Orbis S.A.

Annual Report for 2017

Separate Financial Statements

February 21, 2018

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

INCOME STATEMENT
for the year 2017

	Note	2017	2016
Net sales	5.1	**888 275**	**729 339**
Outsourced services	5.2	(196 658)	(163 757)
Employee benefit expense	5.3	(229 075)	(187 229)
Materials and energy used	5.2	(137 394)	(115 438)
Taxes and charges	5.2	(30 574)	(28 917)
Other expenses by nature	5.2	(7 177)	(6 552)
Net other operating income/(expenses)	5.4	(81)	1 654
EBITDAR		**287 316**	**229 100**
Property rental expense	5.2	(7 749)	(7 820)
Operating EBITDA		**279 567**	**221 280**
Depreciation and amortisation	5.2	(125 164)	(105 041)
Operating profit without the effects of one-off events		**154 403**	**116 239**
Result on sale of real property	5.5	11 734	16 616
Revaluation of non-current assets	5.6	8 348	4 157
Restructuring costs	5.7	(3 157)	(1 782)
Operating profit		**171 328**	**135 230**
Finance income	5.8	26 388	62 727
Finance costs	5.9	(41 434)	(17 337)
Profit before tax		**156 282**	**180 620**
Income tax expense	6	(29 679)	(25 876)
Net profit for the period		**126 603**	**154 744**
Total profit for the period relates to continuing operations			
Earnings per ordinary share			
Basic and diluted earnings per share for the period (in PLN)	7	2.75	3.36

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

STATEMENT OF COMPREHENSIVE INCOME

for the year 2017

	Note	2017	2016
Net profit for the period		**126 603**	**154 744**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/losses arising from the defined benefit plan	27	(564)	90
Income tax relating to items that will not be reclassified subsequently		85	(33)
Items that may be reclassified subsequently to profit or loss:			
The effective portion of the gain or loss on the hedging instrument entered into for cash flow hedges	30.4	42	677
Income tax relating to items that may be reclassified subsequently		(8)	(128)
Other comprehensive income/(loss) after tax		**(445)**	**606**
Total comprehensive income for the period		**126 158**	**155 350**

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

STATEMENT OF FINANCIAL POSITION
as at December 31, 2017

Assets	Note	As at:	
		December 31, 2017	December 31, 2016
Non-current assets		**2 517 115**	**2 597 617**
Property, plant and equipment	9	1 587 720	1 650 320
Investment property	10	6 099	10 061
Intangible assets	11	110 488	111 878
- goodwill	11	107 252	107 252
Investments in subsidiaries	12	467 529	465 921
Loans granted	13	329 500	345 072
Derivative financial instruments	30.3	885	0
Other financial assets	14	6 944	10 944
Deferred tax assets	6	6 637	2 528
Other long-term assets	15	1 313	893
Current assets		**195 240**	**176 323**
Inventories	16	3 839	4 103
Trade receivables	17	28 250	22 251
Income tax receivables	6	506	1 616
Other short-term receivables	17	15 969	16 906
Loans granted	13	68 866	13 489
Derivative financial instruments	30.3	837	0
Cash and cash equivalents	18	76 973	117 958
Assets classified as held for sale	19	**23 514**	**23 631**
TOTAL ASSETS		**2 735 869**	**2 797 571**

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

STATEMENT OF FINANCIAL POSITION, continued

as at December 31, 2017

Equity and liabilities	Note	As at: December 31, 2017	As at: December 31, 2016
Equity		**2 056 754**	**2 004 319**
Share capital	20.1	517 754	517 754
Reserves	20.2	133 272	133 238
Retained earnings	20.3	1 405 728	1 353 327
Non-current liabilities		**538 551**	**617 251**
Borrowings	21	0	87 656
Bonds	22	501 778	501 372
Deferred revenue	23	12 202	4 001
Other non-current liabilities	24	5 777	5 114
Provision for retirement benefits and similar obligations	27	18 794	19 108
Current liabilities		**140 564**	**176 001**
Borrowings	21	0	35 289
Other financial liabilities	30.4	74	118
Trade payables	26	52 486	52 441
Liabilities associated with tangible assets	26	18 024	17 651
Deferred revenue	23	14 142	14 515
Other current liabilities	26	50 729	51 637
Provision for retirement benefits and similar obligations	27	3 014	2 892
Provisions for liabilities	25	2 095	1 458
TOTAL EQUITY AND LIABILITIES		**2 735 869**	**2 797 571**

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

STATEMENT OF CHANGES IN EQUITY
for the year 2017

	Note	Share capital	Reserves	Retained earnings	Total
Twelve months ended December 31, 2016					
Balance as at January 1, 2016		**517 754**	**132 689**	**1 274 440**	**1 924 883**
- net profit for the period		0	0	154 744	**154 744**
- other comprehensive income/(loss)		0	549	57	**606**
Total comprehensive income for the period		**0**	**549**	**154 801**	**155 350**
- transaction with a shareholder		0	0	17 286	**17 286**
- income tax relating to transaction with a shareholder		0	0	(3 284)	**(3 284)**
- settlement of the merger with a subsidiary		0	0	(20 800)	**(20 800)**
- dividends		0	0	(69 116)	**(69 116)**
Balance as at December 31, 2016	20	**517 754**	**133 238**	**1 353 327**	**2 004 319**
Twelve months ended December 31, 2017					
Balance as at January 1, 2017		**517 754**	**133 238**	**1 353 327**	**2 004 319**
- net profit for the period		0	0	126 603	**126 603**
- other comprehensive income/(loss)		0	34	(479)	**(445)**
Total comprehensive income for the period		**0**	**34**	**126 124**	**126 158**
- dividends	8	0	0	(73 723)	**(73 723)**
Balance as at December 31, 2017	20	**517 754**	**133 272**	**1 405 728**	**2 056 754**

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

STATEMENT OF CASH FLOWS
for the year 2017

	Note	2017	2016
OPERATING ACTIVITIES			
Profit before tax		**156 282**	**180 620**
Adjustments:		**107 459**	**63 013**
Depreciation and amortisation	5.2	125 164	105 041
Foreign exchange (gains)/losses		21 250	(1 338)
Interest, borrowing costs and dividends		(5 922)	(41 288)
Gain from investing activities		(11 428)	(16 960)
Change in receivables	32	(11 051)	13 452
Change in liabilities, excluding borrowings	32	(847)	12 300
Change in deferred revenue	32	212	(1 662)
Change in provisions	32	(119)	(2 227)
Change in inventories	32	264	(158)
Other adjustments	32	(10 064)	(4 147)
Cash generated from operations		**263 741**	**243 633**
Income taxes paid		(32 602)	(35 052)
Net cash generated by operating activities		**231 139**	**208 581**
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment, intangible assets and investment property		62 116	60 457
Dividends and share of profits		13 412	55 272
Repayment of loans granted		12 581	7 656
Interest received		11 392	2 469
Cash acquired due to business combination with a subsidiary		0	46 825
Other investing cash inflows		9 691	5 454
Payments for property, plant and equipment and intangible assets		(92 534)	(142 819)
Increase in share capital of related parties		0	(10)
Loans granted		(73 651)	(286 832)
Net cash used in investing activities		**(56 993)**	**(251 528)**
FINANCING ACTIVITIES			
Issue of bonds	22	0	200 000
Proceeds from shareholder		0	17 286
Repayment of borrowings	21	(123 512)	(35 289)
Interest paid and other financing cash outflows resulting from borrowings	21	(3 549)	(4 841)
Interest paid and other financing cash outflows resulting from issue of bonds	22	(14 190)	(9 076)
Dividends and other payments to owners	8	(73 723)	(69 116)
Net cash generated by/(used in) financing activities		**(214 974)**	**98 964**
Change in cash and cash equivalents		**(40 828)**	**56 017**
Effects of exchange rate changes on the balance of cash held in foreign currencies		(157)	0
Cash and cash equivalents at the beginning of the period		**117 958**	**61 941**
Cash and cash equivalents at the end of the period	18	**76 973**	**117 958**

1. BACKGROUND

1.1 GENERAL INFORMATION

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

In Orbis S.A., a financial year corresponds to a calendar year. The term of the Company is unlimited.

Items included in the financial statements of the Company are presented in the currency of the primary economic environment in which the Company operates (in the "functional currency"). The financial statements are presented in the Polish zloty (PLN) which is the presentation and functional currency of the Company.

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

These financial statements were approved by the Management Board on February 20, 2018.

1.2 ORBIS S.A.

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

Orbis S.A. is Poland's largest hotel company that employs 2.6 thousand persons (average full-time equivalent employment). As at December 31, 2017, the Company operated a network of 47 hotels (9 365 rooms) in 14 cities, towns and resorts in Poland. The hotels operate under the following Accor brands: Sofitel, Novotel, Mercure, ibis, ibis budget and ibis Styles.

Orbis is the sole licensor of Accor brands in 16 countries of Central & Eastern Europe. As at the end of the reporting period, 37 hotels offering a total of 4 102 rooms operated under franchise agreements and 13 hotels with a total of 1 791 rooms operated under management agreements.

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

The shareholding structure is presented in Note 20.1 to the financial statements.

2. ACCOUNTING POLICIES AND THEIR CHANGES

2.1 STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with the International Financial Reporting Standards which were adopted by the European Union, issued and binding as of the date of the financial statements.

2.2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The basic accounting policies applied in the preparation of separate financial statements are presented in Note 2.4 to the financial statements. These policies were consistently applied in all the years covered by the financial statements and did not undergo any significant changes during the financial year, except for modifications resulting from amended regulations described in Note 2.6. The International Financial Reporting Standards applied for the first time by the Company are described in Note 2.6 to these statements.

Preparing financial statements in accordance with IFRSs requires applying certain key accounting estimates. The Management Board must also take a number of subjective decisions concerning the application of the Company's accounting policies. The areas which are more complex or require a subjective judgement, as well as areas in which the assumptions and estimates are significant for the financial statements as a whole, are described in Note 2.8 to these statements.

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

2.3 STANDPOINT OF ORBIS S.A. MANAGEMENT BOARD CONCERNING THE QUALIFIED OPINION ISSUED BY THE ENTITY LICENSED TO AUDIT FINANCIAL STATEMENTS

The report of the licensed auditor Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. on the audit of the separate financial statements of Orbis S.A. for 2017 contains a qualification relating to the classification of the rights to perpetual usufruct of land.

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

As at the date of the first financial statements prepared in accordance with the International Financial Reporting Standards, the Management Board and the Supervisory Board gave due consideration to various available interpretations of IAS 17 and, guided by the above-mentioned principle of fair presentation of the Company's standing, decided that the rights to perpetual usufruct of land obtained as a result of an administrative decision should be recognized in the statement of financial position. The land and rights to perpetual usufruct of land alike, constitute a component part of hotel properties of the Company (i.e. cash generating units), since they contribute to the profit and cash flows generated by hotels. Therefore, they constitute a part of the fair value of real property. Some rights to perpetual usufruct of land have been purchased by the Company and recognized in accounting books at purchase price (i.e. market value). The remaining 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 opinion of the Management Board the specific nature of the rights to perpetual usufruct of land (which is an element of the Polish legal system only) makes it much more similar to ownership rights than to any contractual right. Even without a detailed analysis of legal regulations that apply to perpetual usufruct, a number of elements vested in the perpetual usufructuary in a manner virtually identical to real property owner can easily be identified, namely:

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

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

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

- the option of transferring the right to perpetual usufruct,
- the right to extend the period of use (during the last five years, prior to the expiry of the term stipulated in the contract, the perpetual usufructuary may request its extension for a further term of forty to ninety-nine years, and in such case refusal to extend the contract is admissible only for reasons of important public interest),
- the option of a unilateral waiver of the right to perpetual usufruct by the perpetual usufructuary, resulting in forfeiture of such 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, 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 Company 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 Management Board of Orbis S.A., but also have an objective dimension, meaning that no uniform approach has so far been developed amongst both issuers listed on regulated markets as well as the leading audit firms as to how to qualify and recognise perpetual usufruct of land in accordance with IAS 17.

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

The value of purchased perpetual usufruct of land as at December 31, 2017, amounted to PLN 59 324 thousand (which accounted for 2.2% of total assets), compared to PLN 61 382 thousand (equal to 2.2% of total assets) as at December 31, 2016.

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

The value of rights to perpetual usufruct of land obtained free of charge, as recognized in the statement of financial position, amounted to PLN 251 764 thousand (9.2% of total assets) as at December 31, 2017 and PLN 260 044 thousand (9.3% of total assets) as at December 31, 2016. The value of the related deferred tax liabilities amounted to PLN 47 835 thousand (1.7% of total equity and liabilities) as at December 31, 2017 and PLN 49 408 thousand (1.8% of total equity and liabilities) as at December 31, 2016.

If the rights to perpetual usufruct of land obtained free of charge had not been recognised in the statement of financial position, the financial result for the period of 12 months ended December 31, 2017, and for the period of 12 months ended December 31, 2016, taking into account deferred tax, would have been higher by, respectively, PLN 6 707 thousand (5.3% of net profit) and PLN 16 586 thousand (10.7% of net profit) and the previous years' profit/loss as at December 31, 2017 and 2016 would be lower by, respectively, PLN 210 636 thousand (7.7% of total equity and liabilities) and PLN 227 222 thousand (8.1% of total equity and liabilities).

In the opinion of the Management Board and the Supervisory Board, 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 Company, i.e. their significant undervaluation.

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

When evaluating the financial statements of Orbis S.A. for 2017, like in the past years, the Supervisory Board gave due consideration to the arguments of the Management Board as well as to the auditor's position on the relevant issues. The Supervisory Board of Orbis S.A. agrees with and gives its positive opinion on the position of the Management Board of Orbis S.A. that the accepted accounting treatment of rights to perpetual usufruct of land contributes to transparent and fair presentation of information on the economic standing of the Company.

2.4 ACCOUNTING POLICIES OF ORBIS S.A.

2.4.1 Income statement

The Company prepares income statement in a format presenting costs broken down by their nature, separating the following levels of result, which are regularly analysed by the Company Management Board, i.e.:

- EBITDAR – operating result before rental expense, depreciation/amortisation, effects of one-off events, result from financing activities and tax,
- Operating EBITDA – operating result before depreciation/amortisation, effects of one-off events, result from financing activities and tax,
- Operating result (EBIT) without the effects of one-off events.

Income and expenses arising from non-recurring and one-off events, such as sale of real property and restructuring, are presented separately from operating income/expenses.

2.4.2 Revenue recognition

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

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

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

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

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

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

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

2.4.3 Finance costs and borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their direct expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.
All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

The above capitalization rules do not apply to:
- assets measured at fair value; and
- inventories that are manufactured in large quantities, on a continuous basis, and are fast moving.

Interest related to finance leases is recognised in profit or loss, using the internal rate of return method.

The finance costs also include the net interest expense resulting from the valuation of provisions for employee benefits and actuarial gains/losses arising from changes in financial assumptions as to valuation of reserves for jubilee awards (see also Note 2.4.17).

2.4.4 Property, plant and equipment

Property, plant and equipment are initially recognised at cost (cost of purchase or manufacture).

As at the end of the reporting period, property, plant and equipment are measured at cost, less accumulated depreciation charges and impairment.

Rights to perpetual usufruct of land purchased from third parties are presented at cost less depreciation charges calculated based on the term of the agreement for perpetual usufruct.

Rights to perpetual usufruct of land acquired from the local administrative authorities as a result of administrative decisions were initially recognised in the financial statements at fair value, on the basis of an expert's valuation. These rights are depreciated over the term of the agreement, i.e. for a maximum period of 99 years.

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

Subsequent costs are included in the PP&E's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they were incurred.

Assets under construction are measured at cost. In the event that an asset under construction is impaired, an impairment loss is recognised to equalize its value with the recoverable amount.

In case a part of an item of PP&E is replaced, the cost of the replacement part of the asset is included in the asset's carrying amount; at the same time the carrying amount of the replaced part is derecognised in the statement of financial position, irrespective of whether it was separately depreciated, and is recognised in profit or loss.

Depreciation commences at the date an asset becomes available for use. Depreciation is completed when an asset is designated for sale in accordance with IFRS 5, or derecognised in the statement of financial position.

Depreciation on currently used non-current assets is calculated using the straight-line method over the estimated useful life of a given newly-received PP&E asset, as follows:
Rights to perpetual usufruct of land – up to 99 years,
Buildings and structures and their components – from 5 up to 50 years,
Plant, machinery and equipment – from 3 up to 25 years,
Vehicles – up to 5 years;
Land is not depreciated.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2.4.5 Leases

Leases are classified as finance leases where terms and conditions of an agreement transfer substantially all the risks and rewards of ownership of an asset to the lessee. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor (the financing party) are classified as operating leases.

2.4.5.1 Finance lease

Assets used under a finance lease are treated as assets of the Company and measured at their fair value at the date of the inception of the lease, which is not higher however than the present value of the minimum lease payments.

Each lease payment is allocated between finance costs and decreases in the balance of lease liabilities so as to achieve a constant effective interest rate on the outstanding balance. Finance costs are recognised directly in profit or loss.

Tangible assets used under finance leases are depreciated in accordance with principles of depreciation of the non-current assets owned by the Company over the shorter of the useful life of the asset or the lease term.

In the event assets are transferred to be held under finance lease, the present value of lease payments is recognised in receivables.

In the period covered by this report, the Company had no agreements classified as finance leases.

2.4.5.2 Operating lease

Payments made under operating leases are recognised as expenses in profit or loss on a straight-line basis over the term of the lease.

Rewards due and received as an incentive to execute an operating lease are recognised in profit or loss on a straight-line basis over the term resulting from the lease.
Where the specific terms of the lease indicate that lease payments will be calculated progressively over the term of the lease, annual payment instalments are linearised.

The existing operating lease contracts are discussed in Note 9.

2.4.6 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at cost, including transaction costs. As at the end of the reporting period, the Company measures investment property at historical cost less depreciation charges and impairment, if any.

Depreciation is calculated on a straight-line basis throughout the estimated useful life of a given asset, i.e.:
Rights to perpetual usufruct of land – up to 99 years;
Buildings and structures and their components – from 5 up to 50 years,
Plant, machinery and equipment – from 3 up to 25 years,
Land is not depreciated.

2.4.7 Intangible assets

2.4.7.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of identifiable assets, liabilities and contingent liabilities of the acquired entity as the date when control was assumed over it.

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

2.4.7.2 Other intangible assets

Other intangible assets presented in the financial statements were measured at cost, net of accumulated amortisation charges calculated in accordance with rates reflecting their useful lives and net of impairment.

The method of amortisation, as well as the annual rate of amortisation reflecting the anticipated useful life of a given asset, are determined as at the date of acquisition of an intangible asset.

The Company does not carry out any research or development. Costs of website creation are recognised in expenses by nature – outsourced services costs.

Amortisation is calculated on the straight-line basis over the estimated useful life of a given asset, i.e.:
Permits, patents, licenses and similar – up to 7 years;
Copyright and related proprietary rights – up to 10 years.

2.4.8 Interests in subsidiaries, affiliates and associates

Interests and shares in subsidiaries and associates of Orbis S.A. are measured at cost, less impairment.

Changes in the value of presented interests due to impairment are posted directly to profit or loss.

2.4.9 Other long-term assets

Other long-term assets include other long-term investments and other long-term prepayments.

Other long-term investments include assets acquired by the Company to derive economic benefits. Presently, this item comprises works of art. Long-term investments are measured at their revalued amounts determined on the basis of specialist catalogues. Effects of revaluations are posted to equity, in the reserves item.

2.4.10 Inventories

Inventories are measured at cost comprising the cost of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition. The weighted average cost is applied to measure the consumption of materials, raw materials and packaging.

As at the end of the reporting period, inventories are stated at the lower of cost and net selling price. The net selling price is the estimated selling price realisable in the ordinary course of business, less applicable variable distribution costs.

2.4.11 Financial assets

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

The initial value of financial assets is measured at fair value less transaction costs, except for assets classified as financial assets initially measured at fair value through profit or loss. Transaction costs allocated directly to the acquisition of financial assets measured at fair value through profit or loss are recognised directly in profit or loss.

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expired, or when it has transferred the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for the amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset.

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2.4.11.1 Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling it in the near term; or
- it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which group is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- the asset forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

The Company classifies predominantly investments in securities into this category.

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

2.4.11.2 Held-to-maturity investments

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

2.4.11.3 Available-for-sale financial assets

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

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

2.4.11.4 Loans and receivables

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

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

2.4.12 Cash and cash equivalents

Cash and cash equivalents are recognised in the statement of financial position at fair value. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, call deposits held with banks, short-term bank deposits with maturities of three months or less and other short-term liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. For the purposes of the cash flow statement, bank overdrafts are recognized in the cash flow from financing activities. For the purposes of presentation in the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.4.13 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Classifying an asset as held for sale means that management must be committed to execute the sale transaction within one year from the date of classification change. In case of events or circumstances beyond the entity's control, and when the criteria of IFRS 5 are met, the period necessary to complete the sale transaction may be extended beyond one year.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their initial carrying amount and fair value less costs to sell.

In the statement of financial position, assets held for sale (or disposal group) are presented as a separate item of assets. If any liabilities associated with the disposal group are to be transferred in the transaction together with the disposal group, these liabilities are presented as a separate item of liabilities.

2.4.14 Impairment of assets

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

2.4.14.1 Impairment of property, plant and equipment, investment property and intangible assets

Property, plant and equipment, investment property and intangible assets are tested for impairment on an annual basis, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

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

As regards measurement of goodwill, the cash-generating unit is an operating segment identified within the company to which goodwill relates. The description of the goodwill impairment testing method is provided in Note 11.

As at the end of each reporting period, the Company determines the value in use of each hotel, measuring it by the DCF (Discounted Cash Flow) method. Next, the net book value of the hotel is compared to the valuation made according to the DCF method, and a relevant adjustment is recognised (an impairment loss is recognised in case the value of the hotel in accounting books exceeds the DCF valuation, while the impairment loss is reversed (where possible) if the value of the hotel in accounting books is lower than the valuation according to the DCF method). In case of special conditions that result in a substantial distortion of DCF valuations, the Company determines the recoverable amount of the hotel by measuring its fair value on the basis of the valuation surveys in its possession, up-to-date purchase offers or analyses of average transaction prices at the given market.

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

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

2.4.14.2 Impairment of financial assets

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

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

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

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

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

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

In respect of equity securities held for sale, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

2.4.14.3 Impairment of inventories

If an event resulting in impairment of inventories occurs in the financial year, inventories are written down. When the circumstances that previously caused inventories to be written down to below the cost no longer exist, the written-down amount is eliminated so as to bring the new carrying amount to the lower of cost and the revalued net realizable value. Such a reversal of a write-down is reported through profit or loss.

2.4.15 Financial liabilities and equity instruments issued by the Company

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

2.4.15.1 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Own equity instruments repurchased by the Company are recognized in, or directly reported through equity.

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

2.4.15.2 Compound financial instruments

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate used for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

2.4.15.3 Financial liabilities

Financial liabilities are recognised at the time when the Company becomes a party to a financial instrument agreement.

The initial value of financial liabilities is measured at fair value. Transaction costs connected directly with assuming financial liabilities (except for financial liabilities at fair value through profit or loss) are deducted from the fair value of financial liabilities upon their original recognition. Transaction costs allocated directly to acquiring financial liabilities measured at fair value through profit or loss are recognised directly in profit or loss.

The Company derecognises financial liabilities only when the relevant obligations of the Company have been performed, invalidated or if they have expired.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or as other financial liabilities.

2.4.15.4 Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:
- it has been acquired principally for the purpose of repurchasing it in the near term; or
- it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

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

2.4.15.5 Other financial liabilities

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

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

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

2.4.15.6 Financial guarantee contract liabilities

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

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

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

2.4.16 Derivative instruments

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2.4.16.1 Embedded derivative instruments

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

2.4.17 Employee benefits

Short-term employee benefits, including payments to defined contribution plans, are recognised in the period during which the employee rendered service to the Company, and in case of profit sharing and bonuses, when the following conditions are met:

- the entity has a present or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

In case of payments for compensated absences, employee benefits arising from accumulating compensated absences are recognised when the employees render service that increases their entitlement to future compensated absences. In case of non-accumulating compensated absences, benefits are recognised when the absences occur.

Post-employment benefits in the form of defined benefit plans (retirement benefits) and other long-term benefits (jubilee awards, disability benefits, etc.) are valued using the projected credit unit method, with actuarial valuation made at the end of each reporting period. Remeasurement concerning retirement and disability benefits, comprising actuarial gains and losses, is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which it occurs. Remeasurement recognised in other comprehensive income is immediately reflected in retained earnings and will not be reclassified to the income statement. Past service cost is recognised in profit or loss in the period when the plan was amended. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined liability. Defined benefit costs are categorised as follows:

- service costs (including current service cost, past service cost, as well as gains and losses on settlements of plan amendments or curtailments),
- net interest expense, and
- remeasurement.

The Company presents service cost in the income statement as employee benefit expense. The net interest expense is presented in finance costs. Also, in finance income/costs the Company discloses actuarial gains and losses arising from changes in financial assumptions applicable to the measurement of provisions for jubilee awards. Other remeasured amounts relating to jubilee awards are presented in employee benefit expense. Remeasured amounts that relate to provisions for retirement & disability benefits are disclosed in other comprehensive income.

A liability for a termination benefit is recognised at the earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Company recognises all the related restructuring costs.

2.4.18 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event and it is more likely than not that an outflow of resources will occur to settle the obligation, and the amount of the outflow may be reliably estimated.
Provisions are recognised and classified depending on the reason for which they were set up:

- provisions for liabilities, in particular related to onerous contracts, giving rise to liabilities under issued guarantees, sureties and results of pending litigation
- restructuring provisions.

Provisions are recognised on the basis of the Management Board's decision. Restructuring provisions require an approved and communicated restructuring plan.
No provisions are recognised for future operating losses.

Provisions are recognised in justified and reasonably estimated amounts as at the date of the occurrence of an obligating event, not later however than at the end of the reporting period. As at the end of the reporting period, the balance of provisions is reviewed and appropriate adjustments are made, if necessary, so that the balance of provisions reflects the current, most reliable estimate of their value.

Movements in restructuring provisions are presented as a separate item of the income statement. Movements in other provisions are posted directly to profit or loss of the current period in other operating costs and income.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of expenditures, as estimated in accordance with the best knowledge of the Company's management, required to settle the obligation as at the end of the reporting period. The discount rate used to determine the present value reflects the current market assessments of the time value of money and the risks specific to the obligation.

2.4.19 Contingent assets and liabilities

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not within the control of the Company.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not within the control of Company, or
- a present obligation that arises from past events but is not recognised because:
  - an outflow of benefits to settle that obligation is not likely,
  - the amount of the obligation cannot be measured with sufficient reliability.

2.4.20 Income tax

Income tax on profit or loss for the financial year represents the sum of the tax currently payable and deferred tax. Income tax is recognised in profit or loss, except for amounts directly recognised in equity, when income tax is reported in equity.

2.4.20.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the income statement because of items of income or expense that are taxable or deductible in other years and items of income or expense that are never taxable or deductible.

The liability for current tax is calculated using tax rates applicable in a given financial year.
In accordance with Polish regulations, in 2017 the Company calculated its corporate income tax liability at the rate of 19% of taxable income.

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

2.4.20.2 Deferred tax

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

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

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

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

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

2.4.20.3 Current and deferred tax for the period

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

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

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

2.4.20.4 Tax Group

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

The Tax Group allows to curb administrative expenses related to tax settlements and to offset current tax losses incurred by some companies with tax profits of other Tax Group companies, thereby reducing the tax charge of the Tax Group.
Gains arising from the offsetting of tax losses with tax profits are distributed among the companies in accordance with the agreement executed by the members of the Tax Group and reduce their respective tax charges.

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

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

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

2.4.21 Payment of dividend

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

2.4.22 Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, using the following methodology:

- sale of foreign currency and payment of receivables – at the foreign currency buy rate applicable by the bank which provides services to the Company;
- purchase of foreign currency and payment of liabilities – at the foreign currency sell rate applicable by the bank which provides services to the Company;
- other transactions – at the average foreign currency exchange rate published by the National Bank of Poland.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items are measured at historical cost.

Exchange differences are recognised in profit or loss in the period in which they arise, except for exchange differences relating to assets under construction for future productive use, which are included in the cost of those assets and are regarded as an adjustment to interest costs on foreign currency borrowings.

2.4.23 Mergers of companies under common control

A merger of companies under common control is a merger of business entities whereby all merging entities finally remain under the control of the same party (parties) both before and after the merger and this control is not temporary. In particular this concerns transactions such as transfer of companies or ventures between entities from a Group or a merger of a parent company and its subsidiary.

In order to settle the effects of mergers of companies under common control, the Company uses the pooling of interests method, which assumes that:

- assets and liabilities of the merging companies are measured at carrying amounts taken from the Company's consolidated financial statements. This means that the goodwill previously recognised in the consolidated financial statements and all other intangible assets recognised as part of the process of accounting for the merger are transferred to the separate financial statements;
- transaction costs connected with the merger are recognised in the income statement;
- balances of intercompany receivables and liabilities are eliminated;
- the difference between the amount paid or transferred (and in the case of takeover of a subsidiary - between the value of interest held in that company) and net assets acquired (in values taken from consolidated financial statements) is reflected in equity of the merging company;
- income statement presents the profit or loss of the merged companies from the time of merger, while figures for previous periods are not restated.

In case of transformations involving making a non-cash contribution in the form of investment in the subsidiary to another subsidiary or a merger of two subsidiaries of Orbis S.A., only the value of the investment in the merged subsidiary is reclassified as the value of investment in the merging subsidiary. Thus, a transfer of one subsidiary to another does not affect the Company's profit or loss.

2.4.24 Materiality

A given figure is material if its omission or distortion might influence economic decisions made by users on the basis of the financial statements.
For the purpose of disclosing information in the financial statements, the Management Board assumed a threshold of materiality at 5% of operating result (EBIT) without one-off events, rounded down to full hundreds of thousands of zlotys, which in case of these financial statements means the sum of PLN 7 700 thousand.
The Management Board believes that omitting figures in excess of the specified materiality threshold might have a negative impact on the view of economic and financial standing, and the financial result of the Company.

2.5 CHANGES IN ACCOUNTING POLICIES AND CHANGES IN PRESENTATION OF DATA

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

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

2.6 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS

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

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

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

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

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

As at February 20, 2017, the following new standards and amendments to standards have been issued by the IASB and adopted by the European Union but have not become effective yet:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.7 INFLUENCE OF THE NEW ACCOUNTING STANDARDS ON THE FINANCIAL STATEMENTS

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

Influence of IFRS 16 "Leases" on the financial statements of Orbis S.A.

The application of the new standard concerning leases will influence the Company's financial statements.

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

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

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

As at December 31, 2017, the Company was a party to an operating lease agreement concerning the Sofitel hotel in Wrocław and lease agreements concerning 87 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 Company 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 Company classified the following types of material agreements that clearly met the definition of leases:

- Hotel lease agreements,
- Car lease agreements.

Bearing in mind that as at December 31, 2017 the Company used mainly financing in PLN, the current cost of debt taken out by Orbis S.A. was assumed to be the marginal lending rate; it stood at approx. 3.0%. Had the Company first applied IFRS 16 as at December 31, 2017, the statement of financial position would recognize rights to use the aforementioned assets and lease liabilities at PLN 27 152 thousand. If the discount rate were higher/lower by 1.0%, the amount would be lower/higher by PLN 597 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.

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

According to the Company's Management Board, 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 purely theoretically be regarded a lease. However, considering the specific nature of this right (described in Note 2.3 to these statements), its clear-cut classification as lease is difficult. Furthermore, major doubts arise as to whether the value of such lease liabilities can be reliably assessed, due to the difficulties in specifying the lease term, the relevant discount as well as due to lack of accurate and unequivocal legal analyses of the nature of fees (i.e. variable or fixed ones), which has a decisive importance for the classification and calculation of the liability.

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

Influence of IFRS 15 "Revenue from Contracts with Customers" on the financial statements of Orbis S.A.

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

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

A conclusion was drawn from the analysis that applying IFRS 15 would not have a significant influence on the Company's financial statements when the standard is first applied, i.e. in the period starting on January 1, 2018. The only identified area where changes introduced by the new standard will appear is the one-off entrance fees (charged for joining the hotel network), payable on the franchise agreements. The fee is non-refundable and is usually calculated as the product of the number of rooms at a given hotel and a rate per room specified in the agreement.

Pursuant to the accounting principles applicable so far, entrance fees are recognised in revenue as a single transaction, at the time when the agreement requires them to be paid. In the light of the new standard, revenue from one-off entrance fees should be recognised over time during the whole term of the agreement giving rise to a certain fee (i.e. during the term of operation of a hotel, which usually equals 10 years). The fee is connected with other franchise fees and is not separate from the other services, hence the revenue from such fees should be recognised gradually, over the period when the obligations under these agreements are performed.

It is expected that recognition of entrance fees over time equal to the period of operation of the franchised hotel, and not at a single point in time, like it is done now, will result in a slight decrease of the Company's revenue and operating profit. The value of revenue from entrance fees recognized until December 31, 2017 in the Company's retained earnings is PLN 1.8 million (0.13% of the Company's retained earnings as at December 31, 2017), of which PLN 0.4 million was recognized in the income statement in 2017 (0.04% of the Company's revenue for 2017). Moreover, the change will affect recognition of deferred revenue and deferred tax in the statement of financial position.

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

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

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

Influence of IFRS 9 "Financial Instruments" on the financial statements of Orbis S.A.

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

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

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

In the case of investments in subsidiaries, the Company estimates that it does not impact the financial statements because they are measured at cost in accordance with IAS 27 paragraph 10a (these instruments are beyond the scope of IFRS 9 "Financial Instruments”).

In accordance with IFRS 9, other financial assets relating to receivables resulting from sale of properties should be measured at amortized cost using the effective interest rate. If the above method were applied, this would result in recognition of PLN 251 thousand of extra finance costs in the Company’s financial statements for 2017. The expected credit losses are immaterial, as the receivables are secured by mortgages on the hotel or funds in escrow accounts (Note 14). The calculation assumes the use of an effective discount rate equal to the risk-free rate, which was estimated on the basis of deposit rates (WIBOR) and prices of Treasury bonds as at December 31, 2017. The estimated risk-free rate for expected due dates of individual receivables was calculated by linear interpolation of point values.

For loans granted at amortised cost based on credit risk, the Company management estimates that the expected credit losses are immaterial given the current good standing of all subsidiaries and the fact that the Company has full operational and financial control over its subsidiaries.

The Company also analysed the influence on the financial statements as at December 31, 2017 of the expected credit losses relating to short-term receivables, using a simplified method whose use is permitted by IFRS 9 with regard to short-term trade receivables with regard to the influence of the expected loss. The additional allowance for the expected credit losses in 2017 would be PLN 142 thousand.

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

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

Hedge accounting covers an Interest Rate Swap transaction (pay-floating receive-fixed swap), which was entered into for the purposes of minimizing the risk of interest rate changes and hedging future cash flows (Note 30.4). Due to the short maturity of the IRS transaction, the Company decided to continue measurement and classification in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”, hence IFRS 9 will have no influence on the statements for 2018 with regard to this specific instrument.

The *floor* derivative embedded in loans granted to subsidiaries (description in Note 30.3) pursuant to the new rules after implementation of IFRS 9 will not be separable and the entire loan will be measured at amortized cost.

2.8 CRITICAL ESTIMATES AND ASSUMPTIONS

Estimates and judgments are continually reviewed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. Estimates and related assumptions are based on historical experience and a number of other factors that seem reasonable. The resulting accounting estimates may deviate from actual results. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The basic areas where the Management Board's estimates have a significant impact on the financial statements are as follows:

(a) *Useful lives*
The level of depreciation rates is determined on the basis of current knowledge concerning the anticipated useful life of components of property, plant and equipment, investment properties and intangible assets. The anticipated useful life is periodically reviewed.

(b) *Impairment of property, plant and equipment and investment property*
As at the end of each reporting period, the Company assesses whether there are any indications that an asset may have been impaired. The recoverable amount of individual cash generating units is assessed using the methods described in Note 2.4.14.1.

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

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

(e) *Deferred tax assets*
The Company recognises deferred tax assets on deductible temporary differences to the extent that it is probable that in foreseeable future taxable profits will be available against which those deductible temporary differences can be utilised. Deterioration of taxable profits in the future might make this assumption unreasonable. The Company Management Board reviews the estimated probability of recovering deferred income tax assets on the basis of changes in the factors that are taken into consideration when said assumptions are made, new information and past experience. Information on deductible temporary differences that are the basis for recognizing deferred tax assets is presented in Note 6.

3. DESCRIPTION OF MAJOR EVENTS OF 2017 AFFECTING THE COMPANY'S FINANCIAL INFORMATION

The most important events of 2017 which affected the financial information of Orbis S.A. include:

Real property sale transactions

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

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

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

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

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

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

Prepayment of a credit facility by Orbis S.A.

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

4. SEGMENT INFORMATION

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

Orbis S.A. pursues hotel business in Poland. Beginning from the date of its merger with its subsidiary Hekon-Hotele Ekonomiczne S.A., i.e. as of September 1, 2016, the Company distinguishes two reportable operating segments:

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

Till the date of the merger Orbis S.A. pursued hotel business predominantly under hotel brands of the Up&Midscale segment. Hotels of the ibis and ibis budget brands were leased to a subsidiary company Hekon-Hotele Ekonomiczne S.A. and were classified as investment property.

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

- the Up&Midscale segment: 3 Sofitel hotels, 13 Novotel hotels and 9 Mercure hotels,
- the Economy segment: 12 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel.

While as at December 31, 2016, the individual operating segments included:

- the Up&Midscale segment: 3 Sofitel hotels, 13 Novotel hotels and 13 Mercure hotels,
- the Economy segment: 14 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel.

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

Tables below present figures pertaining to revenues, results as well as assets of the operating segments of Orbis S.A. The results for the year 2016 are presented as if the merger of Orbis S.A. with Hekon-Hotele Ekonomiczne S.A. took place on January 1, 2016.

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

Exclusions contain reconciliations of data pertaining to segment data relating to income statement items for 2017 and 2016.

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

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

Operating segment revenues and results in 2017 and 2016 are as follows:

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

Figures for 2016	Operating segments		Unallocated operations and exclusions	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**668 402**	**177 045**	**(116 108)**	**729 339**
Sales to external clients	668 402	177 045	(116 108)	729 339
EBITDAR	**265 236**	**85 807**	**(121 943)**	**229 100**
Operating EBITDA	**257 431**	**85 791**	**(121 942)**	**221 280**
Depreciation and amortisation	(88 182)	(30 518)	13 659	(105 041)
Operating profit/(loss) without the effects of one-off events	**169 249**	**55 273**	**(108 283)**	**116 239**
Result of one-off events	0	0	18 991	18 991
Operating profit/(loss) (EBIT)	**169 249**	**55 273**	**(89 292)**	**135 230**
Finance income/(costs)	1 428	(305)	44 267	45 390
Income tax expense	0	0	(25 876)	(25 876)
Net profit/(loss)	**170 677**	**54 968**	**(70 901)**	**154 744**

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

The table below present other financial figures of operating segments in 2017 and 2016:

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

Figures for 2016	Operating segments		Unallocated operations	TOTAL
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 223 654	520 051	853 912	2 597 617
- goodwill	37 803	69 449	0	107 252
- investments in subsidiaries	0	0	465 921	465 921
- financial assets	0	0	356 016	356 016
- deferred tax assets	0	0	2 528	2 528
Current assets, of which:	20 642	3 968	151 713	176 323
- cash and cash equivalents	0	0	117 958	117 958
Assets classified as held for sale	23 631	0	0	23 631
Investment expenditure	107 227	26 265	2 338	135 830

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

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

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

5. INCOME AND EXPENSE

5.1 NET SALES

NET SALES	2017	2016
Room revenue	606 707	458 960
Food & beverage revenue	229 449	195 120
Franchise and management revenue	11 154	11 711
Other revenue	40 965	63 548
including revenue from rental of real properties	*14 634*	*37 119*
Total net sales	**888 275**	**729 339**
of which: revenue from related parties	*3 634*	*33 369*

5.2 EXPENSES BY NATURE

EXPENSES BY NATURE	2017	2016
Depreciation and amortisation	(125 164)	(105 041)
Property rental expense	(7 749)	(7 820)
Outsourced services	(196 658)	(163 757)
Employee benefit expense	(229 075)	(187 229)
Materials and energy used	(137 394)	(115 438)
Taxes and charges	(30 574)	(28 917)
Other costs by nature, of which:	(7 177)	(6 552)
business trips	(2 906)	(2 482)
insurance premiums	(1 911)	(1 628)
royalties	(1 441)	(1 119)
change in impairment of receivables	(299)	(326)
other	(620)	(997)
Total expenses by nature	**(733 791)**	**(614 754)**

5.3 EMPLOYEE BENEFIT EXPENSE

EMPLOYEE BENEFIT EXPENSE	2017	2016
Wages and salaries	(183 820)	(144 901)
Provision for unused and overdue holidays	(966)	(453)
Provision for wages and salaries as well as related expenses	1 214	(7 058)
Provision for jubilee and retirement benefits	839	(751)
Employee benefits	(46 342)	(34 066)
Total employee benefit expense	**(229 075)**	**(187 229)**

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

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

5.4 OTHER OPERATING INCOME / EXPENSES

OTHER OPERATING INCOME / EXPENSES, NET	2017	2016
Gain on disposal of non-financial non-current assets	17	52
Costs refund	165	86
Compensation received	879	183
Reversal of provision for costs of fees for perpetual usufruct of land	774	2 782
Other	791	1 349
Total other operating income	**2 626**	**4 452**
Receivables redeemed and written off	(988)	(993)
Indemnities, fines and penalties paid	(183)	(474)
Losses arising from fortuitous events	(53)	(81)
Costs of hotel closing and assets liquidation	(607)	(288)
Other	(876)	(962)
Total other operating expenses	**(2 707)**	**(2 798)**
Other operating income/(expenses), net	**(81)**	**1 654**

5.5 RESULT ON SALE OF REAL PROPERTY

RESULT ON SALE OF REAL PROPERTY	2017	2016
Net proceeds from disposal of real properties	54 608	78 782
Net value of real properties disposed of	(42 591)	(61 589)
Additional costs related to disposal	(283)	(577)
Total result on sale of real property	**11 734**	**16 616**

Orbis S.A. achieved the following results on sale of real properties in 2017:

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

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

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

5.6 REVALUATION OF NON-CURRENT ASSETS

REVALUATION OF NON-CURRENT ASSETS	2017	2016
Recognised impairment loss on tangible assets	(1 416)	(6 630)
Recognised impairment loss on assets held for sale	(1 084)	0
Reversed impairment loss on tangible assets	4 690	10 787
Reversed impairment loss on assets held for sale	4 550	0
Reversed impairment loss on investments in subsidiaries	1 608	0
Total revaluation of non-current assets	**8 348**	**4 157**

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

5.7 RESTRUCTURING COSTS

RESTRUCTURING COSTS	2017	2016
Incurred costs of employment restructuring	(2 520)	(1 174)
(Recognised)/reversed provisions for employment restructuring	(637)	(608)
Total restructuring costs	**(3 157)**	**(1 782)**

5.8 FINANCE INCOME

FINANCE INCOME	2017	2016
Dividends and share of profits *	13 412	55 358
Interest on deposits	1 680	1 227
Foreign exchange differences	0	4 185
Actuarial gains/(losses) arising from valuation of provisions for jubilee awards	0	713
Interest income on loans and receivables	9 574	1 244
Measurement of derivative instrument embedded in loans granted	1 722	0
Total finance income	**26 388**	**62 727**

**In 2017, the Company recognised income from dividends from its subsidiary Orbis Kontrakty Sp. z o.o., in the amount of PLN 13 412 thousand.*
In 2016, the Company recognised income from dividends from its subsidiary Hekon-Hotele Ekonomiczne S.A., in the amount of PLN 39 554 thousand, from Orbis Kontrakty Sp. z o.o., in the amount of PLN 9 580 thousand and from Accor Hotels Romania s.r.l. in the amount of PLN 6 224 thousand (equivalent to RON 6 390 thousand).

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

5.9 FINANCE COSTS

FINANCE COSTS	2017	2016
Interest and debt service costs accrued on credit facilities	(3 982)	(5 136)
Interest and debt service costs accrued on bonds	(14 596)	(11 219)
Interest expense arising from provisions for employee benefits	(725)	(698)
Actuarial gains/(losses) arising from valuation of provisions for jubilee awards	(292)	0
Foreign exchange differences *	(21 610)	0
Other	(229)	(284)
Total finance costs	**(41 434)**	**(17 337)**

** incl. foreign exchange losses of PLN 21 093 thousand resulting mainly from balance sheet measurement of loans granted in euro to the Hungarian subsidiary Accor Pannonia Hotels Zrt. and the Lithuanian subsidiary UAB Hekon.*

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

In 2017, the Company paid PLN 3 409 thousand as interest on credit facilities and PLN 140 thousand of commissions and other debt service costs relating to credit facilities.

Moreover, in 2017, Orbis paid PLN 14 040 thousand as interest on issued bonds and PLN 150 thousand as interest payments under the IRS transaction (please refer to Note 30.4).

6. CURRENT AND DEFERRED TAX

Major components of tax charge are as follows:

	2017	2016
Current tax	**(33 712)**	**(25 556)**
- current tax charge	(35 382)	(25 728)
- adjustments of current tax from previous years	1 670	172
Deferred tax	**4 033**	**(320)**
- related to recognised and reversed temporary differences	4 033	(320)
Tax charge in the income statement	**(29 679)**	**(25 876)**

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

	2017	2016
Profit before tax	**156 282**	**180 620**
Tax calculated at the statutory rate of 19%	(29 694)	(34 318)
Tax effect of non-taxable revenue and non-deductible expenses	(2 533)	(2 076)
Tax effect of dividends received	2 548	10 518
Tax charge at the effective tax rate	**(29 679)**	**(25 876)**

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

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

INCOME TAX RECEIVABLES	as at December 31, 2017	as at December 31, 2016
Income tax receivable from the tax office	506	1 616
Income tax receivables total	**506**	**1 616**

The deferred tax results from the following temporary differences:

DEFERRED TAX	as at December 31, 2017	as at December 31, 2016
Deferred tax assets, of which:	**21 628**	**19 354**
Posted to profit or loss	21 267	19 069
- provision for wages and salaries, bonuses as well as for unused holidays	6 367	6 427
- provision for retirement benefits and similar obligations	3 796	3 917
- other provisions and accrued expenses	6 470	7 460
- loan granted	3 660	0
- revaluation of receivables	439	400
- revaluation of interests in related parties	9	314
- valuation of liabilities arising from bonds issued at amortised cost	491	491
- other	35	60
Posted to equity	361	285
- valuation of derivative instruments to hedge future cash flows	14	22
- actuarial gains/losses arising from the defined benefit plan	347	263
Deferred tax liabilities, of which:	**14 991**	**16 826**
Posted to profit or loss	14 900	16 735
- difference between tax value and book value of non-financial non-current assets	14 232	16 205
- non-invoiced revenue	116	43
- foreign exchange differences	214	214
- receivables under loans granted – accrued interest and carrying amount	0	265
- measurement of derivative instrument embedded into loans granted	327	0
- other	11	8
Posted to equity	91	91
- long term investments	91	91
Net deferred tax assets/(liabilities), of which:	**6 637**	**2 528**
Long-term	(7 409)	(12 557)
Short-term	14 046	15 085

As at December 31, 2017 and December 31, 2016 deferred tax is presented according to the net balance, under deferred tax assets item.

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

7. EARNINGS PER SHARE

Earnings per ordinary share are calculated by dividing the net profit for the financial year attributable to ordinary shareholders of Orbis S.A. by the weighted average number of issued ordinary shares outstanding during the financial year.

Diluted earnings per share are calculated by dividing the net profit for the financial year attributable to ordinary shareholders by the weighted average number of issued ordinary shares outstanding during the financial year adjusted for the impact of dilutive elements.

No factors resulting in the dilution of earnings per share occurred in the reported period nor in the comparative period.

Figures related to profit and the number of shares used in the calculation of basic and diluted earnings per share are presented below:

	2017	2016
Net profit for the period	126 603	154 744
Weighted average number of ordinary shares issued (in thous.)	46 077	46 077
Earnings per share (in PLN)	**2.75**	**3.36**

8. DIVIDEND PAID OR PROPOSED TO BE PAID

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

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

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

9. PROPERTY, PLANT AND EQUIPMENT

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

PROPERTY, PLANT AND EQUIPMENT	as at December 31, 2017	as at December 31, 2016
Tangible assets	1 543 561	1 632 563
Assets under construction	44 159	17 757
Total	**1 587 720**	**1 650 320**

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

	Land and rights to perpetual usufruct of land acquired against consideration	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Vehicles	Total tangible assets
As at January 1, 2017						
Opening gross book amount	**112 116**	**301 209**	**2 529 716**	**598 079**	**414**	**3 541 534**
Accumulated depreciation and impairment	(10 499)	(47 873)	(1 476 080)	(374 109)	(410)	(1 908 971)
Opening net book amount	**101 617**	**253 336**	**1 053 636**	**223 970**	**4**	**1 632 563**
Additions	**0**	**0**	**24 239**	**48 836**	**17**	**73 092**
purchase	0	0	19 003	32 864	17	51 884
reclassification from investments in progress	0	0	5 236	8 941	0	14 177
other	0	0	0	7 031	0	7 031
Disposals	**(2 573)**	**(3 793)**	**(30 771)**	**(5 723)**	**(9)**	**(42 869)**
sale	(2 573)	(741)	(13 854)	(1 316)	0	(18 484)
liquidation	0	(469)	(22)	(116)	0	(607)
other	0	0	(7 031)	0	0	(7 031)
reclassification to assets held for sale	0	(2 369)	(9 780)	(4 291)	(9)	(16 449)
reclassification to investment properties	0	(214)	(84)	0	0	(298)
Increase in impairment	0	0	(1 416)	0	0	(1 416)
Decrease in impairment	0	0	4 690	0	0	4 690
Depreciation charge for the period	(784)	(3 707)	(77 709)	(40 296)	(3)	(122 499)
Closing net book amount	**98 260**	**245 836**	**972 669**	**226 787**	**9**	**1 543 561**
As at December 31, 2017						
Closing gross book amount	**109 543**	**296 677**	**2 409 586**	**620 092**	**344**	**3 436 242**
Accumulated depreciation and impairment	(11 283)	(50 841)	(1 436 917)	(393 305)	(335)	(1 892 681)
Closing net book amount	**98 260**	**245 836**	**972 669**	**226 787**	**9**	**1 543 561**

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

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

The disposal on account of sale comprises the net value of property, plant and equipment of the Mercure Toruń Centrum and the ibis Zabrze Katowice hotels. Both hotels were sold as organised parts of the enterprise on September 30, 2017.

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

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

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

	Land and rights to perpetual usufruct of land acquired against consideration	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Vehicles	Total tangible assets
As at January 1, 2016						
Opening gross book amount	**45 383**	**245 187**	**2 063 214**	**286 794**	**514**	**2 641 092**
Accumulated depreciation and impairment	(3 223)	(36 295)	(1 418 126)	(194 490)	(514)	(1 652 648)
Opening net book amount	**42 160**	**208 892**	**645 088**	**92 304**	**0**	**988 444**
Increase due to business combination with a subsidiary	**50 983**	**0**	**233 837**	**35 234**	**5**	**320 059**
Additions	**13 185**	**52 522**	**292 475**	**128 380**	**0**	**486 562**
purchase	0	0	47 932	69 327	0	117 259
reclassification from investments in progress	0	0	50 527	8 501	0	59 028
reclassification from investment properties	13 185	52 522	194 016	29 265	0	288 988
other	0	0	0	21 287	0	21 287
Disposals	**(4 302)**	**(4 890)**	**(59 209)**	**(5 990)**	**0**	**(74 391)**
sale	(3 028)	(1 437)	(21 455)	(3 307)	0	(29 227)
liquidation	0	(139)	(44)	(105)	0	(288)
other	0	0	(21 332)	0	0	(21 332)
reclassification to assets held for sale	(1 274)	(3 314)	(16 378)	(2 578)	0	(23 544)
Increase in impairment	0	0	(6 630)	0	0	(6 630)
Decrease in impairment	0	0	10 787	0	0	10 787
Depreciation charge for the period	(409)	(3 188)	(62 712)	(25 958)	(1)	(92 268)
Closing net book amount	**101 617**	**253 336**	**1 053 636**	**223 970**	**4**	**1 632 563**
As at December 31, 2016						
Closing gross book amount	**112 116**	**301 209**	**2 529 716**	**598 079**	**414**	**3 541 534**
Accumulated depreciation and impairment	(10 499)	(47 873)	(1 476 080)	(374 109)	(410)	(1 908 971)
Closing net book amount	**101 617**	**253 336**	**1 053 636**	**223 970**	**4**	**1 632 563**

Increase due to the merger in 2016 in connected with the takeover, by Orbis S.A., of its subsidiary Hekon-Hotele Ekonomiczne S.A. As a result of the merger with this subsidiary, tangible assets of Orbis S.A. increased by PLN 320 059 thousand. Moreover, hotel buildings together with FF&E of PLN 288 988 thousand, rented to Hekon S.A. for the purpose of its operating activities, were reclassified from investment properties to tangible assets as a result of the merger.

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

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

ASSETS UNDER CONSTRUCTION	as at December 31, 2017	as at December 31, 2016
Gross value of assets under construction	44 159	29 121
Impairment loss on assets under construction	0	(11 364)
Total	**44 159**	**17 757**

Change in the value of assets under construction during the period from December 31, 2017 to December 31, 2016 is the result of capital expenditure incurred in the amount of PLN 93 554 thousand and disposals of PLN 67 151 thousand (including PLN 44 thousand for reason of reclassification of expenditure on the unfinished ibis Toruń hotel to Assets held for sale). Investment expenditure incurred in 2017 was allocated primarily for the development of new hotels as well as modernisation of the Novotel Poznań Centrum hotel related to the division of that hotel and its partial rebranding into ibis. The remaining investment expenditures were allocated on refurbishing the hotels operating within the network, including the Novotel Kraków City West hotel, the Novotel Warszawa Airport hotel, the Novotel Warszawa Centrum hotel, the Mercure Warszawa Centrum hotel and the Sofitel Warsaw Victoria hotel (more information about capital expenditure is provided in Section 3.8 of the Directors' Report on the Operations of the Orbis Group and Orbis S.A. for 2017).

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

Detailed information on collaterals established on property, plant and equipment is provided in Note 28 to the financial statements.

The Company does not have any tangible assets held under finance leases.

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

As at December 31, 2017, the Company had operating lease liabilities resulting from the operating lease of the Sofitel Wrocław Old Town hotel. The monthly fee for the lease of the hotel amounts to EUR 148.7 thousand. The agreement term is expected to expire at the end of September, 2021. Moreover, as at December 31, 2017, the Company held 87 motorcars under operating leases (agreements with ALD Automotive Polska Sp. z o.o.). The concluded car lease agreements expire in 1 to 3 years.

Future minimum operating lease payments of the Company are as follows:

FUTURE MINIMUM OPERATING LEASE LIABILITIES	as at December 31, 2017	as at December 31, 2016
Future minimum operating lease payments, due in:		
one year	8 143	9 206
from 1 to 5 years	20 941	30 932
Total future minimum operating lease payments*	**29 084**	**40 138**

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

In the current period, lease payments disclosed in the income statement amounted to PLN 8 534 thousand, of which PLN 7 749 thousand was presented under real property rent costs, while PLN 785 thousand in respect of car leases was presented under outsourced services. In 2016 the Company incurred a cost of PLN 7 820 thousand in respect of lease of the Sofitel Wrocław Old Town hotel and PLN 726 thousand in respect of car leases.

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

Detailed information about impairment losses on property, plant and equipment and assets under construction is as follows:

IMPAIRMENT LOSS ON TANGIBLE ASSETS AND ASSETS UNDER CONSTRUCTION	as at December 31, 2017	as at December 31, 2016
Opening balance	**(42 359)**	**(58 096)**
increase due to merger	0	(7 112)
recognised impairment loss on tangible assets	(1 416)	(6 630)
reversed impairment loss on tangible assets	4 690	10 787
decrease in impairment losses in connection with sale	5 231	9 561
impairment loss on tangible assets not subject to reversal *	755	1 531
reclassification to assets held for sale	18 158	17 882
reclassification from investment properties	0	(10 282)
Closing balance	**(14 941)**	**(42 359)**

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

At the end of the reporting period, the Company reviewed the economic value of cash generating units (hotels) as well as other tangible assets and assets under construction in the context of on-going operations and growth prospects on the individual markets.

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

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

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

In 2017, the Company reduced impairment loss on tangible assets by PLN 5 231 thousand in connection with the sale of the Mercure Toruń Centrum hotel and the ibis Zabrze Katowice hotel.
Impairment loss on tangible assets and assets in construction, totalling PLN 18 158 thousand, in respect of the ibis budget Toruń hotel, the incomplete building in Toruń, originally planned as an ibis hotel, as well as the Mercure Cieszyn and the ibis Styles Bielsko-Biała hotels, was reclassified to Assets held for sale due to the signature of preliminary agreements to sell the above assets.

In the previous year, due to the merger with its subsidiary Hekon-Hotele Ekonomiczne S.A., Orbis S.A. acquired impairment loss on tangible assets of PLN 7 112 thousand. Moreover, the impairment loss on tangible assets rose by PLN 10 282 thousand due to reclassification from investment properties to tangible assets of hotel buildings which had been rented to Hekon until the day of merger.

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

10. INVESTMENT PROPERTY

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

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

The decrease in the value of investment property due to sale (PLN 418 thousand) results from the sale in 2017 of non-residential property in Włocławek and a garage in Katowice. On the other hand, the item Reclassification of assets held for sale includes land property with ownership title to buildings located at Prusimska Street in Poznań in connection with the signing of a preliminary sale agreement of this property.

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

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

	Land and rights to perpetual usufruct of land acquired against consideration	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Total investment property
			As at January 1, 2016		
Opening gross book amount	**14 048**	**65 814**	**354 746**	**49 265**	**483 873**
Accumulated depreciation and impairment	(748)	(9 382)	(147 846)	(19 189)	(177 165)
Opening net book amount	**13 300**	**56 432**	**206 900**	**30 076**	**306 708**
Increase due to merger with a subsidiary	**0**	**0**	**2 874**	**0**	**2 874**
Additions	**0**	**0**	**4**	**1 396**	**1 400**
purchase	0	0	4	500	504
other	0	0	0	896	896
Disposals	**(13 185)**	**(52 522)**	**(195 053)**	**(29 265)**	**(290 025)**
sale	0	0	(182)	0	(182)
other	0	0	(855)	0	(855)
reclassification to tangible assets	(13 185)	(52 522)	(194 016)	(29 265)	(288 988)
Depreciation charge for the period	(115)	(516)	(8 059)	(2 206)	(10 896)
Closing net book amount	**0**	**3 394**	**6 666**	**1**	**10 061**
			As at December 31, 2016		
Closing gross book amount	**0**	**4 026**	**19 127**	**1 068**	**24 221**
Accumulated depreciation and impairment	0	(632)	(12 461)	(1 067)	(14 160)
Closing net book amount	**0**	**3 394**	**6 666**	**1**	**10 061**

The significant decrease in the balance of investment properties in 2016, results in particular from a change of classification of hotel properties which, until the day of merger, were operated by the subsidiary Hekon-Hotele Ekonomiczne S.A. Until September 1, 2016, Orbis earned revenues from renting out these properties.

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

In the current accounting period the Company tested investment property for impairment in the context of on-going operations.

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

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

Detailed information concerning impairment of investment property is as follows:

IMPAIRMENT OF INVESTMENT PROPERTY	as at December 31, 2017	as at December 31, 2016
Opening balance	**(592)**	**(10 867)**
increase due to merger	0	(596)
decrease in impairment losses in connection with sale/liquidation	0	354
impairment loss on investment property not subject to reversal	14	235
reclassification to tangible assets	0	10 282
Closing balance	**(578)**	**(592)**

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

The fair value of investment property is estimated by the Company internally, based on received offers to buy property and market analyses made by the property management department of the Company. As at December 31, 2017, the fair value of investment property was estimated at approx. PLN 21.3 million.
In terms of procedures applied, measurement of investment property is classified to Level 3 of the fair value hierarchy (fair value is determined on the basis of non-observable inputs).

The following amounts were recognised in profit or loss:

	2017	2016
Income from rent of investment property	1 720	22 752
Direct operating expenses of investment property which generates income from rent	(798)	(14 113)
Direct operating expenses of investment property which does not generate income from rent	(743)	(817)

In 2017, a significant drop in income from rent of investment properties as well as direct operating costs connected with that income was reported as compared to the previous year. This is in particular a result of the merger, at the beginning of September 2016, with the subsidiary Hekon-Hotele Ekonomiczne S.A., which rented hotel buildings from Orbis S.A.

As at December 31, 2017, investment property includes:
- in Bielsko-Biała – ownership title to office premises,
- in Gdańsk – building and right to perpetual usufruct of land,
- in Katowice – cooperative ownership title to two garages,
- in Konin – interest in an office building and right to perpetual usufruct of land,
- in Lublin – construction facility (coach depot),
- in Łódź – car park and right to perpetual usufruct of land,
- in Poznań – buildings and structures as well as right to perpetual usufruct of land,
- in Szczecin – right to perpetual usufruct of land, ownership title to buildings,
- in Warsaw – non-residential premises with two parking spaces,
- in Włocławek – cooperative ownership title to premises,
- in Zakopane – building of the Giewont hotel and right to perpetual usufruct of land,
- in Zegrze - building and right to perpetual usufruct of land.

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

11. INTANGIBLE ASSETS

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

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

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

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

	Goodwill	Permits, patents, licenses and similar	Computer software	Other intangible assets	Total intangible assets
		As at January 1, 2016			
Opening gross book amount	**0**	**36**	**13 724**	**235**	**13 995**
Accumulated amortisation and impairment	0	(4)	(9 683)	0	(9 687)
Opening net book amount	**0**	**32**	**4 041**	**235**	**4 308**
Increase due to merger with a subsidiary	**107 252**	**0**	**1 164**	**0**	**108 416**
Additions	**0**	**0**	**1 448**	**1 213**	**2 661**
purchase	0	0	0	1 213	1 213
other	0	0	1 448	0	1 448
Disposals	**0**	**0**	**(204)**	**(1 426)**	**(1 630)**
sale	0	0	(117)	0	(117)
other	0	0	0	(1 426)	(1 426)
reclassification to assets held for sale	0	0	(87)	0	(87)
Amortisation charge for the period	0	(4)	(1 873)	0	(1 877)
Closing net book amount	**107 252**	**28**	**4 576**	**22**	**111 878**
		As at December 31, 2016			
Closing gross book amount	**108 153**	**36**	**14 656**	**22**	**122 867**
Accumulated amortisation and impairment	(901)	(8)	(10 080)	0	(10 989)
Closing net book amount	**107 252**	**28**	**4 576**	**22**	**111 878**

Increase due to the merger in 2016 relates to the acquisition of the subsidiary company Hekon-Hotele Ekonomiczne S.A. by Orbis S.A. Goodwill amounting to PLN 107 252 thousand was recognised in intangible assets; the goodwill arose upon assuming control over the acquired subsidiary, i.e. at the day of purchase of shares in Hekon-Hotele Ekonomiczne S.A.

All intangible assets recognised by the Company, apart from goodwill, have defined useful lives. The Company does not have any internally generated intangible assets.

Neither in 2017 nor in 2016 were there any reasons to recognise impairment loss on intangible assets.

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

Goodwill impairment test

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

Goodwill is tested for impairment. For testing purposes, goodwill was allocated to hotels of the company Hekon S.A. that fall within two operating segments:

- Up&Midscale Hotels – allocated goodwill amounts to PLN 37 803 thousand
- Economy Hotels – allocated goodwill amounts to PLN 69 449 thousand.

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

The recoverable amount of both segments was determined based on the value in use, calculated on the basis of projected cash flows adopted for a 5-year period, and of a discount rate of 8.4% per year. Future cash flows were estimated for each hotel separately on the basis of changes in Occupancy Rate and Average Room Rate projected for subsequent years, and taking into account the location and present standard of each hotel (including hotels that require investment expenditure). The growth rate of cash flows following the projected period was estimated at 1.5%. The discount rate was calculated based on the weighted average cost of capital (WACC) of the Company.

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

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

12. INVESTMENTS IN SUBSIDIARIES

Information about subsidiaries:

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

All investments in subsidiaries are recognised at cost.

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

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

Name of the subsidiary	% share of equity	% share of votes at the GM	Country of registration	Business operations
H-DEVELOPMENT CZ a.s.	indirectly 100.00%	indirectly 100.00%	Czech Republic	real property services
Business Estate Entity a.s.	indirectly 100.00%	indirectly 100.00%	Czech Republic	real property rental
Accor-Pannonia Slovakia s.r.o.	indirectly 99.92%	indirectly 99.92%	Slovakia	hotel and F&B services
5 Hotel Kft.	indirectly 99.92%	indirectly 99.92%	Hungary	real property rental
5 Star Hotel Kft. (formerly: HVB Leasing Maestoso Kft.)	indirectly 99.92%	indirectly 99.92%	Hungary	real property rental

The following changes took place in 2017 as regards subsidiary companies of Orbis S.A.:

- On January 1, 2017, the subsidiary Katerinska Hotel s.r.o. (the merging company) merged with the subsidiary Novy Smichov Gate a.s. (the merged company), a wholly (100%) owned subsidiary of the merging company.
- On January 2, 2017, the subsidiary Accor Pannonia Hotels Zrt. acquired from Erste Group Immorent Holding GmbH with its registered address in Vienna and Subholding Immorent GmbH with its registered address in Vienna (the sellers) a share representing 100% of the share capital in 5 Hotel Kft. with its registered address in Budapest, which owns the following five hotels (real properties): Mercure Budapest Korona, ibis Styles Budapest Center, ibis Budapest City, ibis Budapest Centrum and Mercure Budapest Buda, operated under Accor brands by the Hungarian subsidiary company on the basis of lease agreements. As a result of this transaction, as of January 2, 2017, Orbis S.A. indirectly holds 99.92% in the share capital of 5 Hotel Kft.
- On May 29, 2017, the subsidiary Accor Pannonia Hotels Zrt. executed with Universale International Realitäten GmbH with its registered address in Vienna (the seller) an agreement for the purchase of 100% stake in HVB Leasing Maestoso Kft. (presently 5 Star Hotel Kft.). with its registered address in Budapest, which owns the Sofitel Budapest Chain Bridge hotel operated by the Hungarian subsidiary on the basis of lease agreement. On June 13, 2017, the Hungarian Competition Authority issued a merger clearance which allowed Accor Pannonia Hotels Zrt. to take control over the HVB Leasing Maestoso Kft. (presently 5 Star Hotel Kft.). As a result of this transaction, as of June 1, 2017, Orbis S.A. indirectly holds 99.92% in the share capital of HVB Leasing Maestoso Kft. (presently 5 Star Hotel Kft.).

Investments in subsidiaries are not directly exposed to the risk of change in interest rate and to the price risk.

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

Change in investments in subsidiaries

INVESTMENT IN SUBSIDIARIES	as at December 31, 2017	as at December 31, 2016
Opening balance	**465 921**	**1 025 569**
Additions	**1 608**	**12 110**
Increases on account of merger with a subsidiary	0	12 100
Additional payment to the capital	0	10
Reversed share impairment	1 608	0
Disposals	**0**	**(571 758)**
Recognized share impairment	0	(10)
Decrease on account of merger with a subsidiary	0	(571 748)
Closing balance	**467 529**	**465 921**

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

The decrease in investments in subsidiaries in 2016 results from the merger of Orbis S.A. with its subsidiary company Hekon-Hotele Ekonomiczne S.A. On the other hand, the increase in investments in the previous year results from taking up shares in the subsidiaries in which shares were held by Hekon-Hotele Ekonomiczne S.A. As a result of the merger, Orbis S.A. became the direct holder of shares in UAB Hekon with its corporate seat in Lithuania and increased its direct share in the share capital of Orbis Kontrakty Sp. z o.o. from 80% to 100%.

Moreover, in 2016 the Company made additional payments to Orbis Corporate Sp. z o.o. in the amount of PLN 10 thousand to cover the costs of operation of that entity. At the same time, an impairment loss was recognized in respect of those additional payments.

Change in investments in other entities

As at December 31, 2017 Orbis S.A. held minority shares and interest in the company Polskie Hotele Sp. z o.o. in liquidation, which were fully written off.

In 2017 and 2016, no changes in investments in other entities occurred.

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

IMPAIRMENT OF INTERESTS IN SUBSIDIARIES AND OTHER COMPANIES	as at December 31, 2017	as at December 31, 2016
Opening balance	**(1 655)**	**(37)**
increase on account of merger with a subsidiary	0	(1 608)
recognised impairment loss	0	(10)
reversed impairment loss	1 608	0
Closing balance	**(47)**	**(1 655)**

In 2017 an impairment loss of PLN 1 608 thousand was recognized for shares in UAB Hekon, which was acquired last year as a result of the merger with Hekon-Hotele Ekonomiczne S. A. Both the recognition and reversal of impairment losses on shares is presented in the income statement under the item revaluation of non-current assets.

13. LOANS GRANTED

As at December 31, 2017, receivables under granted loans included loans granted to the following subsidiaries:

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

Pursuant to the agreement, both these loans should be repaid no later than by December 31, 2019, and the repayment of each loan should not be less than EUR 1.5 million by the end of 2018.
Interest on loans remains the same as in the 2016 agreement, i.e. it was determined as a variable rate equal to EURIBOR 6M, plus interest rate margin of 2.5%. Pursuant to the agreement if EURIBOR 6M is lower than zero, the loan interest rate equals the interest rate margin, i.e. 2.5%. Interest is payable for 6-month periods, at the end of June and December of each year.

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

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

On **May 25, 2017,** Orbis S.A. granted to **Accor Pannonia Hotels Zrt.** with its corporate seat in Budapest a loan in the amount of **EUR 12.5 million** in order to finance the agreement of buy-back of the Sofitel Budapest Chain Bridge hotel, operated by the Hungarian company under lease agreements. The transaction of buy-back of the hotel was completed by acquisition of 100% of the share capital of company HVB Leasing Maestoso Kft. with its corporate seat in Budapest, which owns this hotel. More information on the transaction is provided in the current report no. 18/2017 and in Section 3.1 of the Directors' Report on the Operations of the Orbis Group and Orbis S.A. for the year 2017.

The interest rate on the loan was determined as a variable rate equal to EURIBOR 6M, plus interest rate margin of 2.5%. Pursuant to the agreement, if EURIBOR 6M is lower than zero, the loan interest rate equals the interest rate margin, i.e. 2.5%. According to the annex to the loan agreement executed in December 2017, the final loan repayment date (incl. interest accrued for the period from January 1, 2018) is not later than March 31, 2018.

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

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

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

As at December 31, 2017 the balance of loans was as follows:

LOANS GRANTED	as at December 31, 2017	as at December 31, 2016
Long-term loans	329 500	345 072
Short-term loans	68 866	13 489
Total loans granted	**398 366**	**358 561**

In 2017, the Hungarian company Accor Pannonia Hotels Zrt. repaid a loan of PLN 12 581 thousand to Orbis (equivalent to EUR 3.0 million). Moreover, Orbis S.A. received PLN 9 733 thousand (equivalent to EUR 2 300 thousand) as interest on loans granted to subsidiaries.

14. OTHER FINANCIAL ASSETS

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

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

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

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

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

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

15. OTHER LONG-TERM ASSETS

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

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

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

16. INVENTORIES

INVENTORIES	as at December 31, 2017	as at December 31, 2016
Raw materials	3 790	4 051
Merchandise	49	52
Total inventories	**3 839**	**4 103**

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

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

17. SHORT-TERM RECEIVABLES

Trade receivables are presented in the table below:

TRADE RECEIVABLES	as at December 31, 2017	as at December 31, 2016
Trade receivables	28 995	22 797
of which: receivables from related parties	*1 850*	*1 323*
Impairment loss on receivables	(745)	(546)
Net trade receivables	**28 250**	**22 251**

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

OTHER SHORT-TERM RECEIVABLES	as at December 31, 2017	as at December 31, 2016
Short-term receivables	**14 510**	**15 147**
Taxes, social security and other benefits receivables	5 340	34
Disputed receivables	2 324	2 300
Amount receivable on account of sale of tangible assets	7 944	14 671
Other receivables	1 226	442
Impairment loss on receivables	(2 324)	(2 300)
Short-term prepayments	**1 459**	**1 759**
Net other short-term receivables	**15 969**	**16 906**

The item of “Amounts receivable on account of sale of tangible assets” includes short-term part of the amount receivable on account of sale of the Mercure Mrągowo Resort & SPA hotel (PLN 4 000 thousand) and the short-term receivable on account of sale of an organised part of the enterprise of the Mercure Kasprowy Zakopane hotel (PLN 3 944 thousand). More information about receivables on account of the sale of the Mercure Mrągowo Resort & SPA hotel and the Mercure Kasprowy Zakopane hotel is included in Note 14 to these financial statements.

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

Changes in impairment losses on receivables are presented below:

IMPAIRMENT LOSS ON RECEIVABLES	as at December 31, 2017	as at December 31, 2016
Opening balance	**(2 846)**	**(2 495)**
increase resulting from merger with subsidiary	0	(313)
recognised impairment loss	(959)	(778)
reversed impairment loss	660	452
utilised impairment loss	76	288
Closing balance	**(3 069)**	**(2 846)**

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

The credit risk related to receivables does not differ from the average credit risk on the Polish market. The maximum credit risk related to the Company's receivables equals the amount of receivables presented in the statement of financial position. No significant concentration of risk occurs in view of a considerable share of relatively small transactions in total turnover.

All receivables at risk are covered by an impairment loss. The Company has adopted a policy to recognise an impairment loss covering 100% of receivables overdue for over 180 days. In case the Company has a strong and formal commitment from the client about the future payment (i.e. agreement on payment by instalments), an impairment loss for debt overdue more than 180 days may be withheld. As a result of a negative risk assessment of a particular case, an impairment loss for doubtful debt, amounting to 100% of the debt, may be recognised earlier. In this case, an impairment loss is recognised based on the formal request of a Hotel GM or an authorised Director/Manager in the Head Office. In case of a negative risk assessment of a given client, even when not all receivables are over 180 days overdue, an impairment loss is recognised for the total balance receivable from the client.

More information on credit risk is provided in Note 29.2.3. to these financial statements.

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

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

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

RECEIVABLES AGEING	as at December 31, 2017	as at December 31, 2016
Non-overdue receivables	35 643	32 094
Overdue receivables, of which:	11 645	9 909
- overdue for up to 1 month	5 835	4 920
- overdue for a period from 1 to 3 months	2 255	1 543
- overdue for a period from 3 to 6 months	679	644
- overdue for a period from 6 months to 1 year	225	318
- overdue for more than 1 year	2 651	2 484
Total gross short-term receivables	**47 288**	**42 003**
Impairment loss on non-overdue receivables	0	0
Impairment loss on overdue receivables, of which:	(3 069)	(2 846)
- overdue for up to 1 month	0	(10)
- overdue for a period from 1 to 3 months	0	(21)
- overdue for a period from 3 to 6 months	(207)	(16)
- overdue for a period from 6 months to 1 year	(211)	(315)
- overdue for more than 1 year	(2 651)	(2 484)
Total impairment loss on receivables	**(3 069)**	**(2 846)**
Net short-term receivables	**44 219**	**39 157**

As at December 31, 2017, receivables amounting to PLN 8 576 thousand were overdue but not impaired. Ageing of these receivables is presented below:

RECEIVABLES AGEING	as at December 31, 2017	as at December 31, 2016
Overdue non-impaired receivables, of which:	**8 576**	**7 063**
- overdue for up to 1 month	5 835	4 910
- overdue for a period from 1 to 3 months	2 255	1 522
- overdue for a period from 3 to 6 months	472	628
- overdue for a period from 6 months to 1 year	14	3
- overdue for more than 1 year	0	0

No collateral in respect of these receivables were established for the Company.

Information on currency risk is provided in Note 29.2.2 to these financial statements.

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

18. CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	as at December 31, 2017	as at December 31, 2016
Cash at bank and in hand	53 738	91 135
Short-term bank deposits	21 786	25 627
Other cash and cash equivalents	1 449	1 196
Total cash and cash equivalents	**76 973**	**117 958**

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

The Company transfers temporarily disposable cash to short-term bank deposits with maturity dates ranging from 1 to 365 days. In 2017 the Company did not have any deposits denominated in foreign currencies.

19. ASSETS CLASSIFIED AS HELD FOR SALE

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

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

ASSETS CLASSIFIED AS HELD FOR SALE	as at December 31, 2017	as at December 31, 2016
Opening balance	**23 631**	**32 200**
Additions	**24 591**	**23 634**
reclassification from tangible assets and assets under construction	16 493	23 544
reclassification from intangible assets	29	87
reclassification from investment property	3 519	0
reclassification from other assets	0	3
reversed impairment loss	4 550	0
Disposals	**(24 708)**	**(32 203)**
sale	(23 624)	(32 203)
recognised impairment loss	(1 084)	0
Closing balance	**23 514**	**23 631**

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

Additions of assets classified as held for sale in 2017 result from the execution of preliminary sale agreements. On August 30, 2017, Orbis S.A. entered into a preliminary agreement to sell an organised part of enterprise: the ibis budget Toruń hotel and a plot of land built up with an unfinished building, originally planned as an ibis hotel. Moreover, in 2017 preliminary sale agreements were signed in respect of non-hotel properties in Poznań and Karpacz, while in February 2018 a preliminary sale agreement was signed concerning a transaction of joint sale of two hotels, the Mercure Cieszyn and the ibis Styles Bielsko-Biała, as organized parts of the enterprise. The disposal due to sale of property is an effect of the finalised transactions of sale of the Mercure Jelenia Góra and the Mercure Karpacz Resort hotels (at the end of March 2017) as organized parts of the enterprise and sale of the right to perpetual usufruct of land at Heweliusza Street in Gdańsk (at the end of December 2017).

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

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

IMPAIRMENT LOSS ON ASSETS CLASSIFIED AS HELD FOR SALE	as at December 31, 2017	as at December 31, 2016
Opening balance	**(17 882)**	**(12 060)**
recognised impairment loss	(1 084)	0
reversed impairment loss	4 550	0
decrease in impairment losses in connection with sale/liquidation	17 882	12 060
reclassification from tangible assets	(18 158)	(17 882)
Closing balance	**(14 692)**	**(17 882)**

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

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

20. EQUITY

20.1 SHARE CAPITAL

The share capital of Orbis S.A. is disclosed in the amount set out in the Statutes and entered in the court register, adjusted for effects of hyperinflation.

Series / issue	Type of shares	Number of shares (pcs)	Value of series / issue at par (PLN'000)	Terms of acquisition	Date of registration
A	ordinary bearer shares	37 500 000	75 000	contribution in kind	Jan. 9, 1991
B	ordinary bearer shares	8 523 625	17 047	cash	Apr. 21, 1998
C	ordinary bearer shares	53 383	107	cash	Apr. 21, 1998
Total number of shares		**46 077 008**			
Total share capital			**92 154**		
Par value per share = PLN 2					
Hyperinflation restatement of share capital			**425 600**		
Carrying amount of share capital			**517 754**		

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

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

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

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

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

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

20.2 RESERVES

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

	as at December 31, 2017			as at December 31, 2016		
	Gross value	Deferred tax	Net value	Gross value	Deferred tax	Net value
Share premium	132 944	0	132 944	132 944	0	132 944
Adjustment of long-term investments to fair value	480	(91)	389	480	(91)	389
Cash flow hedge	(76)	15	(61)	(118)	23	(95)
Total reserves	**133 348**	**(76)**	**133 272**	**133 306**	**(68)**	**133 238**

Amounts posted in the reserves item are not available for distribution. However, this restriction does not apply to amounts recognised in profit or loss that relate to an effectively realised portion of equity linked to the sold asset.

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

20.3 RETAINED EARNINGS

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

20.4 CAPITAL MANAGEMENT

The objective of capital management is to secure the Company's ability to continue as a going concern, while maintaining an optimum structure of financing that allows to curb the costs of capital employed.

It is assumed that the Company may fuel capital growth through on-going activities taken to generate a good financial result, by regulating the amount of dividend paid to the shareholders as well as by issuing new shares or raising the par value of existing shares.

In the period covered by the financial statements, the Company did not issue any shares or raise the value of shares.

In order to finance long-term investment projects that are bound to affect the Company's results over a longer time-horizon, the Company seeks to use both its own cash and borrowings, which allows to effectively apply the leverage at the level that takes into consideration both hotel industry standards and specific features of the Company.

The Company monitors the level of equity, based on the return on equity and the ratio of equity to non-current assets.

The ROE ratio demonstrates the yield generated on the capital invested in an enterprise and is computed for an annual period as a quotient of the net result and average equity during the period. In 2017, return on equity went down owing to a decrease in the net profit as compared to 2016.

	2017	2016
Net profit	126 603	154 744
Equity - opening balance	2 004 319	1 924 883
Equity - closing balance	2 056 754	2 004 319
Return on equity	**6.23%**	**7.88%**

The equity-to-non-current assets ratio is calculated as a quotient of the Company's equity and non-current assets, and demonstrates the relationship between sources of financing and the Company's assets. In 2017, the equity-to-asset ratio increased slightly as compared to the previous year, mainly as a result of a decrease in the value of non-current assets (including, in particular, property, plant and equipment as a result of the sale of hotel properties and their reclassification to assets held for sale), while equity was higher than in the previous year

	as at December 31, 2017	as at December 31, 2016
Equity	2 056 754	2 004 319
Non-current assets	2 517 115	2 597 617
Equity-to-non-current assets ratio	**81.71%**	**77.16%**

The analysis of equity is supplemented by the debt-to-equity ratio presented in Note 29.2.4 to the financial statements.

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

21. BORROWINGS

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

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

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

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

In 2017, Orbis S.A. repaid PLN 3 409 thousand as interest on credit facilities and PLN 140 thousand as other borrowing costs resulting from credit facilities.

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

As at December 31, 2017 and 2016, the Company had unused credit lines amounting to PLN 20 000 thousand under an overdraft facility available at Bank Handlowy w Warszawie S.A.

Due to the repayment of the credit facility on December 29, 2017, by Orbis S.A., all related security was released. Detailed information is provided in Note 28.2 to the financial statements.

22. BONDS

On June 26, 2015, Orbis S.A. issued **300 thousand ordinary bearer bonds** of the **ORB A 260620 series**, of a nominal value of PLN 1 000 each and total nominal value of PLN 300 000 thousand. The issue price of the bonds is equal to their nominal value. The funds raised from this bond issue were used for partial repayment of credit facility in 2016.

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

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

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

Moreover, **on July 29, 2016**, Orbis S.A. issued another **200 thousand ordinary bearer bonds** of **ORB B 290721 series** of a nominal value of PLN 1 000 each and total nominal value of PLN 200 000 thousand. The issue price of the bonds equals their nominal value.
Bonds bear interest per annum at a variable interest rate at WIBOR 6M plus interest rate margin of 1.05%. The interest is payable in 6-month (six-month) interest periods.

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

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

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

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

In 2017, Orbis paid PLN 14 040 thousand as interest on issued bonds. Moreover, in 2017 the Company paid PLN 150 thousand as interest payments under the IRS transaction (please refer to Note 30.4).

BONDS	as at December 31, 2017	as at December 31, 2016
Proceeds from the bond issue (principal amount to be repaid)	500 000	500 000
Valuation of bonds at amortised cost	1 778	1 372
Total liabilities under bonds	**501 778**	**501 372**

Information on securities established in connection with the issue of bonds is provided in Note 28.2 to the financial statements.

23. DEFERRED REVENUE

NON-CURRENT DEFERRED REVENUE	as at December 31, 2017	as at December 31, 2016
Advance payments received	12 202	4 001
Total non-current deferred revenue	**12 202**	**4 001**

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

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

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

CURRENT DEFERRED REVENUE	as at December 31, 2017	as at December 31, 2016
Advance payments towards the sale of real property	191	2 074
Other prepayments and advances	13 951	12 441
Total current deferred revenue	**14 142**	**14 515**

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

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

24. OTHER NON-CURRENT LIABILITIES

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

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

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

25. PROVISIONS FOR LIABILITIES

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

MOVEMENTS IN PROVISIONS FOR LIABILITIES	Provision for litigation	Provision for restructuring costs	Total provisions for liabilities
As at January 1, 2016	**777**	**73**	**850**
Provision recognised in the period	0	681	681
Provision utilised in the period	0	(73)	(73)
As at December 31, 2016	**777**	**681**	**1 458**
Short-term provisions	777	681	1 458
Long-term provisions	0	0	0
Total provisions as at December 31, 2016	**777**	**681**	**1 458**

A description of major disputes in which the Company is involved is provided in Note 28.5.

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

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

26. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

The table below presents trade payables:

TRADE PAYABLES	as at December 31, 2017	as at December 31, 2016
Trade payables	52 486	52 441
of which: liabilities towards subsidiaries	*8 478*	*11 758*
Total trade payables	**52 486**	**52 441**

LIABILITIES ASSOCIATED WITH TANGIBLE ASSETS	as at December 31, 2017	as at December 31, 2016
Liabilities associated with tangible assets	18 024	17 651
Total liabilities associated with tangible assets	**18 024**	**17 651**

As at 31 December 2017, the value of liabilities associated with tangible assets remained at a level similar to the previous year. The investment expenditure incurred in 2017 was lower than in the previous year and amounted to PLN 93.6 million (135.8 million in 2016), but the expenditures in Q4 2017 were similar to those incurred in the corresponding period of the previous year (PLN 41.1 million in the last 3 months of 2017 as compared to PLN 42.7 million in 2016).

As at December 31, 2017, Orbis S.A. was bound by future capital commitments under executed contracts amounting in total to PLN 56.8 million. The most sizeable amounts relate to the construction of new hotel ibis Styles Warszawa (PLN 31.5 million), modernisation in the Novotel Poznań Centrum hotel (PLN 9.3 million) in connection with the planned division of the hotel and its partial rebranding, as well as the renovation of the Novotel Kraków City West hotel (PLN 8.6 million).

Other current liabilities are composed of the following items:

OTHER CURRENT LIABILITIES	as at December 31, 2017	as at December 31, 2016
Current liabilities	**6 814**	**9 007**
Taxes, social insurance and other benefits payable	6 285	8 124
Settlements with employees	115	88
Deposits received	414	795
Accrued expenses	**43 915**	**42 630**
Obligations towards employees	33 516	33 694
Public law liabilities	8 582	6 947
Other	1 817	1 989
Total other current liabilities	**50 729**	**51 637**

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

As at December 31, 2017 and as at December 31, 2016, the Company did not have any finance lease liabilities.

Operating lease liabilities, presented off the statement of financial position, are described in Note 9 to the financial statements.

27. EMPLOYEE BENEFITS

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

Amounts of provisions for retirement and similar benefits are measured on the basis of an actuarial valuation. The most recent actuarial valuation was carried out by Trio Management Actuarial Consulting Sp. z o.o.

Provision for retirement benefits and similar obligations

As at December 31, 2017, the amount of the provision for retirement benefits and similar obligations was measured on an individual basis, separately for each employee.

The provision per employee is calculated based on an anticipated amount of retirement or disability benefit that the Company is obligated to pay under the Company Collective Labour Agreement. The cash benefit amounts to a specified percentage of the assessment base, dependent on the length of service in the Company. The assessment base is a one-month salary of the employee. The anticipated amount of the benefit factors in the expected growth in the assessment base until attainment of the retirement age. The established amount is discounted on an actuarial basis as at December 31, 2017. The discounted amount is reduced by the amounts of annual allocations for the provision, discounted on an actuarial basis as at the same date, made by the Company to increase the provisions per employee.

The annual amounts of allocations are calculated in accordance with the projected unit credit method.

The likelihood that a given person reaches retirement age as the Company employee was determined by using the competing risks method that takes into account the following risks:

- possibility of dismissal from job,
- risk of total incapacity to work,
- risk of death.

The likelihood that an employee will resign from work of his own accord was assessed using the distribution function, taking into account the statistical data of the Company. The likelihood that an employee will resign from work of his own accord depends on the employee’s age and remains constant over each year of his work.

The risk of death was expressed in the form of latest statistical data from Polish life expectancy tables for women and men published by the Central Statistical Office [GUS] as at the measurement date.

The likelihood that an employee will become a disability pensioner was assessed on the basis of the pttz2016 table.

Provision for jubilee awards

As at December 31, 2017, the provision for jubilee awards was measured on an individual basis, separately for each employee.

The provision per employee is calculated based on an anticipated amount of jubilee award that the Company agrees to pay under the Company Collective Labour Agreement. The jubilee award amounts to a specified percentage of the assessment base, dependent on the length of service in the Company. The assessment base is the minimum salary. The anticipated amount of the award factors in the expected increase of the assessment base until attainment of the entitlement to the jubilee award. The thus established amount is discounted on an actuarial basis as at December 31, 2017. The discounted amount is reduced by the amounts of annual allocations for the provision, discounted on an actuarial basis as at the same date, made by the Company to increase the provisions per employee.
The employee benefit plan run by the Company exposes the Company to actuarial risks such as the interest rate risk, longevity risk and salary risk.

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

Interest rate risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields or treasury bond yields (where no developed corporate bond market exists). A decrease in the bond interest rate will increase the plan's liability.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

Principal actuarial assumptions are presented below:

Principal actuarial assumptions for retirement & disability benefits	2016	2017	2018	2019 - 2028	successive years
- discount rate	3.50%	3.20%	3.20%	3.20%	3.20%
- projected future growth in the benefit assessment base			5.00%	3.50%	3.00%

Principal actuarial assumptions for jubilee awards	2016	2017	2018	2019 - 2026	successive years
- discount rate	3.50%	3.20%	3.20%	3.20%	3.20%
- projected future growth in the benefit assessment base			5.00%	4.00%	3.50%

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

Amounts recognised in comprehensive income in respect of employee benefit plans:

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

2016	Jubilee awards	Retirement & disability benefits	Total liabilities
Service cost:			
current service cost	1 035	266	1 301
past service cost and (gain)/loss from settlements	(592)	42	(550)
Net interest expense	509	189	698
Remeasurement on the net future employee benefit liability:			
actuarial gains and losses arising from changes in demographic assumptions	(3 448)	641	(2 807)
actuarial gains and losses arising from changes in financial assumptions	(713)	(301)	(1 014)
actuarial gains and losses arising from experience adjustments	2 202	(430)	1 772
Components of future employee benefit plan costs recognised in profit of loss	**(1 007)**	**497**	**(510)**
Components of future employee benefit plan costs recognised in other comprehensive income	**0**	**(90)**	**(90)**
Total	**(1 007)**	**407**	**(600)**

The current and past service cost and (gain)/loss from settlements are included in the Company's profit or loss as employee benefit expense under the employee benefits line. The net interest expense is presented in finance costs.
The remeasurement of the net liability on account of retirement and disability benefits is disclosed in other comprehensive income. The remeasurement of the net liability on account of jubilee awards is recognised in profit or loss, while related actuarial gains/losses arising from changes in financial assumptions are disclosed in finance income/costs and other remeasurements are presented in employee benefit cost.

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

Movements in the present value of future employee benefit obligation:

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

	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2016	**15 901**	**6 284**	**22 185**
Increase due to merger with a subsidiary	2 598	141	2 739
Current service cost	1 035	266	1 301
Past service cost and (gain)/loss from settlements	(592)	42	(550)
Interest cost	509	189	698
Remeasurement (gains)/losses:			
actuarial gains and losses arising from changes in demographic assumptions	(3 448)	641	(2 807)
actuarial gains and losses arising from changes in financial assumptions	(713)	(301)	(1 014)
actuarial gains and losses arising from experience adjustments	2 202	(430)	1 772
Benefits paid	(2 046)	(278)	(2 324)
Present value of obligation - as at December 31, 2016	**15 446**	**6 554**	**22 000**
Short-term provisions	1 926	966	2 892
Long-term provisions	13 520	5 588	19 108
Total present value of obligation - as at December 31, 2016	**15 446**	**6 554**	**22 000**

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

At the time of calculation of the provision for jubilee awards and retirement benefit obligations, a sensitivity analysis was conducted. The analysis concerned the impact of the discount rate and projected growths in benefit assessment bases on the amount of the provision as at December 31, 2017. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the applied financial discount rate were 0.5 percentage point lower than the adopted rate, the total amount of provisions would increase by PLN 791 thousand. On the other hand, if the applied discount rate exceeded the base rate by 0.5 percentage point, the amount of the provision would be lower by PLN 739 thousand.

The sensitivity analysis of projected growths in benefit assessment bases has shown that the adoption of an assessment base by 0.5 percentage point lower would decrease the provision by PLN 727 thousand, whereas if the base were increased by 0.5 percentage point, the amount of the provision would go up by PLN 962 thousand.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation. It is unlikely that the change in assumptions would occur in isolation of another one as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation was calculated using the projected unit credit method at the end of the reporting period, which is the same method as applied in calculating the defined benefit obligation recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior year.

The weighted average duration of the defined benefit plan as at December 31, 2017 is 5 years (a corresponding period as in 2016).

An analysis of the due dates of the benefits to be paid is as follows:

Forecast cash flows due to employee benefits in the next 10 years	Jubilee awards	Retirement & disability benefits	Total liabilities
2018	2 062	964	3 026
2019	1 911	558	2 469
2020	1 669	757	2 426
2021	2 218	697	2 915
2022	2 437	628	3 065
years 2023 - 2027	13 513	3 021	16 534
Total	**23 810**	**6 625**	**30 435**

28. CONTINGENT ASSETS AND LIABILITIES

28.1 LIABILITIES ARISING FROM EXECUTED CONTRACTS

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

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

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

28.2 LIABILITIES ARISING FROM CREDIT FACILITY AGREEMENTS AND BOND ISSUE

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

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

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

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

The issued bonds have been secured by a joint contractual mortgage established on the Mercure Warszawa Grand hotel (KW No. WA4M/00159685/9), the Novotel Warszawa Centrum hotel (KW No. WA4M/00072550/0) and the Mercure Warszawa Centrum hotel (KW No. WA4M/00097244/3) up to the sum of PLN 625 000 thousand. The mortgage was established for the benefit of the mortgage administrator that is Bank Polska Kasa Opieki S.A. with its corporate seat in Warsaw, which will act in its own name, but for the account of bondholders. The total market value of the above-mentioned mortgaged hotels, determined by independent property valuers as at May 19, 2017, by the valuation survey dated June 1, 2017, was PLN 773 176 thousand. The book value of these real properties as at December 31, 2017 is PLN 232 416 thousand.

28.3 LIABILITIES ARISING UNDER GUARANTEE AGREEMENTS

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

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

28.4 LIABILITIES ARISING FROM AGREEMENTS FOR THE SALE OF ASSETS

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

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

28.5 LEGAL CLAIMS

Litigation pending before courts, arbitration or public administration bodies:

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

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

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

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

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

The proceedings were instituted on July 21, 2014, by the Polish Agency for Enterprise Development (Polska Agencja Rozwoju Przedsiębiorczości - PARP) and the value of the dispute is estimated at PLN 616 thousand plus interest. As a beneficiary under the Human Capital Operational Programme 2007-2013, Orbis S.A. received aid for a training programme, co-financed by the European Union. As a result of a control of programme implementation, PARP claimed that Orbis S.A. had violated the terms of the programme by applying discriminating criteria and assessments in drawing up the offer. Hence, PARP requested Orbis S.A., under the sanction of issuing a decision, to pay a penalty of 25% of eligible expenditure under the programme, which is equivalent to PLN 616 thousand. Orbis S.A. challenged PARP's position in its entirety. Despite absence of an administrative decision on the reimbursement, in 2014 PARP used the bank guarantee and drew an amount of approx. PLN 504 thousand. Orbis S.A. claims refund of this amount by means of civil proceedings. In 2016, a decision reaffirming PARP's position was delivered. In this decision, PARP demands reimbursement of PLN 200 thousand with interest accruing from different payment deadlines specified in the decision. Orbis S.A. appealed against this decision. The Minister of Infrastructure upheld PARP decision. In July, 2016, Orbis S.A. paid to PARP a sum of PLN 261 thousand and then filed an appeal with the Voivodship Administrative Court.
On October 11, 2017, the Voivodship Administrative Court issued a judgement on this case in which it accepted Orbis S.A. appeal and revoked, for formal reasons, the PARP decision by virtue of which Orbis was to pay the sum of PLN 616 thousand. Orbis S.A. applied for refund of the amount drawn by the PARP against a bank guarantee in 2014. The litigation will continue. The anticipated duration of the litigation is approx. 4 years.

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

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

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

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

Furthermore, as at September 31, 2017, 10 proceedings were pending before the Self-Government Appellate Board concerning revaluation of annual rates of fees for perpetual usufruct of land located in the following cities:
- Warsaw (ibis & ibis budget Reduta, ibis Warszawa Centrum, plot of land in Łopuszańska Street - concerning the fees up to the day of sale of the real property),
- Sopot (Sofitel Grand),
- Gdańsk (Novotel Centrum, Mercure Gdańsk Stare Miasto, ibis Gdańsk Stare Miasto and adjacent area, Mercure Posejdon, Novotel Marina),
- Zegrze (built-up plot of land).

In the Company's opinion, fee revaluations made by Presidents of respective cities are either unjustified or calculations should be based on different rates. As at the end of the reporting period, accumulated value of the fees challenged by the Company totals PLN 7 682 thousand and is disclosed in other current liabilities.

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

29. RISK AREAS

29.1 BUSINESS RISK

29.1.1 Risk related to the macroeconomic situation and condition of the hospitality sector

The situation of companies operating in the hospitality sector depends largely on the overall macroeconomic landscape that is beyond their control. Main risk factors affecting demand for hotel services include:

- economic recession or stagnation affecting demand for hotel services, both from individual and business clients. Deteriorating financial situation of the population and rising unemployment not only limit financial capacity but adversely affect the mood and propensity to travel as well. Poor financial standing of companies leads to the curbing of budgets for trainings, corporate travel and, consequently, results in the cancellation, postponement or renegotiation of contracts for business groups,
- growth in fuel, energy and food prices that is mirrored in the level of hotel operators' operating expenses,
- strengthening of the local currency that reduces attractiveness of the country for foreign tourists,
- reduction of the number of airline and railway connections,
- adversely changing geopolitical situation, also as a result of social conflicts and tensions, with the resulting drop in the number of travellers.

29.1.2 Competition risk

The hotel industry is a highly competitive market. Year in, year out, new hotels open in cities where Orbis S.A. operates. Some of them belong to global operators with a wide network of establishments operating under recognisable brands, effective loyalty programmes and high marketing budgets. Hotel operators compete also in terms of gaining new franchisees in attractive locations.

Growing competition may have an adverse impact on the price and occupancy of hotels run by Orbis S.A. and, consequently, on financial performance.

Orbis S.A. pursues an active product and pricing policy in all its hotels and puts special emphasis on the addition of new and interesting products to its offer, thereby staying ahead of its competitors on the hotel market.

29.1.3 Risk related to cooperation with travel agents

The objective of Orbis S.A. is to sell through traditional channels and the Accor website. However, nowadays customers regularly use the websites of on-line travel agencies. Some of these major intermediaries develop their own loyalty programmes for their booking systems. In case of a considerable rise in the level of sales via On-line Travel Agencies (OTAs), it could have an adverse effect on the Company's performance.

29.2 FINANCIAL RISK

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

The Company pursues a uniform policy of financial risk management and permanently monitors risk areas, using available strategies and mechanisms aimed at minimizing the negative effects of market volatility and securing cash flows.

Orbis S.A. curbs financial risk (defined as cash flows volatility) and the risk related to money and capital markets' volatility. This objective is implemented using methods described below.

Exposure to additional risks not related to the accepted business operations is deemed improper.

Orbis S.A. does not use any financial instruments, including derivatives, for speculative purposes.

The risk management policy and strategy are defined and monitored by the Management Board of Orbis S.A. Current responsibilities in the area of risk management are dealt with by special units established for this purpose in Orbis S.A.

29.2.1 Interest rate risk

The Company is exposed to the interest rate risk since it has obtained financing at variable interest rates, i.e. credit facilities and issued bonds, as well as granted a loan to its subsidiary Accor Pannonia Hotels Zrt and UAB Hekon. Moreover, by the end of December 2017 the company was also exposed to the interest rate fluctuation risk in connection with the loan facility incurred.

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

As at December 31, 2017, Orbis S.A.'s had liabilities arising from the bond issue – PLN 501.8 million with variable interest rates. The first tranche of bonds issued on June 26, 2015 (PLN 300.0 million) bear interest per annum at a variable interest rate equal to WIBOR for six-month deposits (WIBOR 6M), plus interest rate margin of 0.97 p.p. The second tranche of bonds issued on July 29, 2016 (PLN 200.0 million) bear interest per annum at a variable interest rate equal to WIBOR for six-month deposits (WIBOR 6M), plus interest rate margin of 1.05 p.p.

In 2017, Orbis S.A. had credit facility at Bank Pekao S.A. and Société Générale S.A. with variable interest rates bearing interest, which on December 29, 2017, was prepaid in full (see also Note 21). Credit facility was bearing interest at a rate equal to WIBOR 3M plus margin. Interest rate on this credit facility was based on variable reference rates that are updated on a quarterly basis.

In 2017, interest rates on credit facilities and bonds were based on the following rates:
- WIBOR 3M: 1.72 – 1.73
- WIBOR 6M: 1.81

An analysis of sensitivity to the interest rate risk arising from bonds issued was performed on the basis of the balance of debt resulting from issued bonds as at the end of the reporting period. A 0.5 p.p. change in the interest rate on bonds would result in an increase/decrease in finance costs by PLN 2 500 thousand.

In case of bonds, cash flow volatility is offset by means of the executed Interest Rate Swap transaction (described in Note 30.4). The Company performed an analysis of sensitivity to interest rate risk with regard to the executed contract. If interest rates were by 0.5 p.p. higher, the Company's other comprehensive income would go up by PLN 74 thousand. In case interest rates declined by 0.5 p.p., other comprehensive income of the Company would decrease by PLN 74 thousand.

As at December 31, 2017, the Company also had receivables under loans granted to its subsidiaries Accor Pannonia Hotels Zrt. and UAB Hekon. Loans bear interest at a variable interest rate equal to EURIBOR 6M, plus interest rate margin of 2.5%. As per the agreement, if EURIBOR 6M is below zero, the loan interest rate will be equal to the interest rate margin, i.e. 2.5%. Interest is payable for 6-month periods, at the end of June and December of each year.

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

In 2017 EURIBOR 6M, on which rate the interest rate on the loan granted to the subsidiary is based, remained below zero. In cases when EURIBOR 6M is less than zero, the agreement provides for interest rate is equal to the interest rate margin. Consequently, the Company decided not to carry out an analysis of sensitivity to the interest rate risk with regard to the granted loan.

29.2.2 Currency risk

Orbis S.A. executes transactions denominated in foreign currencies. Hence, a risk of fluctuations in foreign currency exchange rates arises. Certain expenses, like rent costs for example, are denominated in or indexed to foreign currencies, predominantly the euro. There is a risk that unfavourable changes in the exchange rate will adversely impact return on sales and, thereby, the financial result of the Company.

As at December 31, 2017, the Company held cash and had loan granted to the subsidiary denominated in a foreign currency. More information on the loan granted is provided in Note 13. As at the end of reporting period, the Company has neither foreign currency borrowings nor borrowings denominated in a foreign currency.

In order to reduce the risk of its currency exposure, Orbis S.A. seeks first of all to use the natural hedging mechanism. Furthermore, derivative instruments, such as forwards, swaps and options, may be used for the purpose of managing risk.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities as at the end of reporting period are as follows:

		as at December 31, 2017	as at December 31, 2016
Cash and cash equivalents			
foreign currency	EUR	4 420	930
Polish currency equivalent	PLN	18 435	4 114
Loans granted (short- and long-term)			
foreign currency	EUR	95 511	81 049
Polish currency equivalent	PLN	398 366	398 561
Receivables			
foreign currency	EUR	445	262
Polish currency equivalent	PLN	1 856	1 159
Payables			
foreign currency	EUR	2 499	2 954
Polish currency equivalent	PLN	10 423	13 068
foreign currency	GBP	6	0
Polish currency equivalent	PLN	28	0

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

The following table details the Company's sensitivity to a 10% increase and decrease in the rate of exchange of PLN against foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and equity where the PLN strengthens 10% against the relevant currency. For the 10% weakening of the PLN against the relevant currency, there would be a comparable impact on the profit and equity, and profit and equity would decrease.

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

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

	10% increase of the exchange rate	
	2017 result	2016 result
Cash and cash equivalents	1 844	411
Loans granted	39 837	35 856
Receivables/Payables	(860)	(1 191)
Total effect of exchange rate fluctuations on result	**40 821**	**35 076**

In the Management Board's opinion, the sensitivity analysis is unrepresentative of the exchange rate risk because the exposure at the end of the year does not reflect the exposure during the entire reporting period.

29.2.3 Credit risk

The credit risk to which Orbis S.A. is exposed may result from:
- creditworthiness of financial institutions (banks/brokers), parties to security agreements or security agents,
- creditworthiness of entities whose securities the Company purchases or invests in,
- creditworthiness of franchisees and investors with which Orbis S.A. execute franchise and management agreements,
- creditworthiness of corporate clients that, owing to the absence of any significant concentration of credit risk and a large share of relatively small transactions in total turnover, does not require the application of special transaction hedges, apart from the monitoring of customers from the point of view of their credit ratings.

In the Company's assessment, the risk related to its clients does not differ from the average credit risk on the Polish market.

In settlements with clients, preference is given to payments by credit card, cash and prepayments. Credit decisions are made taking into account results of a solvency study, contract value, payment date and forecast of the balance of receivables.

Solvency checks are performed before a credit is granted to each new customer and at each renewal of the contract for a successive term. To meet these requirements, the hotels and the Head Office units may use the following set of tools:
- reports from information agencies to help in assessing customers' creditworthiness,
- customer payment history: significant payments delays, particularly inclusion on the internal "debtor blacklist" of the Company prevents further crediting,
- presence of other negative information on the customer's solvency. Any information from the local or global market about the customer's payment failures must be carefully examined and the credit blocked, where justified.

It is a policy that if a solvency check is not positive in all the above aspects, additional guarantees (bank guarantee or credit card preauthorisation) must be required.

The Company's exposure to customer creditworthiness risk is constantly monitored. Credit risk control is ensured through regular meetings of the Credit Management Committee held to discuss all major risks relative to merchant credit and to take decisions on granting credit to new customers with unclear financial standing.

To minimize the credit risk, Orbis S.A. cooperates with reputable banks with good financial standing.

The following table presents ratings of banks, in which Orbis S.A. has substantial cash balances:

Bank / Ratings of banks	Cash as at December 31, 2017 in PLN'000	Agency		
		Fitch	Standard & Poor's	Moody's
Société Générale SA	**1 529**			
Long-term/Short-term Counterparty rating		A+	N/A	A1(cr)/P-1(cr)
Long-term senior unsecured debt		A+	A	A2
Short-term senior unsecured debt		F1	A-1	P-1
Long-term senior unsecured debt non preferred		A	BBB+	Baa3
Dated subordinated Tier 2		A-	BBB	Baa3
Undated subordinated Tier 2		BBB	BBB-	Ba1(hyb)
Tier 1 and preferred shares		BBB-	BB+	Ba2(hyb)
Additional Tier 1 Basel 3		BB+	BB+	Ba2(hyb)
Outlook		Stable	Stable	Stable
Bank Handlowy w Warszawie SA	**53 179**			
Long-term rating		A-		
Short-term rating		F1		
Viability rating		a-		
Support rating		1		
Long-term rating Counterparty Risk Assessment		AA+ (pol)		
Short-term rating Counterparty Risk Assessment		F1 (pol)		
Outlook		Stable		
Credit Agricole Bank Polska SA	**10 142**			
Long-term rating				Baa1
Short-term rating				P-2
Outlook				Stable
Bank Pekao SA	**1 535**			
Rating for long-term deposits with a stable outlook				A2
Rating for short-term deposits with a stable outlook				P -1
Senior unsecured debt rating with a stable outlook				A3
MTN program debt rating				(P)A3
Other program short-term debt rating				(P)P-2
Long-term counterparty risk assessment				A2(cr)
Short-term counterparty risk assessment				P-1(cr)
Outlook				
MUFG Bank (Europe) N.V.S.A.	**77**			
Long-term rating				A
Short-term rating				A-1

Bank / Ratings of banks, continued	Cash as at December 31, 2017 in PLN'000	Agency		
		Fitch	Standard & Poor's	Moody's
Bank Gospodarstwa Krajowego	**10 031**			
Long-term IDR foreign currency credit rating		A-		
Short-term foreign currency rating		F2		
Long-term local currency rating		A		
Support rating		1		
Support rating floor		A-		
National long-term rating		AAA(pol)		
National short-term rating		F1+ (pol)		
Long-term rating outlook		Stable		

It is not possible to forecast the impact of the above risk on financial results of the Company.

29.2.4 Liquidity risk

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

As at December 31, 2017 and as at December 31, 2016, the Company had unused credit lines amounting to PLN 20 000 thousand under an overdraft facility available at Bank Handlowy w Warszawie S.A.

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

Orbis S.A. monitors financial liquidity on the basis of the debt-to-equity ratio and current ratio.

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

	as at December 31, 2017	as at December 31, 2016
Total debt	679 115	793 252
Total equity and liabilities	2 735 869	2 797 571
Debt-to-equity ratio	**24.8%**	**28.4%**

The current ratio is calculated as a quotient of current assets and current liabilities. The ratio improved compared to the previous year due to an increase in the balance of loans granted, which exceeded the decrease in cash and cash equivalents (resulting from loan repayment), accompanied by a decrease in the balance of current liabilities (due to debt reduction).

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

Net working capital as at the end of 2017 amounted to PLN 92 332 thousand, compared to net working capital at the end of the preceding year (PLN 38 468 thousand). This is in particular the result of total repayment of credit facilities and loans as at the end of 2017.

	as at December 31, 2017	as at December 31, 2016
Current assets and assets classified as held for sale	218 754	199 954
Current liabilities	140 564	176 001
Current ratio	**1.56**	**1.14**

The Company forecasts future flows arising from financial payables. The forecast takes into account payables existing as at the date of preparation of the financial statements. Interest rates applicable as at December 31, 2017 are assumed for future interest periods. Interest as well as borrowings and bonds instalments are classified in accordance with their maturity dates.

Projected expenditure payable in the period	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 3 years	from 3 years to 10 years
Bonds	2 884	0	11 176	323 978	205 720
Trade payables	51 532	954	0	0	0
Other payables*	17 045	274	1 234	4 979	798
Total expenditure on account of payables	**71 461**	**1 228**	**12 410**	**328 957**	**206 518**

** The Other payables due in over 1 year item includes guarantee deposits according to the deadline for their reimbursement set forth in executed contracts for refurbishment and construction services.*

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

29.3 LEGAL RISK

The hotel sector is exposed to legal risk relating to changes in regulations governing:

- protection of personal data,
- obligations and fees imposed on owners and users of land as well as buildings and structures,
- protection of the environment,
- employment, e.g. in terms of minimum wages, obligatory pension and health insurance contributions,
- taxes and other public law fees levied on entrepreneurs.

Orbis S.A. monitors changes in the legal environment on an on-going basis.

29.4 REPUTATIONAL RISK

Brands under which hotels of Orbis S.A. operate and their reputation are among the Company’s most important assets. Opportunities of customer acquisition and retention depend on the standard and quality of services and application of the best market (commercial) practices in management. Incidents undermining guests’ confidence and safety may harm the brands’ image. In addition, the Company’s image may be adversely affected by non-compliance with corporate governance rules, incidents having a negative impact on the environment, violations of employees’ rights and improper relations with local authorities. Given the expansion of the social media, the potential scale (range) of negative perception and public disclosure of such events may be large, even disproportionate to the adverse effects such events actually produce. The occurrence of the above-mentioned situations may contribute to the growth in operating expenses or may have an adverse impact on revenue.

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

Orbis S.A. monitors media activity on an on-going basis and responds to problems notified on social media portals. Also, the Company has implemented detailed procedures for responding to (acting in) crisis situations in order to prevent negative events and, if they occur, to minimise their effects.

29.5 RISK FACTORS RELATED TO BONDS

29.5.1 Risk of early redemption of Bonds for reasons other than the Bondholder's request

Pursuant to Article 74.5 of the Bonds Act, in the event of liquidation of Orbis S.A. the Bonds become immediately redeemable on the date of commencing the liquidation, even if their redemption date has not yet lapsed.

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

The Conditions of Bonds Issue contain several clauses that, if defaulted, give the bondholder (upon taking specific actions and following a proper procedure) the right to request early redemption of the Bonds by Orbis S.A. There is a risk that in case an early redemption of the Bonds is requested, Orbis S.A. will not have sufficient funds to fulfil such a request. Nevertheless, the Company stresses that the Bonds have been secured by mortgages established on the Issuer's real properties (hotels) whose value exceeds that of the issued Bonds.

30. FINANCIAL INSTRUMENTS

30.1. CATEGORIES OF FINANCIAL INSTRUMENTS

The following table presents the main categories of financial instruments:

	as at December 31, 2017	as at December 31, 2016
Financial assets		
Cash and cash equivalents	76 973	117 958
Loans and receivables (including trade receivables)	442 730	406 869
Derivative financial instruments (assets)	1 722	0
Financial assets excluded from the scope of IAS 39 (including investments in equity instruments not quoted on an active market)	467 529	465 921
Financial liabilities		
Amortised cost (including trade payables)	578 594	700 406
Derivative instruments in designated hedge accounting relationships	74	118

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

30.2. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	as at December 31, 2017		as at December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	76 973	76 973	117 958	117 958
Loans granted	398 366	398 366	358 561	358 561
Derivative financial instruments (assets)	1 722	1 722	0	0
Other financial assets	6 944	6 944	10 944	10 944
Trade receivables and others short-term receivables	37 420	37 420	37 364	37 364
Investment in subsidiaries (excluded from the scope of IAS 39)	467 529	-	465 921	-
Financial liabilities				
Borrowings	0	0	122 945	124 904
Debt securities - bonds issued	501 778	504 500	501 372	507 500
Derivative instruments (liabilities)	74	74	118	118
Trade payables and other long-term and short-term payables	76 816	76 816	76 089	76 089

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

The Company does not disclose the fair value in respect of shares in subsidiaries. Shares in subsidiaries and jointly controlled entities (joint ventures) – financial assets excluded from the scope of IAS 39 – pursuant to the Company's accounting policy are measured at purchase cost less impairment losses.

The fair value of liabilities arising from credit facilities was determined as at December 31, 2016, as the present value of future cash flows, discounted at the current interest rate.

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

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

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

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

30.3. EMBEDDED DERIVATIVE INSTRUMENT

As at December 31, 2017, the floor derivative instrument embedded into loans granted to subsidiaries was measured. This instrument is triggered when the base rate for calculating interest on loans granted, i.e. EURIBOR 6M, is lower than 0%. Then, according to the loan agreements, a base equal to 0% applies (see Note 13 for more information on loans granted).

The fair value of the embedded instrument was measured using the Bachelier model, which assumes a normal distribution of interest rates, thus allowing for negative EURIBOR rates. The zero-coupon curve was generated based on publicly available EURIBOR interest rates and prices of EUR Rates 1100 instruments (IRS based on EURIBOR 6M as at December 29, 2017 (the last business day of 2017). As a result of the measurement of the derivative instrument embedded in a loan as at December 31, 2017, the sum of PLN 1 722 thousand was recognized in the Company's financial result (in financial income).

30.4. 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 Société Générale S.A. The amount of the hedging instrument is PLN 150 million, which accounts for 50% of the value of the first tranche of bonds (PLN 300 million). The swap matures on June 26, 2018. Interest payment dates fall every six months, starting from June 27, 2016, and have been correlated with dates of payment of interest on bonds. In 2017, the Company paid PLN 150 thousand in settlement of the Interest Rate Swap interest payment. At the end of the presented reporting periods, the swap's valuation at fair value was disclosed in the Company's equity through other comprehensive income. In 2017, no ineffectiveness arising from cash flow hedges occurred that would require to be disclosed in the financial result of the Company.

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

31. RELATED PARTY DISCLOSURES (TRANSACTIONS)

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

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

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

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

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

31.2. TRANSACTIONS WITH RELATED PARTY

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

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

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

Revenue from the sale of services to subsidiaries comprise mainly management fees (concerns Orbis Kontrakty Sp. z o.o.). In 2016, till the date of merger with Hekon-Hotele Ekonomiczne S.A., Orbis additionally recognised revenues from the sale of services comprising management fees and revenues from lease of hotel properties to the subsidiary.

Purchases from subsidiary companies comprise predominantly mutually provided services.

Finance income comprises dividends from related parties as well as interest on loans granted to the Hungarian subsidiary Accor Pannonia Hotels Zrt. and to the Lithuanian subsidiary UAB Hekon.

RELATED PARTY TRANSACTIONS - REVENUES	2017	2016
Net sales of services	**3 634**	**33 369**
- sale to parent company	1 545	1 520
- sale to other Accor Group companies	963	609
- sales to subsidiaries	1 126	31 240
Finance income	**22 974**	**56 600**
- from subsidiaries	22 974	56 600
Total revenue	**26 608**	**89 969**

RELATED PARTY TRANSACTIONS - EXPENSES	2017	2016
Purchases of services	**43 192**	**33 894**
- from parent company	30 570	25 154
- from other Accor Group companies	11 016	8 737
- from subsidiaries	1 606	3
Total expenses	**43 192**	**33 894**

RECEIVABLES AND PAYABLES	as at December 31, 2017	as at December 31, 2016
Trade receivables	**1 850**	**1 323**
- from parent company	778	767
- from other Accor Group companies	321	471
- from subsidiaries	751	85
Receivables under loans granted	**398 366**	**358 561**
- from subsidiaries	398 366	358 561
Total receivables	**400 216**	**359 884**
Trade payables	**8 478**	**11 758**
- to parent company	5 622	11 314
- to other Accor Group companies	963	438
- to subsidiaries	1 893	6
Total payables	**8 478**	**11 758**

The significant drop in revenue from subsidiaries reported in 2017 was caused by the merger of Orbis S.A. and Hekon – Hotele Ekonomiczne S.A. on September 1, 2016.

Financial income from subsidiaries in 2017 includes interests on the loan granted to Accor Pannonia Hotels Zrt. and UAB Hekon. Financial income from subsidiaries in 2016 includes interest on the loan granted to Accor Pannonia Hotels Zrt. and to Katerinska Hotel s.r.o. by Hekon-Hotele Ekonomiczne S.A., which were taken over on September 1, 2016, by Orbis due to its merger with Hekon. The loan acquired by Orbis, granted to the Czech company, was repaid on September 19, 2016.

Moreover, finance income reported in 2017 comprises dividends from Orbis Kontrakty Sp. z o.o. During the corresponding period of the past year, Orbis S.A. received dividends from Orbis Kontrakty Sp. z o.o., Hekon-Hotele Ekonomiczne S.A. and Accor Hotels Romania s.r.l.

Receivables under granted loans comprise loans granted to Hungarian and Lithuanian subsidiary. More information on the loan granted is provided in Note 13.

As at December 31, 2017 and December 31, 2016, the Company did not have any loans received from related parties.

No impairment loss was recognised on the presented receivables.

Transactions with related companies are executed at arms' length.

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

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

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

32. EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

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

	2017	2016
Change in receivables in the statement of financial position	**(1 062)**	**(8 956)**
change arising from the merger with a subsidiary	0	9 233
change in other long-term receivables and prepayments	(426)	(8)
change in receivables on account of sale of tangible assets	(9 563)	13 183
Change in the statement of cash flows	**(11 051)**	**13 452**
Change in liabilities, except borrowings, in the statement of financial position	**173**	**30 705**
change arising from the merger with a subsidiary	0	(25 397)
change in investment liabilities	(1 020)	6 992
Change in the statement of cash flows	**(847)**	**12 300**
Change in deferred revenue in the statement of financial position	**7 828**	**2 450**
change arising from the merger with a subsidiary	0	(4 038)
advance payments received towards the sale of non-current assets	(7 616)	(74)
Change in the statement of cash flows	**212**	**(1 662)**
Change in provisions in the statement of financial position	**445**	**423**
change arising from the merger with a subsidiary	0	(2 740)
actuarial gains and losses in respect of defined employee benefit plan recognised in other comprehensive income	(564)	90
Change in the statement of cash flows	**(119)**	**(2 227)**
Change in inventories in the statement of financial position	**264**	**(844)**
change arising from the merger with a subsidiary	0	686
Change in the statement of cash flows	**264**	**(158)**
Other adjustments	**(10 064)**	**(4 147)**
revaluation of non-current assets	(6 740)	(4 157)
revaluation of investments in subsidiaries	(1 608)	10
revaluation of financial assets	(1 722)	0
other	6	0
Change in the statement of cash flows	**(10 064)**	**(4 147)**

33. EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Date	Name and Surname	Position/Function	Signature
Feb. 20, 2018	Gilles Stephane Clavie	President of the Management Board	
Feb. 20, 2018	Ireneusz Andrzej Węgłowski	Vice-President of the Management Board	
Feb. 20, 2018	Dominik Sołtysik	Member of the Management Board	
Feb. 20, 2018	Marcin Szewczykowski	Member of the Management Board	

SIGNATURE OF THE MEMBER IN CHARGE OF BOOKKEEPING

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

DECLARATIONS OF THE MANAGEMENT BOARD

True and fair view of the financial statements

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

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

Selection of an entity authorised to audit the financial statements

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

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

Gilles Clavie
President of the Management Board, Chief Executive Officer

Ireneusz Węgłowski
Vice-President of the Management Board

Dominik Sołtysik
Member of the Management Board

Marcin Szewczykowski
Member of the Management Board, Finance Director

Warsaw, February 20, 2018