Total restructuring costs	**132**	**103**	**(1 109)**	**(1 786)**

RESULTS OF OTHER ONE-OFF EVENTS	3 months ended June 30, 2018	6 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2017
Leased hotels buyback costs	0	0	(896)	(1 057)
Real property transaction preparation costs*	709	0	0	0
Total results of other one-off events	**709**	**0**	**(896)**	**(1 057)**

** in the second quarter of 2018, these costs were recognized under profit on real property sale transactions.*

FINANCE INCOME	3 months ended June 30, 2018	6 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2017
Interest on deposits	317	567	455	831
Foreign exchange gains	853	853	0	0
Interest income on loans granted and receivables	11	11	8	11
Other	11	17	18	31
Total finance income	**1 192**	**1 448**	**481**	**873**

(figures quoted in PLN thousand, unless otherwise stated)

FINANCE COSTS	3 months ended June 30, 2018	6 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2017
Interest and debt service costs accrued on credit facilities	(230)	(403)	(1 185)	(2 226)
Interest and debt service costs accrued on bonds	(3 667)	(7 231)	(3 678)	(7 239)
Interest expense arising from provisions for employee benefits	(365)	(365)	(352)	(352)
Foreign exchange losses	62	0	446	(7 119)
Other	(10)	(20)	(172)	(189)
Total finance costs	**(4 210)**	**(8 019)**	**(4 941)**	**(17 125)**

INCOME TAX	3 months ended June 30, 2018	6 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2017
Current income tax	(30 010)	(29 622)	(17 746)	(18 485)
Deferred income tax	(890)	(725)	(5 796)	(4 061)
Tax charge in the consolidated income statement	**(30 900)**	**(30 347)**	**(23 542)**	**(22 546)**

(figures quoted in PLN thousand, unless otherwise stated)

7. STATEMENT OF FINANCIAL POSITION

7.1 NON-CURRENT ASSETS

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

PROPERTY, PLANT AND EQUIPMENT	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Tangible assets	2 113 013	2 178 213	2 216 144
Assets under construction	119 237	73 302	44 867
Total	**2 232 250**	**2 251 515**	**2 261 011**

TANGIBLE ASSETS	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Opening gross book amount	**4 556 158**	**4 377 513**	**4 377 513**
Accumulated depreciation and impairment	(2 377 945)	(2 383 957)	(2 383 957)
Opening net book amount	**2 178 213**	**1 993 556**	**1 993 556**
Increase due to acquisition of subsidiaries	**0**	**291 629**	**291 870**
Additions	**47 070**	**125 479**	**44 257**
purchase	47 049	103 808	44 247
reclassification from investments in progress	0	14 177	0
other	21	7 494	10
Disposals	**(29 641)**	**(45 463)**	**(10 420)**
sale	(10 213)	(18 512)	(28)
liquidation	(1 013)	(3 173)	(2 532)
other	0	(7 031)	0
reclassification to assets held for sale	(18 415)	(16 449)	(7 562)
reclassification to investment property	0	(298)	(298)
Increase in impairment loss	0	(1 416)	0
Decrease in impairment loss	0	4 690	0
Depreciation charge for the period	(80 851)	(160 806)	(80 551)
Exchange differences on translation	(1 778)	(29 456)	(22 568)
Closing net book amount	**2 113 013**	**2 178 213**	**2 216 144**
Closing gross book amount	**4 484 171**	**4 556 158**	**4 607 224**
Accumulated depreciation and impairment	(2 371 158)	(2 377 945)	(2 391 080)
Closing net book amount	**2 113 013**	**2 178 213**	**2 216 144**

Disposals resulting from sale include the net value of non-current assets of the Novotel Szeged hotel in Hungary. The hotel was sold on May 9, 2018.

Disposals resulting from reclassification to assets held for sale in the first half of 2018 concerns the reclassification of non-hotel real property located in Wrocław and the ibis Pilsen hotel in the Czech Republic.

(figures quoted in PLN thousand, unless otherwise stated)

The table below presents assets under construction and impairment losses thereon as at June 30, 2018:

ASSETS UNDER CONSTRUCTION	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Gross value of assets under construction	119 237	73 302	56 231
Impairment loss on assets under construction	0	0	(11 364)
Total	**119 237**	**73 302**	**44 867**

The change in the balance of assets under construction between December 31, 2017 and June 30, 2018 amounting to PLN 45 935 thousand results from incurred investment expenditure of PLN 93 544 thousand and additions to tangible assets of PLN 47 609 thousand.

The largest investment expenditures in the first half of 2018 were made in hotels located in Poland (PLN 63.2 million) and Hungary (PLN 23.4 million). Investment expenses incurred in Poland were allocated mainly for the purchase of a plot of land located at Worcella Street in Kraków, construction of a new ibis Styles Warszawa Centrum hotel, renovation of the SPA and all rooms and corridors on the 3rd and 4th floor of the Sofitel Warszawa Victoria hotel, as well as for further modernization of the Novotel Poznań Centrum hotel in connection with its division and partial rebranding into ibis. The remaining resources were allocated for improving the standard of hotels operating in the network, including in particular the Novotel Kraków City West hotel, the Novotel Katowice Centrum hotel and the Novotel Warszawa Centrum hotel. On the other hand, the largest investment projects in Hungary include modernization of the following hotels: Mercure Budapest City Center, Mercure Budapest Buda and Mercure Budapest Korona.

More information on investment expenditure incurred in the current year is provided under item 4.8 of the Directors' Report on the Operations of the Orbis Group in the First Half of 2018.

Information on collaterals established on property, plant and equipment is provided in Note 10 to the financial statements.

As at June 30, 2018, the Group did not have any tangible assets held under finance lease.

The approach applied to the recognition of rights to perpetual usufruct of land in accordance with IAS 16 Property, Plant and Equipment is explained in Note 1.2 to these financial statements.

INVESTMENT PROPERTY	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Opening gross book amount	**15 341**	**22 847**	**22 847**
Accumulated depreciation and impairment	(10 253)	(14 127)	(14 127)
Opening net book amount	**5 088**	**8 720**	**8 720**
Additions	**0**	**298**	**298**
reclassification from tangible assets	0	298	298
Disposals	**(1 145)**	**(3 607)**	**0**
sale	0	(88)	0
reclassification to assets held for sale	(1 145)	(3 519)	0
Depreciation charge for the period	(107)	(323)	(162)
Closing net book amount	**3 836**	**5 088**	**8 856**
Closing gross book amount	**13 261**	**15 341**	**23 675**
Accumulated depreciation and impairment	(9 425)	(10 253)	(14 819)
Closing net book amount	**3 836**	**5 088**	**8 856**

(figures quoted in PLN thousand, unless otherwise stated)

Disposals resulting from reclassification to assets held for sale in the first half of 2018 concerns the reclassification of non-hotel real property located at 1 Sierpnia Street in Warsaw in connection with the signing of the preliminary sale agreement for this real property.

INTANGIBLE ASSETS	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Opening gross book amount	**138 159**	**139 817**	**139 817**
Accumulated depreciation and impairment	(26 591)	(27 125)	(27 125)
Opening net book amount	**111 568**	**112 692**	**112 692**
Additions	**340**	**2 998**	**934**
purchase	340	1 957	934
other	0	1 041	0
Disposals	**(115)**	**(1 140)**	**(22)**
sale	(110)	(65)	0
liquidation	(4)	(5)	0
other	(1)	(1 041)	0
reclassification to assets held for sale	0	(29)	(22)
Depreciation charge for the period	(1 364)	(2 938)	(1 473)
Exchange differences on translation	(1)	(44)	(29)
Closing gross book amount	**110 428**	**111 568**	**112 102**
Closing gross book amount	**136 531**	**138 159**	**138 654**
Accumulated depreciation and impairment	(26 103)	(26 591)	(26 552)
Closing net book amount	**110 428**	**111 568**	**112 102**

The “Intangible assets” item includes goodwill amounting to PLN 107 252 thousand. Goodwill arose as a result of purchase of interests in the subsidiary Hekon–Hotele Ekonomiczne S.A.

OTHER FINANCIAL ASSETS	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Receivables from the sale of real property	6 944	6 944	10 944
Cash on the escrow account	0	0	13 081
Total other financial assets	**6 944**	**6 944**	**24 025**

The item “Other financial assets” includes receivables on account of sale of real properties on which the Mercure Mrągowo Resort & SPA hotel is located. An organised part of the enterprise (OPE) formed by the Mercure Mrągowo Resort & SPA hotel was sold on February 29, 2016, whereas sale of the real property where the organised part of the enterprise run was finalised on December 16, 2016. Pursuant to the agreement, the real property of the above hotel was sold for PLN 18 600 thousand, of which PLN 7 100 thousand was paid on the day of agreement execution, PLN 4 500 thousand was paid in 2017, while PLN 7 000 thousand will be paid in the following instalments:

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

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

(figures quoted in PLN thousand, unless otherwise stated)

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

- 6% of the sale price, i.e. PLN 3 381 thousand was paid into the bank account of Orbis S.A. on January 4, 2016,
- 7% of the price, i.e. PLN 3 944 thousand was be paid into the bank account of Orbis S.A. on January 2, 2018,
- 7% of the price, i.e. PLN 3 944 thousand will be transferred into Orbis’ account by December 31, 2019; this amount is presented in “Other financial assets” item.

Cash on the escrow account as at January 30, 2017 was the cash deposited by the subsidiary UAB Hekon and allocated for the purchase of the ibis hotel in Vilnius. In connection with the hotel’s buyout in 2018, as at December 31, 2017, and June 30, 2018, this cash was reported under the item Cash and cash equivalents.

OTHER NON-CURRENT ASSETS	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Non-current prepayments - insurance costs	733	855	363
Other non-current investments - works of art	402	458	458
Total other non-current assets	**1 135**	**1 313**	**821**

7.2 CURRENT ASSETS

INVENTORIES	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Raw materials	6 093	6 708	6 567
Merchandise	92	77	75
Total inventories	**6 185**	**6 785**	**6 642**

CURRENT RECEIVABLES	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Trade receivables	87 240	73 189	80 185
of which: receivables from related parties	*6 089*	*4 405*	*4 991*
Impairment loss on receivables	(4 067)	(4 610)	(4 011)
Net trade receivables	**83 173**	**68 579**	**76 174**

(figures quoted in PLN thousand, unless otherwise stated)

OTHER CURRENT RECEIVABLES	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Current receivables	**12 539**	**27 239**	**16 595**
Taxes, social insurance and other benefits receivable	1 661	12 581	3 154
Disputed receivables	2 534	2 387	2 331
Amounts receivable on account of sale of tangible assets	4 000	7 944	8 444
Prepayments	2 181	2 085	2 113
Other receivables	4 697	4 629	2 884
Impairment loss on receivables	(2 534)	(2 387)	(2 331)
Current prepayments	**20 108**	**7 881**	**18 739**
Prepayments, of which:	20 108	7 881	18 739
taxes and charges	5 973	1	5 909
rent	5 747	5 526	6 038
other	8 388	2 354	6 792
Net other current receivables	**32 647**	**35 120**	**35 334**

OTHER CURRENT FINANCIAL ASSETS	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Loans to other entities	1 071	457	466
Impairment loss on loan	(451)	(457)	(466)
Total other current financial assets	**620**	**0**	**0**

The loan in the amount of PLN 620 thousand reported under "Other current financial assets" was granted by Accor Hotels Romania s.r.l. to the company that owns the Mercure Budapest Unirii hotel, purchased by a Romanian company at the beginning of July 2018. The loan was fully repaid in July.

CASH AND CASH EQUIVALENTS	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Cash at bank and in hand	249 264	161 282	175 696
Short-term bank deposits	293 498	21 786	66 086
Cash on the escrow account	38 247	30 122	0
Other cash and cash equivalents	1 011	1 654	837
Total cash and cash equivalents	**582 020**	**214 844**	**242 619**

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

(figures quoted in PLN thousand, unless otherwise stated)

7.3 ASSETS CLASSIFIED AS HELD FOR SALE

As at June 30, 2018, assets classified as held for sale comprise:

- the components of property, plant and equipment of the ibis budget Toruń hotel (including the right to perpetual usufruct of land with a building and its fixtures and fittings),
- land located in Toruń, developed with an unfinished building, initially planned as an ibis hotel,
- assets of the Mercure Cieszyn hotel (including the right to perpetual usufruct of land with a building, fixtures and fittings),
- tangible and intangible assets of the ibis Styles Bielsko-Biała hotel,
- the right to perpetual usufruct of land with the title of ownership of buildings located in Poznań at Prusimska street,
- non-hotel real property located in Wrocław, including the right of perpetual usufruct of land, buildings and facilities,
- residential and non-residential premises with two car parks located at 1 Sierpnia Street in Warsaw,
- property, plant and equipment of the ibis Pilsen hotel in the Czech Republic.

ASSETS CLASSIFIED AS HELD FOR SALE	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Opening balance	**201 093**	**23 631**	**23 631**
Increase due to acquisition of subsidiaries	**0**	**179 626**	**179 626**
Additions	**20 717**	**24 591**	**8 706**
reclassification from tangible assets	18 415	16 493	7 562
reclassification from intangible assets	0	29	22
reclassification from other assets	1 145	3 519	0
reversal of impairment loss	0	4 550	0
exchange differences on translation	1 157	0	1 122
Disposals	**(179 708)**	**(26 755)**	**(22 438)**
sale of real property	(179 702)	(23 624)	(22 432)
Recognised impairment loss	0	(1 084)	0
other	(6)	0	0
exchange differences on translation	0	(2 047)	(6)
Closing balance	**42 102**	**201 093**	**189 525**

The additions in the first half of 2018 resulted from the transfer of non-hotel real properties located in Wrocław and Warsaw as well as tangible non-current assets of the ibis Pilsen hotel in the Czech Republic.

On the other hand, the decrease in assets classified as held for sale is related to the sale of the Sofitel Budapest Chain Bridge hotel at the end of May 2018 and the sale, at the end of March 2018, of the right of perpetual usufruct of land together with the buildings erected thereon, located at 3 Konstytucji Maja Street in Karpacz.

(figures quoted in PLN thousand, unless otherwise stated)

7.4 CURRENT AND NON-CURRENT LIABILITIES

Borrowings

As at June 30, 2018, and December 31, 2017, 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 the 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 remaining companies of the Orbis Group also did not have any credit facility liabilities as at June 30, 2018.

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

As at June 30, 2017, Orbis had liabilities under a credit facility of PLN 105 555 thousand and a subsidiary Accor Pannonia Hotels Zrt. had liabilities under an overdraft facility of PLN 54 270 thousand (EUR 12 831 thousand).

During 6 months of 2018, Accor Pannonia Hotels Zrt. paid PLN 376 thousand as interests on overdraft facilities.

BORROWINGS	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Liabilities arising from credit facilities (outstanding principal)	0	0	105 867
Valuation of credit facilities at amortised cost	0	0	(312)
Overdrafts	0	40 873	54 270
Total borrowings	**0**	**40 873**	**159 825**

The amount of undrawn credit lines under overdrafts of the Orbis Group as at June 30, 2018, was PLN 45.2 million, of which the credit lines undrawn by Orbis S.A. amounted to PLN 20.0 million and those of Katerinska Hotel s.r.o.: PLN 25.2 million (i.e. CZK 150.0 million). The remaining Group companies did not have undrawn credit lines under overdrafts.

Bonds

On **June 26, 2015**, Orbis S.A. issued **300 thousand** ordinary bearer **bonds** of **the ORB A 260620 series**, of a nominal value of PLN 1 000 each and a total nominal value of PLN 300 000 thousand. The issue price of the bonds is equal to their nominal value. The funds raised from this bond issue were used for partial repayment of 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 had the right to 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. The Company did not exercise this right.

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.

(figures quoted in PLN thousand, unless otherwise stated)

Moreover, on **July 29, 2016**, Orbis S.A. issued another **200 thousand** ordinary bearer **bonds** of the **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 for six-month deposits (WIBOR 6M) plus interest rate margin of 1.05%. The interest will be payable in 6-month interest periods.

The bonds shall be redeemed on July 29, 2021, at their nominal value. Prior to the redemption date, on July 29, 2019, 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 October 20, 2016, the bonds of the ORB B 290721 series, were introduced to trading in the debt securities alternative trading system BondSpot 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 half of 2018, Orbis paid PLN 7 042 thousand as interest on issued bonds. Moreover, in June, 2018, the Company paid PLN 75 thousand as interest payments under the IRS transaction (please refer to Note 11.3 of these financial statements).

BONDS	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Proceeds from the bond issue (outstanding principal)	500 000	500 000	500 000
Valuation of bonds at amortised cost	1 892	1 778	1 515
Total bonds	**501 892**	**501 778**	**501 515**

Information on hedges established in connection with the issue of bonds is provided in Note 10.1 to the financial statements.

Deferred revenue

NON-CURRENT DEFERRED REVENUE	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Advance payments received	12 987	12 202	12 351
Total non-current deferred revenue	**12 987**	**12 202**	**12 351**

Advance payments received in the amount of PLN 10 928 thousand are a result of a preliminary sale and purchase agreement for the sale of the Giewont hotel in Zakopane and the accompanying contract of lease, executed on April 3, 2012. Pursuant to the executed preliminary sale and purchase agreement, Orbis S.A. received an advance payment towards the selling price amounting to PLN 5 428 thousand in 2012 and PLN 9 500 thousand in 2017. Also, rent for the first three years of the hotel lease was paid in advance on the date of execution of the contract of lease. Pursuant to the executed contract, starting from the fourth year, i.e. from April 2015, the rent of PLN 1 000 thousand per year will be covered from the received advance payment towards the sale price.

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

(figures quoted in PLN thousand, unless otherwise stated)

Moreover, the non-current deferred revenue as at June 30, 2018 includes the non-current portion of fees received for affiliation with the hotel network (the so-called Entrance Fee) in the total amount of PLN 1 870 thousand.

CURRENT DEFERRED REVENUE	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Advance payments towards the sale of real property	1 519	191	2 105
Other prepayments and advances	36 234	19 584	36 081
Prepaid rent	3 931	3 848	3 868
Total current deferred revenue	**41 684**	**23 623**	**42 054**

As at June 30, 2018 the balance of deferred revenue arising from the sale of real property comprises the earnest money for the sale of the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biała hotel (PLN 810 thousand in total) and advance payment for the sale of a non-hotel real property located in Poznań (PLN 690 thousand). At the end of December 2017, the Group reported the advance payment for the sale of the right to perpetual usufruct to a land in Karpacz under this item, and as at June 30, 2017, an advance payment for the sale of the right to perpetual usufruct of land at Heweliusza Street in Gdańsk.

Other prepayments and advances comprise predominantly prepayments received for rooms.

OTHER NON-CURRENT LIABILITIES	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Liabilities associated with tangible assets	5 308	5 199	4 463
Deposits received	600	578	582
Total other non-current liabilities	**5 908**	**5 777**	**5 045**

The balance of non-current liabilities associated with tangible assets comprises deposits received by the Group by way of security for any claims resulting from faulty performance of agreements for repair and construction services. Other non-current liabilities also include non-current deposits received on account of rental of real properties.

TRADE PAYABLES	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Trade payables	102 873	101 471	110 293
of which: liabilities towards related parties	*15 013*	*8 980*	*11 784*
Total trade payables	**102 873**	**101 471**	**110 293**

LIABILITIES ASSOCIATED WITH TANGIBLE ASSETS	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Liabilities associated with tangible assets	12 742	28 358	9 302
Total liabilities associated with tangible assets	**12 742**	**28 358**	**9 302**

The decrease in the balance of liabilities associated with tangible assets in the first half of 2018 results in particular from recognition of capital expenditure incurred for the modernisation of the following hotels: the Novotel Poznań Centrum, the ibis Styles Warszawa Centrum, the Novotel Warszawa Airport, the Sofitel Warszawa Victoria and the Novotel Warszawa Centrum.

(figures quoted in PLN thousand, unless otherwise stated)

OTHER CURRENT LIABILITIES	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Current liabilities	**103 065**	**30 707**	**110 125**
Dividends payable	73 773	50	73 774
Taxes, social insurance and other benefits payable	16 096	23 565	27 821
Settlements with employees	4 632	4 545	5 123
Deposits received	1 638	1 896	2 063
Other liabilities	6 926	651	1 344
Accrued expenses	**51 110**	**57 544**	**47 590**
Obligations towards employees	38 042	44 574	36 364
Public law liabilities	11 101	11 069	7 711
Other	1 967	1 901	3 515
Total other current liabilities	**154 175**	**88 251**	**157 715**

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

As at June 30, 2018, the item Other liabilities includes mainly the Sofitel Budapest Chain Bridge and the Novotel Szeged hotels sold in the first half of 2018.

As at June 30, 2018, the Orbis Group had future capital commitments under executed contracts totalling PLN 55.9 million. The highest amount of future investment liabilities concerns the construction of the ibis Styles Warszawa Centrum hotel and the ibis Styles Szczecin hotel and the division of the Novotel Poznan Centrum hotel into two hotels under different brands, Novotel and ibis, operating in a single building. Furthermore, significant amounts of liabilities concern modernization works carried out in, among others, the Novotel Kraków City West hotel, the Sofitel Warszawa Victoria hotel, the Novotel Wrocław City hotel, the Mercure Gdańsk Stare Miasto hotel and the ibis Warszawa Stare Miasto hotel. In addition, future capital commitments of EUR 8.7 million (i.e. approximately PLN 38 million) concern the purchase of the ibis Vilnius hotel in Lithuania, EUR 15.5 million (i.e. approximately PLN 68 million) concern the buyout of the formerly leased the Century Old Town Prague MGallery by Sofitel hotel located in Prague and EUR 11.4 million (i.e. approximately PLN 50 million) concern the purchase of the Mercure Unirii hotel located in Bucharest.

(figures quoted in PLN thousand, unless otherwise stated)

8. CHANGES IN ESTIMATES OF AMOUNTS

8.1 IMPAIRMENT OF ASSETS

IMPAIRMENT LOSS ON TANGIBLE ASSETS AND ASSETS UNDER CONSTRUCTION	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Opening balance	**(49 241)**	**(87 987)**	**(87 987)**
recognised impairment loss on tangible assets	0	(1 416)	0
reversed impairment loss on tangible assets	0	4 690	0
decrease in impairment losses in connection with sale/liquidation	8 044	5 231	0
impairment loss on tangible assets not subject to reversal *	2 459	10 392	2 720
reclassification to assets held for sale	11 911	18 158	3 711
exchange differences on translation	(263)	1 691	1 504
Closing balance	**(27 090)**	**(49 241)**	**(80 052)**

IMPAIRMENT LOSS ON INVESTMENT PROPERTY	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Opening balance	**(578)**	**(592)**	**(592)**
impairment loss on investment property not subject to reversal *	7	14	7
reclassification to assets held for sale	571	0	0
Closing balance	**0**	**(578)**	**(585)**

IMPAIRMENT LOSS ON INTANGIBLE ASSETS	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Opening balance	**(376)**	**(576)**	**(576)**
impairment loss on investment property not subject to reversal *	0	170	3
exchange differences on translation	(15)	30	26
Closing balance	**(391)**	**(376)**	**(547)**

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

IMPAIRMENT LOSS ON ASSETS CLASSIFIED AS HELD FOR SALE	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Opening balance	**(14 692)**	**(17 882)**	**(17 882)**
recognised impairment loss	0	(1 084)	0
reversed impairment loss	0	4 550	0
decrease in impairment losses in connection with sale/liquidation	0	17 882	17 882
reclassification from tangible assets	(11 911)	(18 158)	(3 711)
reclassification from investment property	(571)	0	0
exchange differences on translation	(173)	0	0
Closing balance	**(27 347)**	**(14 692)**	**(3 711)**

(figures quoted in PLN thousand, unless otherwise stated)

IMPAIRMENT LOSS ON RECEIVABLES	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Opening balance	**(6 997)**	**(6 532)**	**(6 532)**
recognised impairment loss	(885)	(1 956)	(428)
reversed impairment loss	1 321	1 159	398
utilised impairment loss	7	76	61
exchange differences on translation	(47)	256	159
Closing balance	**(6 601)**	**(6 997)**	**(6 342)**

IMPAIRMENT LOSS ON FINANCIAL ASSETS	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Opening balance	**(457)**	**(1 078)**	**(1 078)**
utilised impairment loss	0	562	594
exchange differences on translation	6	59	18
Closing balance	**(451)**	**(457)**	**(466)**

As at June 30, 2018, December 31, 2017, and June 30, 2017, Orbis also had an impairment gain on investments in other units of PLN 47 thousand.

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

(figures quoted in PLN thousand, unless otherwise stated)

8.2 PROVISIONS FOR EMPLOYEE BENEFITS

PROVISIONS FOR EMPLOYEE BENEFITS	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2018	**15 017**	**7 243**	**22 260**
Current service cost	552	177	729
Interest cost	249	116	365
Benefits paid	(957)	(171)	(1 128)
Exchange differences on translation	0	(6)	(6)
Present value of obligation - as at June 30, 2018	**14 861**	**7 359**	**22 220**
Short-term provisions	1 849	1 186	3 035
Long-term provisions	13 012	6 173	19 185
Total present value of obligation - as at June 30, 2018	**14 861**	**7 359**	**22 220**

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

(figures quoted in PLN thousand, unless otherwise stated)

PROVISIONS FOR EMPLOYEE BENEFITS	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2017	**15 446**	**7 302**	**22 748**
Current service cost	499	162	661
Past service cost and (gain)/loss from settlements	(1 134)	(457)	(1 591)
Interest cost	251	101	352
Benefits paid	(810)	(60)	(870)
Exchange differences on translation	0	(28)	(28)
Present value of obligation - as at June 30, 2017	**14 252**	**7 020**	**21 272**
Short-term provisions	1 777	1 132	2 909
Long-term provisions	12 475	5 888	18 363
Total present value of obligation - as at June 30, 2017	**14 252**	**7 020**	**21 272**

Net interest relating to the valuation of provisions for employee benefits as well as actuarial gains/losses arising from the valuation of provisions for jubilee awards are presented in the income statement as finance costs.

Actuarial gains/losses arising from the valuation of provisions for retirement & disability benefits are disclosed under other comprehensive income.

Other changes in provisions for employee benefits are presented in the income statement as employee benefit expense.

8.3 PROVISIONS FOR LIABILITIES

PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Other provisions for liabilities	Total provisions for liabilities
As at January 1, 2018	**777**	**1 588**	**5 666**	**8 031**
Provision recognised in the period	0	517	140	657
Provision utilised in the period	0	(426)	0	(426)
Provision reversed in the period	0	(620)	(41)	(661)
Exchange differences on translation	0	(4)	(76)	(80)
As at June 30, 2018	**777**	**1 055**	**5 689**	**7 521**
Short-term provisions	777	1 055	1	1 833
Long-term provisions	0	0	5 688	5 688
Total provisions as at June 30, 2018	**777**	**1 055**	**5 689**	**7 521**

(figures quoted in PLN thousand, unless otherwise stated)

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

PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Other provisions for liabilities	Total provisions for liabilities
As at January 1, 2017	**777**	**681**	**6 765**	**8 223**
Provision recognised in the period	0	324	682	1 006
Provision utilised in the period	0	(957)	0	(957)
Provision reversed in the period	0	(48)	(497)	(545)
Exchange differences on translation	0	0	(256)	(256)
As at June 30, 2017	**777**	**0**	**6 694**	**7 471**
Short-term provisions	777	0	1	778
Long-term provisions	0	0	6 693	6 693
Total provisions as at June 30, 2017	**777**	**0**	**6 694**	**7 471**

8.4 DEFERRED TAX ASSETS AND LIABILITIES

DEFERRED TAX *	As at:		Impact on statement of comprehensive income
	Jun. 30, 2018	Dec. 31, 2017	
Deferred tax assets	14 932	15 912	(980)
Deferred tax liabilities	2 095	3 969	1 874
Change in deferred tax assets and liabilities, of which:			**894**
impact on profit or loss			(725)
impact on the initial balance of retained earnings			273
impact on other comprehensive income (incl. exchange differences on translation)			1 346

** The deferred tax assets and liabilities are presented as per account balance in each company of the Group.*

(figures quoted in PLN thousand, unless otherwise stated)

9. OPERATING LEASE AGREEMENTS

The Group's operating lease commitments apply to agreements that concern predominantly buildings. As at June 30, 2018 the Group pursued business in 10 hotels used under operating lease agreements. The majority of these agreements is denominated in foreign currencies. Expiry dates of concluded agreements range from 1 to 14 years.

Operating lease agreements of hotel buildings per type of contract:

Type of contract	Number of hotels	Half year rent in 2018	Minimum lease payment during half year rent in 2018	Expiry date
Fixed rent with buyout option	1	(3 106)	(3 106)	2018
Fixed rent without buyout option	5	(12 678)	(11 964)	2021-2031
Fixed rent with variable interest	1	(4 081)	(4 081)	2022
Variable lease with minimum lease payment	1	(2 332)	(2 332)	2019
Variable rent without minimum lease payment	2	(5 319)	0	2018-2025
Total	**10**	**(27 516)**	**(21 483)**	

Operating lease agreements of hotel buildings per country:

	Number of hotels	Half year rent in 2018	Minimum lease payment during half year rent in 2018	Expiry date
Poland	1	(3 755)	(3 755)	2021
Czech Republic	2	(6 470)	(5 956)	2018-2031
Lithuania	1	(2 332)	(2 332)	2019
Romania	1	(3 836)	0	2018
Slovakia	2	(2 722)	(1 039)	2023-2025
Hungary	3	(8 401)	(8 401)	2022-2026
Total	**10**	**(27 516)**	**(21 483)**	

As at June 30, 2018, the Group had 136 passenger vehicles in operating lease. The dates of termination of passenger vehicles lease contracts are from 1 to 3 years. In addition, since the 2nd quarter of 2018, the Group has been a party to a lease agreement for office space in Prague.

In the first half of 2018 lease payments amounting to PLN 28 282 thousand were recognised in profit or loss, in which PLN 21 483 thousand minimum lease payment. In the first half of 2017, lease payments amounting to PLN 35 858 thousand were recognised in profit or loss, in which PLN 30 028 thousand of minimum lease payments.

The costs of lease of hotel buildings (PLN 27 516 thousand in the first half of 2018 and PLN 33 899 thousand in the first half of 2017) are presented in the income statement under the Costs of properties rental item. This item also includes costs of rental of non-hotel properties (incl. offices in Prague).
The costs of lease of passenger vehicles (PLN 754 thousand in the first half of 2018 and PLN 928 thousand in the first half of 2017) are presented in the income statement under the Outsourced services item.

(figures quoted in PLN thousand, unless otherwise stated)

Future minimum operating lease payments are as follows:

Future minimum operating lease payments	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Future minimum operating lease payments, due in:			
one year	47 186	42 504	45 628
from 1 to 5 years	110 338	119 919	155 594
more than 5 years	65 878	78 660	120 669
Total future minimum operating lease payments *	**223 402**	**241 083**	**321 891**

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

10. CONTINGENT LIABILITIES

10.1 LIABILITIES ARISING FROM BONDS ISSUE AND THE APPLICABLE LAW

The issued bonds have been secured by a joint contractual mortgage established on the Mercure Warszawa Grand hotel (KW No. WA4M/00159685/9), the Novotel Warszawa Centrum hotel (KW No. WA4M/00072550/0) and the Mercure Warszawa Centrum hotel (KW No. WA4M/00097244/3) up to the sum of PLN 625 000 thousand. The mortgage was established for the benefit of the mortgage administrator that is Bank Polska Kasa Opieki S.A. with its corporate seat in Warsaw, which will act in its own name, but for the account of bondholders. The total market value of the above-mentioned mortgaged hotels, determined by independent property appraisers as at May 19, 2017, by the valuation survey dated June 1, 2017, was PLN 773 176 thousand. The book value of these real properties as at June 30, 2018, is PLN 222 441 thousand.

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

10.2 LIABILITIES ARISING UNDER GUARANTEE AGREEMENTS

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.

10.3 LIABILITIES ARISING FROM AGREEMENTS FOR THE SALE OF ASSETS

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

Orbis S.A. will be released from its liability for representations relating to tax issues and public imposts after the lapse of 5 full financial years.

(figures quoted in PLN thousand, unless otherwise stated)

11. FINANCIAL INSTRUMENTS

11.1 CATEGORIES OF FINANCIAL INSTRUMENTS

The following table presents the main categories of financial instruments:

	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Financial assets			
Cash and cash equivalents	582 020	214 844	242 619
Loans and receivables (including trade receivables)	101 615	90 181	113 640
Financial liabilities			
Amortised cost (including trade payables)	710 384	685 399	868 284
Derivative instruments in designated hedge accounting relationships	0	74	129

11.2 FAIR VALUE OF FINANCIAL INSTRUMENTS

As at June 30, 2018, December 31, 2017 and June 30, 2017, the 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 included derivative instruments, i.e. interest rate swap. As at June 30, 2018, the Group did not hold the interest rate swap (description in Note 11.3).

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 Jun. 30, 2018		as at Dec. 31, 2017		as at Jun. 30, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	582 020	582 020	214 844	214 844	242 619	242 619
Other financial assets	6 944	6 944	6 944	6 944	24 025	24 025
Non-current financial assets (loans granted)	620	620	0	0	0	0
Trade receivables and other current receivables	94 051	94 051	83 237	83 237	89 615	89 615
Financial liabilities						
Borrowings	0	0	40 873	40 873	159 825	161 364
Debt securities - bonds issued	501 892	504 800	501 778	504 500	501 515	507 200
Derivative instruments (liabilities)	0	0	74	74	129	129
Trade payables and other current and non-current liabilities	208 492	208 492	142 748	142 748	206 944	206 944

According to the Management Board, as at June 30, 2018, December 31, 2017, and June 30, 2017, the carrying amount of financial instruments of the Group, except for liabilities arising from credit facilities and issued bonds, was close to their fair value.

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. As at June 30, 2018, the Group did not have any liabilities resulting from credit facilities.

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

The fair value of a derivative instrument was determined as at December 31, 2017, and June 30, 2017 as the present value of estimated future cash flows on the basis of yield curves monitoring. As at June 30, 2018, the Group did not hold any derivative instruments.

In terms of applied measurement procedures, issued bonds are classified to Level 1 of fair value hierarchy (the fair value is 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 (the fair value is 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.

11.3 HEDGE ACCOUNTING

To reduce the risk of changing interest rates and hedge future cash flows, on September 15, 2015 Orbis S.A. entered into a pay-floating receive-fixed Interest Rate Swap with the bank Société Générale S.A. The amount of the hedging instrument is PLN 150 million, which accounts for 50% of the value of the first tranche of bonds issued in the amount of PLN 300 million. The swap matured on June 26, 2018. Interest payment dates fell every six months, starting from June 27, 2016, and were correlated with bond interest payment periods. In the first half of 2018, the Group paid PLN 75 thousand as interest payments under the IRS transaction.
At the end of the presented reporting periods, the SWAP's fair value was disclosed in the Group's equity under other comprehensive income. In 2018, no ineffectiveness arising from cash flow hedges occurred that would require to be disclosed in the financial result of the Group.

(figures quoted in PLN thousand, unless otherwise stated)

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

SALES AND PURCHASES	3 months ended June 30, 2018	6 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2017
Net sales of services	**1 212**	**2 273**	**1 078**	**2 187**
to the parent company	806	1 639	798	1 586
to other Accor Group companies	406	634	280	601
Other sales	**517**	**1 226**	**540**	**1 001**
to the parent company	517	1 226	540	1 001
Purchases of goods and services	**18 872**	**32 456**	**17 733**	**30 087**
from the parent company	14 948	25 146	13 091	21 887
from other Accor Group companies	3 924	7 310	4 642	8 200

RECEIVABLES AND PAYABLES	As at Jun. 30, 2018	As at Dec. 31, 2017	As at Jun. 30, 2017
Trade receivables	**6 089**	**4 405**	**4 991**
from the parent company	5 437	3 973	4 553
from other Accor Group companies	652	432	438
Other receivables	**39**	**54**	**61**
from the parent company	6	0	0
from other Accor Group companies	33	54	61
Trade payables	**15 013**	**8 980**	**11 784**
to the parent company	13 792	7 809	10 355
to other Accor Group companies	1 221	1 171	1 429
Dividends payable	**38 842**	**0**	**38 842**
to the parent company	35 156	0	35 156
to other Accor Group companies	3 686	0	3 686

No impairment loss was recognised on the presented receivables.

Transactions with related parties are effected on an arm's length basis.

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 6-month periods ended June 30, 2018, and June 30, 2017, amounted to PLN 3 505 thousand and PLN 3 376 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.

13. ISSUANCES, REPURCHASES AND REPAYMENTS OF DEBT AND EQUITY SECURITIES

No issuances, repurchases and repayments of debt and equity securities occurred in the period covered by these financial statements. The information concerning bonds issued in the past years was presented in Note 7.4.

14. LEGAL CLAIMS

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

As at June 30, 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 (the ibis & ibis budget Reduta hotel, the ibis Warszawa Centrum hotel, a plot of land in Łopuszańska street - concerning the fees up to the day of sale of the real property);
- Sopot (the Sofitel Grand hotel),
- Gdańsk (the Novotel Centrum hotel, the Mercure Gdańsk Stare Miasto hotel, the ibis Gdańsk Stare Miasto hotel and adjacent area, the Mercure Posejdon hotel, the Novotel Marina hotel),
- Zegrze (built-up plot of land),
- Łódź (the Novotel Łódź Centrum hotel).

In the Group's opinion, fee revaluations made by Presidents of respective cities are either unjustified or calculations should be based on different rates. As at the end of the reporting period, accumulated value of the fees challenged by the Group totals PLN 8 443 thousand and is disclosed under other current liabilities.

(figures quoted in PLN thousand, unless otherwise stated)

15. STATEMENT OF CASH FLOWS OF THE GROUP

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

	6 months ended June 30, 2018	6 months ended June 30, 2017
Change in receivables in the statement of financial position	**(12 121)**	**(27 918)**
change due to acquisition of subsidiaries	0	8 234
change in non-current prepayments and advances	122	67
change in receivables due for tangible asset sales	(3 945)	(5 063)
change in prepayments	0	8 762
accounting for hotel sale	(1 205)	0
exchange differences on translation	278	(2 225)
Change in the statement of cash flows	**(16 871)**	**(18 143)**
Change in liabilities, except borrowings, in the statement of financial position	**51 841**	**57 194**
change due to acquisition of subsidiaries	0	(2 012)
change in investment liabilities	12 643	12 339
liabilities associated with acquisition of shares	0	(10 549)
accounting for hotel sale	731	0
dividend from profit payable	(73 723)	(73 723)
exchange differences on translation	(41)	3 504
Change in the statement of cash flows	**(8 549)**	**(13 247)**
Change in deferred revenue presented in the statement of financial position	**18 846**	**28 938**
advance payments received towards sale of real property	(1 309)	(9 531)
adjustment under IFRS 15	(1 436)	0
exchange differences on translation	(340)	102
Change in the statement of cash flows	**15 761**	**19 509**
Change in provisions in the statement of financial position	**(550)**	**(2 228)**
exchange differences on translation	86	284
Change in the statement of cash flows	**(464)**	**(1 944)**
Change in inventories presented in the statement of financial position	**600**	**525**
accounting for hotel sale	(475)	0
exchange differences on translation	34	(111)
Change in the statement of cash flows	**159**	**414**

16. EVENTS AFTER THE REPORTING PERIOD

On July 2, 2018, Accor Hotels Romania s.r.l. with its registered address in Bucharest executed an agreement with Baron-Service s.r.l. under which this subsidiary of Orbis S.A. will acquire a plot of land with a building situated thereon (together with its assets), currently operating as the Mercure Unirii hotel, located in Bucharest together with the business of the hotel. The purchase price amounts to EUR 11.4 million with an option of a slight adjustment on account of the financial and business standing of the hotel (including its working capital) at the date of closing of the transaction. The transaction was finalized (i.e. the ownership title to the hotel was transferred and the price paid) on 5 July. The transaction is in line with the Orbis Group's strategy for the midscale hotel segment, i.e. focusing investments in key markets of the region, offering long-term growth of value and attractive returns on investment. Before the transaction, the hotel was managed by Accor Hotels Romania s.r.l.

On 16 July 2018, the Lithuanian subsidiary UAB Hekon and UAB Merko bustas, belonging to the AS Merko Ehitus Group, executed a sale and purchase agreement under which UAB Hekon acquired a newly built ibis hotel located at 18 Rinktinės Street in Vilnius. The hotel has 164 rooms, a restaurant, a bar, two conference rooms and a car park. The net purchase price totalled EUR 8.7 million and was finalized from cash deposited at the escrow account.

(figures quoted in PLN thousand, unless otherwise stated)

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Date	Name and Surname	Position/Function	Signature
July 25, 2018	Gilles Stephane Clavie	President of the Management Board	
July 25, 2018	Ireneusz Andrzej Węgłowski	Vice-President of the Management Board	
July 25, 2018	Dominik Sołtysik	Member of the Management Board	
July 25, 2018	Marcin Szewczykowski	Member of the Management Board	

SIGNATURES OF THE MEMBER IN CHARGE OF BOOKKEEPING

Date	Name and Surname	Position/Function	Signature
July 25, 2018	Marcin Szewczykowski	Member of the Management Board	