Orbis Group

Report for 2016

Consolidated Financial Statements

February 21, 2017

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

CONSOLIDATED INCOME STATEMENT
for the year 2016

	Note	2016	2015
Net sales	5.1	**1 382 879**	**1 262 726**
Outsourced services	5.2	(296 904)	(261 861)
Employee benefit expense	5.3	(339 121)	(318 416)
Raw materials and energy used	5.2	(200 861)	(194 184)
Taxes and charges	5.2	(42 407)	(43 283)
Other expenses by nature	5.2	(13 077)	(14 429)
Net other operating income / (expenses)	5.4	(1 293)	858
EBITDAR		**489 216**	**431 411**
Rental expense	28	(99 603)	(102 145)
Operating EBITDA		**389 613**	**329 266**
Depreciation and amortisation	5.2	(148 204)	(139 303)
Operating profit without the effects of one-off events		**241 409**	**189 963**
Result on sale of real property	5.5	27 629	25 334
Revaluation of non-current assets	5.6	1 548	10 902
Restructuring costs	5.7	(2 322)	(3 036)
Result of other one-off events	5.8	(3 787)	(1 480)
Operating profit		**264 477**	**221 683**
Gain on disposal of interest in associates	12	5 108	0
Finance income	5.9	4 901	7 059
Finance costs	5.10	(17 458)	(16 491)
Share of net profits/(losses) of associates	12	126	(86)
Profit before tax		**257 154**	**212 165**
Income tax expense	6	(50 007)	(30 583)
Net profit for the period		**207 147**	**181 582**
- attributable to owners of the parent		207 125	181 553
- attributable to non-controlling interests		22	29
Earnings per ordinary share			
Basic and diluted profit attributable to owners of the parent for the period (in PLN)	7	4,50	3,94

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year 2016

	Note	2016	2015
Net profit for the period		**207 147**	**181 582**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/losses arising from the defined benefit plan	27	87	(564)
Income tax relating to items that will not be reclassified subsequently		116	116
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		14 603	2 696
The effective portion of the gain or loss on the hedging instrument entered into for cash flow hedges	32.3	677	(795)
Income tax relating to items that may be reclassified subsequently		(128)	151
Other comprehensive income, net of income tax		**15 355**	**1 604**
Total comprehensive income for the period		**222 502**	**183 186**
- attributable to owners of the parent		222 473	183 156
- attributable to non-controlling interests		29	30

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31, 2016

Assets	Note	As at: December 31, 2016	As at: December 31, 2015
Non-current assets		**2 193 359**	**2 088 391**
Property, plant and equipment	9	2 037 338	1 923 863
Investment property	10	8 720	10 287
Intangible assets, of which:	11	112 692	114 189
- goodwill		107 252	107 252
Investments in associates	12	0	10 151
Other financial assets	13	15 510	7 888
Deferred tax assets	6	18 206	21 128
Other long-term assets	14	893	885
Current assets		**643 145**	**372 448**
Inventories	15	7 167	6 763
Trade receivables	16	58 953	50 555
Income tax receivables	6	3 079	368
Other short-term receivables	16	33 152	34 502
Other short-term financial assets	17	0	8 577
Cash and cash equivalents	18	540 794	271 683
Assets classified as held for sale	19	**23 631**	**23 057**
TOTAL ASSETS		**2 860 135**	**2 483 896**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, continued

as at December 31, 2016

Equity and Liabilities	Note	As at:	
		December 31, 2016	December 31, 2015
Equity		**1 950 676**	**1 783 288**
Equity attributable to owners of the parent		**1 950 514**	**1 783 155**
Share capital	20.1	517 754	517 754
Reserves	20.2	133 238	132 689
Retained earnings	20.4	1 282 113	1 129 899
Foreign currency translation reserve	20.3	17 409	2 813
Non-controlling interests	20.5	**162**	**133**
Non-current liabilities		**624 954**	**454 837**
Borrowings	21	87 656	122 466
Bonds	22	501 372	299 229
Deferred tax liabilities	6	282	620
Deferred revenue	23	4 001	5 300
Other non-current liabilities	24	5 114	3 072
Provision for retirement benefits and similar obligations	27	19 765	22 823
Provisions for liabilities	25	6 764	1 327
Current liabilities		**284 505**	**245 771**
Borrowings	21	35 289	36 646
Other financial liabilities	32.3	118	795
Trade payables	26	117 429	77 874
Liabilities associated with tangible assets	26	24 945	34 734
Current tax liabilities	6	3 143	4 874
Deferred revenue	23	21 466	20 585
Other current liabilities	26	77 673	66 456
Provision for retirement benefits and similar obligations	27	2 983	2 693
Provisions for liabilities	25	1 459	1 114
TOTAL EQUITY AND LIABILITIES		**2 860 135**	**2 483 896**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year 2016

	Note	Equity attributable to owners of the parent				Non-controlling interest	Total
		Share capital	Reserves	Retained earnings	Foreign currency translation reserve		
Twelve months ended December 31 2015							
Balance as at January 1, 2015		**517 754**	**133 333**	**1 301 117**	**118**	**0**	**1 952 322**
- net profit for the period		0	0	181 553	0	29	**181 582**
- other comprehensive income/(loss)		0	(644)	(448)	2 695	1	**1 604**
Total comprehensive income/(loss) for the period		**0**	**(644)**	**181 105**	**2 695**	**30**	**183 186**
- accounting for business combination under common control		0	0	(283 207)	0	103	**(283 104)**
- dividends		0	0	(69 116)	0	0	**(69 116)**
Balance as at December 31, 2015	20	**517 754**	**132 689**	**1 129 899**	**2 813**	**133**	**1 783 288**
Twelve months ended December 31 2016							
Balance as at January 1, 2016		**517 754**	**132 689**	**1 129 899**	**2 813**	**133**	**1 783 288**
- net profit for the period		0	0	207 125	0	22	**207 147**
- other comprehensive income		0	549	203	14 596	7	**15 355**
Total comprehensive income for the period		**0**	**549**	**207 328**	**14 596**	**29**	**222 502**
- transaction with a shareholder	33.2	0	0	17 286	0	0	**17 286**
- income tax relating to transaction with a shareholder		0	0	(3 284)	0	0	**(3 284)**
- dividends	8	0	0	(69 116)	0	0	**(69 116)**
Balance as at December 31, 2016	20	**517 754**	**133 238**	**1 282 113**	**17 409**	**162**	**1 950 676**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year 2016

	Note	2016	2015
OPERATING ACTIVITIES			
Profit before tax		**257 154**	**212 165**
Adjustments:		**178 226**	**127 362**
Share of net (profits)/losses of associates	12	(126)	86
Depreciation and amortisation	5.2	148 204	139 303
Foreign exchange (gains)/losses		348	(10 744)
Valuation of financial assets		0	5 488
Interest, borrowing costs and dividends		14 688	13 544
Gain from investing activities		(33 133)	(26 150)
Change in receivables	34	1 640	9 170
Change in liabilities, excluding borrowings	34	46 249	(2 951)
Change in deferred revenue	34	(756)	4 006
Change in provisions	34	2 925	4 261
Change in inventories	34	(286)	163
Other adjustments	34	(1 527)	(8 814)
Cash generated from operations		**435 380**	**339 527**
Income taxes paid		(54 493)	(48 235)
Net cash generated by operating activities		**380 887**	**291 292**
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment, intangible assets and investment property		63 138	47 818
Proceeds from disposal of associates		15 785	0
Interest received		1 833	1 893
Other investing cash inflows		5 454	2 000
Payments for property, plant and equipment, investment property and intangible assets		(291 459)	(113 357)
Net cash outflow to acquire interest in subsidiaries		0	(563 640)
Increase in share capital of related parties		(10)	0
Other investing cash outflows		(6 704)	(5 462)
Net cash used in investing activities		**(211 963)**	**(630 748)**
FINANCING ACTIVITIES			
Proceeds from borrowings	21	0	477 765
Issue of bonds	22	200 000	300 000
Inflows from shareholder	33.2	17 286	0
Repayment of borrowings	21	(36 683)	(317 976)
Interest paid and other financing cash outflows resulting from received borrowings	21	(4 841)	(10 866)
Interest paid and other financing cash outflows resulting from bonds	22	(9 076)	(5 251)
Dividends and other payments to owners	8	(69 116)	(69 116)
Net cash generated by financing activities		**97 570**	**374 556**
Change in cash and cash equivalents		**266 494**	**35 100**
Effects of exchange rate changes on the balance of cash held in foreign currencies		2 617	(2 920)
Cash and cash equivalents at the beginning of the period		**271 683**	**239 503**
Cash and cash equivalents at the end of the period	18	**540 794**	**271 683**

1. BACKGROUND

The attached consolidated financial statements present financial data in the consolidated statement of financial position as at December 31, 2016 and as at December 31, 2015, consolidated statement of changes in equity, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows, covering data for 2016 and for 2015, as well as explanatory notes to the abovementioned financial statements. These consolidated financial statements of the Group for 2015 comprise the Parent Company and its subsidiaries (jointly referred to as the “Orbis Group” or the “Group”).

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

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

The consolidated financial statements were approved by the Management Board on February 21, 2017.

Items of statement of financial position of foreign subsidiary companies were translated into the Polish currency at the average exchange rate quoted by the National Bank of Poland as at December 31, 2016. Items of the income statement, statement of comprehensive income and statements of cash flows of foreign subsidiary companies were translated into the Polish currency at the exchange rates being the arithmetic mean of average rates quoted by the National Bank of Poland at the day ending each month of 2016 and of 2015. All resulting foreign exchange differences are recognised as a component of equity

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

CURRENCY	Average exchange rate in the reporting period		Exchange rate at the end of the reporting period	
	2016	2015	December 31, 2016	December 31, 2015
EUR/PLN	4,3757	4,1848	4,4240	4,2615
HUF/PLN	0,0140	0,0135	0,0142	0,0136
CZK/PLN	0,1618	0,1534	0,1637	0,1577
RON/CZK	0,9739	0,9421	0,9749	0,9421

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

1.1 ORBIS GROUP

1.1.1 Parent Company

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

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

1.1.2 The Group

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

The Orbis Hotel Group is the largest hotel network in Poland and Central & Eastern Europe. As at the end of 2016, the Group's structure comprised 116 hotels located in nine countries. Hotels of the Group operate under following Accor brands: Sofitel, Pullman, MGallery, Novotel, Mercure, ibis, ibis Styles, ibis budget.

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

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

Companies forming the Orbis Group

SUBSIDIARIES	% share of equity	% share of votes at the GM	Core business
Orbis Kontrakty Sp. z o.o., Warsaw	directly 100%	directly 100%	organisation of purchasing
UAB Hekon, Vilnius	directly 100%	directly 100%	hotel, F&B services
Orbis Corporate Sp. z o.o., Warsaw*	directly 100%	directly 100%	tourism, transport, hotel, F&B services
Katerinska Hotel s.r.o., Prague	directly 100%	directly 100%	hotel, F&B services
Accor Pannonia Hotels Zrt., Budapest	directly 99,92%	directly 99,92%	hotel, F&B services
Accor Hotels Romania s.r.l., Bucharest	directly 100%	directly 100%	hotel, F&B services
Novy Smichov Gate a.s., Prague**	indirectly 100%	indirectly 100%	real property rental
H-DEVELOPMENT CZ a.s., Prague	indirectly 100%	indirectly 100%	real property services
Business Estate Entity a.s., Pilsen	indirectly 100%	indirectly 100%	real property rental
Accor Pannonia Slovakia s.r.o., Bratislava	indirectly 99,92%	indirectly 99,92%	hotel, F&B services

** Company excluded from consolidation due to the immaterial share it contributes to the total assets/equity and liabilities and net revenues of the Orbis Group.*
*** On January 1, 2017, a merger of subsidiaries, i.e. Katerinska Hotel s.r.o. (merging company) with Nový Smíchov Gate a.s. (merged company) took place, in which the merging company held 100% of shares.*

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

On September 1, 2016 the merger between Orbis S.A. (merging company) with its subsidiary – Hekon – Hotele Ekonomiczne S.A. (merged company) took place.

As a result of this 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%.

More information about the merger was provided in the Separate Financial Statements of Orbis S.A. for 2016 under Section 12.

On December 14, 2016 a subsidiary Accor Pannonia Hotels Zrt. sold a non-controlling block (44.46%) in the company Blaha Hotel Szállodaüzemeltető Kft., which owns the real property on which the Nemzeti Budapest MGallery hotel is located. As a result of the above transaction, as at December 31, 2016, Orbis Group no longer indirectly holds interests in Blaha Hotel Szállodaüzemeltető Kft. More information was provided in Note 12 of these Statements.

Moreover, in 2016 the subsidiary World Trade Center Budapest Management Szolgaltató Kft. with its registered address in Budapest was deleted from the register of entrepreneurs.

1.1.4 Non-consolidated companies

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 STATEMENT OF COMPLIANCE

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

2.2 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The basic accounting policies applied in the preparation of consolidated financial statements are presented in Note 2.4 to the financial statements. These policies were consistently applied in all the years covered by the financial statements and did do undergo any significant changes during the financial year, except for modifications resulting from amended regulations described in Note 2.6. The International Financial Reporting Standards applied for the first time by the Group described in Note 2.6 to these statements.

Preparing financial statements in accordance with IFRSs requires applying certain key accounting estimates. The management board must also take a number of subjective decisions concerning the application of the Group's accounting policies. The areas which are more complex or require a subjective judgment, as well as areas in which the assumptions and estimates are significant for the financial statements as a whole, are described in Note 2.7 to the financial statements.

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

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

The report of the licensed auditor Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. on the audit of the consolidated financial statements of the Orbis Group for 2016 contains a qualification relating to the classification of the perpetual usufruct of land.

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

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

Some rights to perpetual usufruct of land have been purchased by the Group and recognized in accounting books at purchase price (i.e. market value). The remaining titles have been obtained from the State Treasury as components of hotel properties and recognized in accounting books at values determined as a result of an independent valuation pursuant to IFRS 1.

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

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

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 title to perpetual usufruct of land, such as:

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

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

The above problems and doubts as to whether the title 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 titles to perpetual usufruct of land, the Management Board and the Supervisory Board are of an opinion that these titles should be reported in accordance with the IAS 16 Property, Plant and Equipment.

The value of purchased perpetual usufruct of land as at December 31, 2016, amounted to PLN 61,382 thousand (which accounts for 2.1% of total assets), compared to PLN 65,428 thousand (equal to 2.6% of total assets) as at 31 December 2015.

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

The value of the perpetual usufruct of land obtained free of charge, as recognized in the statement on financial position, amounted to PLN 260,044 thousand (9.1% of total assets) as at December 31, 2016 and PLN 270,057 thousand (10.9% of total assets) as at December 31, 2015. The value of the related deferred tax liabilities amounted to PLN 49,408 thousand (1.7% of total equity and liabilities) as at December 31, 2016 and PLN 51,311 thousand (2.1% of total equity and liabilities) as at December 31, 2015.

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, 2016, and for the period of 12 months ended December 31, 2015, taking into account deferred tax, would have been higher by, respectively, PLN 8,110 thousand (corresponding to 3.9% of net profit) and PLN 10,667 thousand (5.9% of net profit) and the previous years' profit/loss as at December 31, 2016 and December 31, 2015 would have been lower by, respectively, PLN 218,745 thousand (7.6% of total equity and liabilities) and PLN 229,413 thousand (9.2% of total equity and liabilities).

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

In connection with the foregoing, the Management Board intends to consistently pursue the approach to the presentation of perpetual usufruct of land and as 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 2.6 of this financial report).

When evaluating the financial statements of Orbis Group for the year 2016, alike in the past years, the Supervisory Board has given due consideration to the arguments of the Management Board as well as to the auditor's position on the relevant issues. The Supervisory Board of Orbis S.A. agrees with and gives its positive opinion on the position of the Management Board of Orbis S.A. that the accepted accounting treatment of rights to perpetual usufruct of land contributes to transparent and fair presentation of information on the economic standing of the Group.

2.4 ACCOUNTING POLICIES OF THE GROUP

2.4.1 Related parties

2.4.1.1 Subsidiaries

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

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

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:
- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

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

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

2.4.1.2 Associates

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

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

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

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

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

Unrealised profits from transactions between the Group and its associates are eliminated proportionately to the amount of the Group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence that the transferred asset has been impaired.

Where necessary, accounting policies of associates were adjusted in order to maintain consistency with the Group's accounting policies.

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

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

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

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

2.4.3 Mergers of companies under common control

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

In order to settle the effects of mergers of companies under common control, the Group uses the pooling of interests method, which assumes that:
- assets and liabilities of merging entities are valued at their book value and adjusted, where appropriate, for the purpose of applying uniform accounting principles by the given entity with those applied by the Group;
- transaction costs connected with the merger are recognised in the income statement;
- balances of intercompany receivables and liabilities are eliminated;
- the difference between the amount paid or transferred and the net assets acquired is recognized in the Group's equity;

- income statement presents the profit or loss of the merged companies from the time of merger, while figures for previous periods are not restated.

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

2.4.4 Income statement

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

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

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

2.4.5 Revenue recognition

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

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

- sales of hotel services – this is revenue from renting out rooms in hotels owned or leased by the Group. Revenue from sales of hotel services is recognised when the service is provided, i.e. when the room is rented by the customer.
- sales of food&beverage services – they include revenue from sales of food and beverages in hotels owned or leased by the Group. The revenue is recognised when the products/goods are handed over to the customer. This group of revenues also includes revenues from the organization of conferences, banquets and events.
- other revenue – includes income from auxiliary services provided by hotels (among others, rental of parking places, sports and leisure services), as well as revenue from renting out non-hotel properties.
- revenue from franchise fees – the Group receives franchise fees in connection with the licenses it grants for using brands owned by the Group, usually under long-term agreements with the hotel owners. The Group charges fixed fees for joining the network from franchisees and flexible charges for use of the trademark, the know-how, marketing support, hotel affiliation with the global distribution and reservation systems and participation in loyalty programs. Flexible charges are calculated as a percentage of revenue from provision of hotel room accommodation service by franchised hotels specified in the contract.
- management fees – these fees are paid by hotels managed by the Group, usually on the basis of long-term management agreements executed with hotel owners. The revenue comprises the basic fee, usually calculated as a percentage of hotel revenue, and an additional management fee defined as a specific percentage of the hotel's operating profit before tax.

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

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

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

2.4.6 Finance costs and borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

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

The finance costs also include the net interest expense resulting from the valuation of provisions for employee benefits and actuarial gains/losses arising from changes in financial assumptions as to valuation of reserves for jubilee awards (please refer also to Note 2.4.19).

2.4.7 Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

2.4.8 Leases

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

2.4.8.1 Finance lease

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

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

Property, plant and equipment used under finance leases are depreciated in accordance with principles of depreciation of the non-current assets owned by the Group's Companies over the shorter of the useful life of the asset or the lease term.

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

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

2.4.8.2 Operating lease

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

Rewards due and received as an incentive to execute an operating lease are recognised in profit or loss on a straight-line basis over the term resulting from the lease.

Where the specific terms of the lease indicate that lease payments will be calculated progressively over the term of the lease, annual payment instalments are linearised.

The existing operating lease contracts are discussed in Note 28.

2.4.9 Investment property

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

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

2.4.10 Intangible assets

2.4.10.1 Goodwill

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

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

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

2.4.10.2 Other intangible assets

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

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

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

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

2.4.11 Other long-term assets

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

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

2.4.12 Inventories

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

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

2.4.13 Financial assets

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

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

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

2.4.13.1 Financial assets at fair value through profit or loss

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

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

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

The Group classifies predominantly investments in securities into this category.

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

2.4.13.2 Held-to-maturity investments

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

2.4.13.3 Available-for-sale financial assets

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

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

2.4.13.4 Loans and receivables

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

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

2.4.14 Cash and cash equivalents

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

2.4.15 Non-current assets held for sale

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

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

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

2.4.16 Impairment of assets

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

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

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

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

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

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

2.4.16.2 Impairment of financial assets

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

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

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

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

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

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

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

2.4.16.3 Impairment of inventories

If an event resulting in impairment of inventories occurs in the financial year, inventories are written down. When the circumstances that previously caused inventories to be written down 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.

2.4.17 Financial liabilities and equity instruments issued by the Group

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

2.4.17.1 Equity instruments

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

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

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

2.4.17.2 Compound financial instruments

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

2.4.17.3 Financial liabilities

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

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

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

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

2.4.17.4 Financial liabilities at fair value through profit or loss

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

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

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

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

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

2.4.17.5 Other financial liabilities

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

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

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

2.4.17.6 Financial guarantee contract liabilities

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

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

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

2.4.18 Derivative instruments

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

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

2.4.18.1 Embedded derivative instruments

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

2.4.19 Employee benefits

Short-term employee benefits, including payments to defined contribution plans, are recognised in the period during which the employee rendered service to the Group, and in case of profit sharing and bonuses, when the following conditions are met:
- the entity has a present or constructive obligation to make such payments as a result of past events, and
- a reliable estimate of the obligation can be made.

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

Post-employment benefits in the form of defined benefit plans (retirement benefits) and other long-term benefits (jubilee awards, disability benefits, etc.) are valued using the projected credit unit method, with actuarial valuation made at the end of each reporting period.

Remeasurements concerning retirement and disability benefits, comprising actuarial gains and losses, are reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined liability. Defined benefit costs are categorised as follows:
- service costs (including current service cost, past service cost, as well as gains and losses on settlements of plan amendments or curtailments);
- net interest expense; and
- remeasurement.

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

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

2.4.20 Provisions

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

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

Provisions are recognised on the basis of the Management Board’s decision. Restructuring provisions require an approved and communicated restructuring plan.

No provisions are recognised for future operating losses.

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

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

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

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

2.4.21 Contingent assets and liabilities

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

A contingent liability is:

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

2.4.22 Income taxes

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

2.4.22.1 Current tax

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

The liability for current tax is calculated using tax rates applicable in a given financial year. In accordance with Polish regulations, in 2016 the Companies calculated their corporate income tax liability at the rate of 19% of taxable income.

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

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

- Czech Republic 19%
- Lithuania 15%
- Romania 16%
- Slovakia 22%
- Hungary 10% on income of HUF 500 million, 19% on the surplus over this amount.

2.4.22.2 Deferred tax

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

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

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

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

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

2.4.22.3 Current and deferred tax for the period

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

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

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

2.4.22.4 Tax Group

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

The Tax Group allows to curb administrative expenses related to tax settlements and to offset current tax losses incurred by the 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.

On September 3, 2009 the “Agreement Establishing the Orbis Tax Group” was concluded. The Orbis Tax Group consisted of Orbis S.A. and Hekon-Hotele Ekonomiczne S.A. The Agreement was registered in the competent tax office (decision dated October 28, 2009). The Agreement remained in effect for three tax years, i.e till December 31, 2012.

On August 31, 2012, a subsequent “Agreement Establishing the Orbis Tax Group”, effective till December 31, 2015, was concluded. On September 24, 2015, Orbis S.A. and Hekon-Hotele Ekonomiczne S.A. signed another agreement covering the period from January 1, 2016 to December 31, 2018. As a result of the merger of both companies the Tax Group lost its tax status on September 1, 2016.

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

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

2.4.23 Payment of dividend

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

2.4.24 Foreign currency

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

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

Exchange differences are recognised in profit or loss in the period in which they arise, except for:

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

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

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

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

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

2.4.25 Materiality

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

For the purpose of disclosing information in the financial statements, the Management Board assumed a threshold of materiality at 5% of operating result (EBIT) without one-off events, rounded down to full hundreds of thousands of zlotys, which in case of these financial statements means the sum of PLN 12,000 thousand.

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

2.5 CHANGES IN ACCOUNTING POLICIES AND CHANGES IN PRESENTATION OF DATA

In 2016, the accounting policies did not change as compared to the financial statements published as at December 31, 2015, save for changes resulting from new provisions of law (please refer to Note 2.6)

2.6 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS

The following amendments to the existing standards, issued by the International Accounting Standards Board (IASB) and adopted by the European Union, came into force in 2016:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 "Joint Arrangements" –** Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The above listed standards, interpretations and amendments to standards have not exerted any substantial impact on the Group's financial statements for the year 2016.

As at February 21, 2017, the following standards and interpretations have been issued and adopted by the European Union but have not become effective yet:

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

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

Moreover, the following standards and interpretations have been adopted by the International Accounting Standards Board but not yet approved by the European Union as at February 21, 2017:

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

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

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

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

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

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

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

- **Amendments to various standards "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 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

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

According to the Group's estimates, the above listed standards, interpretations and amendments to standards, with the exception of IFRS 16 “Leases”, would not exert any substantial impact on the financial statements if applied by the Group as at the end of the reporting period.

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

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

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

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

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

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

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

As at December 31, 2016 the Group was a party to an operating lease agreement concerning 16 hotels and lease agreements of 137 motorcars. Disclosures currently required by IAS 17, including information about the future minimum lease payments under those agreements, are presented in Note 28.

The Group ran an initial analysis of the impact of the new terms of lease on the Group’s statements with regard to the identified lease contracts. For the purpose of this analysis, the method described in paragraph C5 (b) IFRS 16 was adopted, i.e. with retrospective effect without restating comparative data. According to the method described in paragraph C8 (a), liabilities were established at the value of the remaining lease payments discounted at the marginal interest rate as at the balance closing date, and the right to use assets in the amount of payables adjusted for any prepaid or accrued expenses in the balance sheet (paragraph C8 (b) (ii)). The incremental borrowing rate was determined separately for contracts executed in individual currencies (PLN, EUR, HUF, CZK). For contracts executed in PLN the current cost of debt incurred by Orbis S.A. was adopted. For contracts executed in currencies other than PLN, the financing rate in foreign currencies was based on Basis Swap Cross Currency quotations from the Bloomberg system as at December 30, 2016, converting the variable PLN interest rate into variable interest rates in other foreign currencies (EUR, HUF, CZK), plus a premium for the credit risk of the Parent Company.

If the Group was to apply IFRS 16 for the first time as at December 31, 2016, then rights to use assets and liabilities under the lease of PLN 338,125 thousand would have been reported in the consolidated statement of financial position. Applying a discount rate higher/lower by 0.5% would have affected the decrease/increase of this value by PLN 8,193 thousand. Applying a discount rate higher/lower by 1.0% would have affected the decrease/increase of this value by PLN 16,059 thousand.

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

At the same time, the Management Board of the Parent Company informs that currently the Group is working to analyse its existing/executed agreements to use assets in terms of whether they meet the definition of lease under IFRS 16. In particular, the Group is taking steps to determine the direction and estimate the impact (the scale of impact) on the future financial statements of IFRS 16 with respect to the right of perpetual usufruct of land, which right is after all the basis for the Orbis Group using many properties where the Group operates hotels.

According to the Management Board of the Parent Company, based on the literal wording of IFRS 16.9 according to which a lease means every contract that conveys to the client the right to control the use of the identified asset for a period of time in exchange for consideration, the title to perpetual usufruct of land could theoretically be regarded a lease. However, considering the specific nature of this title (described in Note 2.3 of these statements), its clear-cut classification as lease is difficult.

In addition, the issue that raises additional doubts in with regard to titles to perpetual usufruct of land is the reliable appraisal of the value of liability under lease, related to the difficulty in defining the duration of the term of lease and defining the respective discount to be applied for the calculation of these liabilities.

In connection with the foregoing, the Management Board of Orbis S.A. emphasises that the Group continues to take action aimed at determining the impact of IFRS 16 upon its future financial statements. However, due to objective reasons (such as the specific legal nature of the title to perpetual usufruct and absence of precise guidelines in the market), at present the Group does not have the opportunity to make a reliable and credible assessment of the potential effects of the new lease standard with respect to all the titles of perpetual usufruct of land.

As at the date of the publication of these financial statements, the Management Board did not make a decision whether it will opt for an earlier application of the IFRS, i.e. from January 1, 2018.

2.7 CRITICAL ESTIMATES AND ASSUMPTIONS

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

Critical accounting estimates and assumptions

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

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

(a) Useful lives

The level of depreciation rates is determined on the basis of current knowledge concerning the anticipated useful life of components of property, plant and equipment and intangible assets. The anticipated useful life is periodically reviewed.

(b) Impairment of property, plant and equipment and investment property

As at the end of each reporting period, the Group assesses whether there are any indications that an asset may have been impaired. The recoverable amount of individual cash generating units is assessed using the methods described in Note 2.4.16.1.

(c) Impairment of goodwill

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

(d) Provision for employee benefits

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

(e) Deferred tax assets

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

3. DESCRIPTION OF MAJOR EVENTS OF 2016

The most important events of 2016 which affected the financial information of Orbis Group include:

Real property sale transactions

In 2016 Orbis S.A. finalised the following real property sale transactions, whose results were posted in the income statement in item "Result on sale of real property" (please refer also to Note 5.5):

- on February 29, 2016, a sale agreement was executed concerning an organised part of the enterprise formed by the **Mercure Mrągowo Resort & SPA Hotel**, with the exception of the real properties on which the hotel is located. The sale price of OPE Mrągowo was PLN 400 thousand net. Upon execution of the OPE Mrągowo sale agreement, a real properties lease agreement was executed for an amount of PLN 1,000 thousand, with a term covering the period from the day when the agreement was executed until the end of 2016, not later however than until the date of execution of the final real properties sale agreement. On December 16, 2016, the final hotel real properties sale agreement was executed, including the right of perpetual usufruct of land and building with other property, plant and equipment of the Mercure Mrągowo Resort & SPA hotel in Mrągowo for the price of PLN 18,600 thousand. The total revenue from the transaction was PLN 20,000 thousand.
- in August 2016, in connection with the sale agreement executed on December 21, 2015 concerning the real **property located in Warsaw at ul. Bitwy Warszawskiej 1920 r**., Orbis S.A. has been informed by the buyer about the receipt by him of the building permit. In connection with the foregoing, pursuant to the real property sale agreement, the sale price payable to Orbis S.A. was adjusted in such a way so that the buyer paid to Orbis an additional net amount of PLN 4,420 thousand, which gives a total real property net purchase price of PLN 26,420 thousand.
- on November 30, 2016, an agreement was executed to sell an organised part of the enterprise formed by the **Mercure Opole**. The net sale price of the OPE was PLN 10,500 thousand.
- on December 23, 2016, the **Mercure Częstochowa Centrum and the ibis Częstochowa hotels** were sold for a total net price of PLN 29,500 thousand. The sale transaction covered the right of perpetual usufruct of land and the right of ownership of the buildings situated on it, with fixtures and fittings, structures and other facilities. Moreover, together with the hotel sale agreement, Orbis S.A. concluded with the buyer a rental agreement with a term until January 31, 2017, and a franchise agreement under which from February 1, 2017, the buyer will operate the above-mentioned hotels under Mercure and ibis brands. In view of the above, as at December 31, 2016, the Mercure Częstochowa Centrum and the ibis Częstochowa hotels were still operated by Orbis company.
- on December 29, 2016, a sale agreement was executed concerning a **non-hotel real property**, including the right of perpetual usufruct of land with a building, located in **Warsaw at Łopuszańska 47 street**. The real property was sold for a net price of PLN 14,362 thousand.

The issue of 200 thousand bonds with a total nominal value of PLN 200,000 thousand

On July 29, 2016, Orbis S.A. issued another 200 thousand ordinary bearer bonds of ORB B 290721 series of a nominal value of PLN 1,000 each and of a total nominal value of PLN 200,000 thousand. The issue price of the bonds equals their nominal value. The bonds shall be redeemed on July 29, 2021 at their nominal value. On October 20, 2016, the bonds were introduced to trading in the debt securities alternative trading system at BondSpot (on the Catalyst market). More information about bond issue is provided in Note 21.

Transaction of hotel buy-back by a subsidiary Accor Pannonia Hotels Zrt.

On the 17 February 2016, in performance of the preliminary sale agreement signed on 24 November 2015, the subsidiary company, in which Orbis S.A. holds 99.92% of shares Accor Pannonia Hotels Zrt., a private company limited by shares incorporated under the laws of Hungary, with its corporate seat in Budapest, concluded with Flums Korlátolt Felelősségű Társaság, a limited liability company incorporated under the laws of Hungary, with its corporate seat in Budapest, the final sale agreement under which Accor Pannonia Hotels Zrt. acquired:

- real property situated in Budapest, including the Ibis Budapest Heroes Square hotel building (having 139 rooms) with furniture, fixtures and equipment of this hotel and
- real property situated in Budapest including the Mercure Budapest City Center hotel building (having 227 rooms) with furniture, fixtures and equipment of this hotel.

The aggregate price for acquisition of the hotels (with furniture, fixtures and equipment) amounted to EUR 27,500 thousand net. The payment of part of the price in the amount of EUR 16,000 thousand was financed from a loan granted to Accor Pannonia Hotels Zrt. by the Hekon-Hotele Ekonomiczne S.A. (at present Orbis S.A.) .

The aim of the acquisition of the Hotels (with furniture, fixtures and equipment) was optimization of hotel business conducted by Orbis S.A., including elimination of costs associated with leasing of the Hotels.

Hotel building purchase by a subsidiary UAB Hekon

On September 15, 2016, Orbis' subsidiary UAB Hekon with its registered address in Vilnius (the buyer) and UAB Merko būstas with its registered address in Vilnius (the seller) executed a preliminary sale and purchase agreement of the ibis hotel building together with parking spaces, which will be built by the seller on the real property located in Vilnius at Ceikiniu 3 Street, in line with UAB Hekon concept. The ibis hotel will have 164 rooms, a restaurant, a bar and 2 conference rooms. It will be built in line with Accor standards.

The final sale and purchase agreement will be executed upon fulfilment by the seller of the conditions laid down in the preliminary agreement, in particular relating to the construction and obtaining the occupancy permit of the ibis hotel as well as ensuring that the hotel is free from any encumbrances. The final sale and purchase agreement will be executed by June 30, 2018. The total purchase price of the ibis hotel will not exceed the net sum of EUR 8 526 thousand plus VAT and will be paid according to the terms and conditions and on date laid down in the preliminary agreement.

Sale of minority interest in Blaha Hotel Szállodaüzemeltető Kft.

In December 2016 the subsidiary Accor Pannonia Hotels Zrt. sold its non-controlling interest (44.46%) in Blaha Hotel Szállodaüzemeltető Kft. which owns the land on which the Nemzeti Budapest MGallery hotel stands for the sum of EUR 3.6 million. The transaction was executed by way of exercise by the majority shareholder (Fernand Le Rachinel S.a.r.l.) of the right to buy out a minority interest and does not result in any change in the operations of the hotel, which will be continued on the same terms. As a result of the above-mentioned transaction, as at December 31, 2016, Blaha is no longer an associated company.

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

On December 23, 2016 Orbis' subsidiary – Accor Pannonia Hotels Zrt. with its registered address in Budapest, executed with Erste Group Immorent Holding GmbH with its registered address in Vienna and Subholding Immorent GmbH with its registered address in Vienna (the sellers) a buy back agreement of the following five hotels (real properties) operated by the Hungarian subsidiary company on the basis of lease agreements under Accor brands: Mercure Budapest Korona, ibis Styles Budapest Center, ibis Budapest City, ibis Budapest Centrum and Mercure Budapest Buda.
The buy-back transaction was executed by way of acquisition by the subsidiary from the sellers of interest representing 100% of the share capital in 5 Hotel Kft. with its registered address in Budapest (the owner of the above hotels). The total price to be paid by Accor Pannonia Hotels Zrt. under this transaction is EUR 64.1 million net with possible price adjustment depending on the audited figures of 5 Hotel Kft. published as at 31 December 2016.
Closing of the transaction (payment of the purchase price and application for registration of the new owner in 5 Hotel Kft.) took place on January 2, 2017.

4. SEGMENT INFORMATION

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

4.1 OPERATING SEGMENTS

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

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

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

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

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

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

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

- the Up&Midscale segment: 4 Sofitel hotels, 21 Novotel hotels, 18 Mercure hotels and 1 MGallery hotel;
- the Economy segment : 24 ibis hotels, 9 ibis budget hotels and 3 ibis Styles hotels.

On the other hand, as at December 31, 2015, the individual operating segments included:
- the Up&Midscale segment: 4 Sofitel hotels, 20 Novotel hotels, 21 Mercure hotels, 1 MGallery hotel and 1 hotel operating under the Orbis Hotels brand;
- the Economy segment: 22 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel.

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

Operating segment revenues and costs/expenses are as follows:

Figures for 2016:

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

Figures for 2015:

	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Segment revenue, of which:	**984 622**	**252 762**	**25 342**	**1 262 726**
Sale to external clients	984 622	252 762	25 342	1 262 726
EBITDAR	**377 295**	**124 543**	**(70 427)**	**431 411**
operating EBITDA	**289 359**	**111 762**	**(71 855)**	**329 266**
Depreciation and amortisation	(100 824)	(35 223)	(3 256)	(139 303)
Operating profit/(loss) without the effects of one-off events	**188 535**	**76 539**	**(75 111)**	**189 963**
Result of one-off events	0	0	31 720	31 720
Operating profit/(loss) (EBIT)	**188 535**	**76 539**	**(43 391)**	**221 683**
Finance income/(costs)	(2 354)	(912)	(6 166)	(9 432)
Share of net losses of associates	0	0	(86)	(86)
Income tax expense	0	0	(30 583)	(30 583)
Net profit/(loss)	**186 181**	**75 627**	**(80 226)**	**181 582**

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

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

Figures for 2016:

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

Figures for 2015:

	Operating segments		Unallocated operations and consolidation adjustments	Consolidated value
	Up&Midscale Hotels	Economy Hotels		
Non-current assets, of which:	1 383 560	633 159	71 672	2 088 391
- goodwill	37 803	69 449	0	107 252
- financial assets	0	0	7 888	7 888
- deferred tax assets	0	0	21 128	21 128
Current assets, of which:	47 670	9 108	315 670	372 448
- cash and cash equivalents	0	0	271 683	271 683
Assets classified as held for sale	20 000	0	3 057	23 057
Investment expenditure	105 535	12 555	4 273	122 363

4.2 GEOGRAPHICAL INFORMATION

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

The tables below present revenues, profits and assets of individual geographic segments of the Orbis Group for 2016 and 2015. The data present the results of owned and leased hotels.

As at December 31, 2016, the individual geographic segments included:
- Poland: 3 Sofitel hotels, 13 Novotel hotels, 13 Mercure hotels, 14 ibis hotels, 9 ibis budget hotels and 1 ibis Styles hotel,
- Hungary: 1 Sofitel hotel, 5 Novotel hotels, 3 Mercure hotels, 5 ibis hotels and 2 ibis Styles hotels,

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

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

On the other hand, as at December 31, 2015, the individual geographic segments included:

- Poland: 3 Sofitel hotels, 12 Novotel hotels, 14 Mercure hotels, 12 ibis hotels, 9 ibis budget hotels, 1 ibis Styles hotel and 1 hotel operating under the Orbis Hotels brand,
- Hungary: 1 Sofitel hotel, 5 Novotel hotels, 5 Mercure hotels and 5 ibis hotels,
- The Czech Republic: one hotel of each of the Novotel, Mercure and MGallery brands and 4 ibis hotels,
- Other countries (Lithuania, Romania, Slovakia): 2 Novotel hotels, 1 Mercure hotel and 1 ibis hotel.

Geographical segment revenues and costs/expenses are as follows:

Figures for 2016:

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

Figures for 2015:

	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Segment revenue, of which:	**797 729**	**280 124**	**105 176**	**80 425**	**(728)**	**1 262 726**
Sale to external clients	797 001	280 124	105 176	80 425	0	1 262 726
Sale to other segments	728	0	0	0	(728)	0
EBITDAR	**258 532**	**95 307**	**48 242**	**29 309**	**21**	**431 411**
Operating EBITDA	**251 063**	**32 347**	**35 120**	**10 715**	**21**	**329 266**
Depreciation and amortisation	(117 314)	(8 204)	(11 371)	(2 414)	0	(139 303)
EBIT without the effects of one-off events	**133 749**	**24 143**	**23 749**	**8 301**	**21**	**189 963**

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

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

Figures for 2016:

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

Figures for 2015:

	Geographical segments				Mutual eliminations and consolidation adjustments	Total
	Poland	Hungary	Czech Republic	Other countries		
Non-current assets, of which:	2 272 035	127 544	151 288	6 310	(468 786)	2 088 391
- goodwill	107 252	0	0	0	0	107 252
- financial assets	7 888	0	0	0	0	7 888
- deferred tax assets	4 736	10 270	8 341	30	(2 249)	21 128
Current assets, of which:	236 240	107 531	10 562	47 821	(29 706)	372 448
- cash and cash equivalents	179 328	50 012	1 697	40 646	0	271 683
Assets classified as held for sale	23 057	0	0	0	0	23 057
Investment expenditure	104 403	13 605	2 723	1 632	0	122 363

4.3 REVENUE FROM MAJOR PRODUCTS AND SERVICES

Revenue from major products and services is presented in Note 5.1

4.4 INFORMATION ABOUT MAJOR CUSTOMERS

In 2016 and 2015, the Orbis Group did not identify any leading external customers with turnover exceeding 10% of total sales.

4.5 SEASONALITY OR CYCLICALITY OF OPERATIONS

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

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

NET SALES	2015		2016	
	PLN `000	% share in annual revenues	PLN `000	% share in annual revenues
1st quarter	229 201	18,2%	247 214	17,9%
2nd quarter	362 425	28,7%	392 660	28,4%
3rd quarter	362 903	28,7%	396 374	28,7%
4th quarter	308 197	24,4%	346 631	25,0%
Total	**1 262 726**	**100,0%**	**1 382 879**	**100,0%**

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

5. INCOME AND EXPENSE

5.1 NET SALES

NET SALES	2016	2015
Room revenue	942 444	846 005
Food & beverage revenue	357 386	338 485
Franchise and management revenue	17 985	14 048
Other revenue	65 064	64 188
Total net sales	**1 382 879**	**1 262 726**
of which: revenue from related parties	*4 777*	*4 580*

5.2 EXPENSES BY NATURE

EXPENSES BY NATURE	2016	2015
Depreciation and amortisation	(148 204)	(139 303)
Rental expense	(99 603)	(102 145)
Outsourced services	(296 904)	(261 861)
Employee benefit expense	(339 121)	(318 416)
Raw materials and energy used	(200 861)	(194 184)
Taxes and charges	(42 407)	(43 283)
Other costs by nature:	(13 077)	(14 429)
business trips	(3 957)	(5 315)
insurance premiums	(3 609)	(3 628)
royalties	(2 211)	(2 953)
change in impairment of receivables	(507)	(596)
other	(2 793)	(1 937)
Total expenses by nature	**(1 140 177)**	**(1 073 621)**

5.3 EMPLOYEE BENEFIT EXPENSE

EMPLOYEE BENEFIT EXPENSE	2016	2015
Wages and salaries	(257 997)	(240 886)
Provision for unused and overdue holidays	(1 107)	(1 698)
Provision for wages and salaries as well as related expenses	(6 277)	(3 929)
Provision for jubilee awards and retirement benefits	(950)	(3 057)
Employee benefits	(72 790)	(68 846)
Total employee benefit expense	**(339 121)**	**(318 416)**

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

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

5.4 OTHER OPERATING INCOME/EXPENSES

OTHER OPERATING INCOME/EXPENSES, NET	2016	2015
Commissions received from business partners	4 884	3 437
Reversal of provision for costs of fees for perpetual usufruct of land	2 782	0
Reversal of provision for onerous contract	1 378	0
Indemnities received	999	682
Other	30	680
Total other operating income	**10 073**	**4 799**
Provision for onerous contract	(5 644)	0
Provision for other liabilities	(1 037)	(959)
Receivables redeemed and written off	(2 045)	(990)
Indemnities, fines and penalties paid	(549)	(207)
Costs of hotel closing and assets liquidation	(360)	(223)
Other	(1 731)	(1 562)
Total other operating expenses	**(11 366)**	**(3 941)**
Total other operating income/expenses	**(1 293)**	**858**

5.5 RESULT ON SALE OF REAL PROPERTY

RESULT ON SALE OF REAL PROPERTY	2016	2015
Net proceeds from disposal of real properties	81 331	49 800
Net value of real properties disposed of	(53 094)	(23 462)
Additional costs related to disposal	(608)	(1 004)
Total result on sale of real property	**27 629**	**25 334**

The Orbis Group achieved the following results on sale of real property in 2016:
- proceeds from sale of an organised part of the enterprise formed by the Mercure Mrągowo Resort & SPA hotel amounted to PLN 20,000 thousand, while the result on the transaction, with extra costs, was PLN - 310 thousand;
- additional proceeds gained from the sale of the real property located in Warsaw at Bitwy Warszawskiej 1920 r. street amounted to PLN 4,420 thousand net, while the extra costs incurred by Orbis S.A. in 2016 in connection with this transaction stood at PLN 66 thousand;
- organised part of the enterprise formed by the Mercure Opole was sold for PLN 10,500 thousand net, while the gain on this transaction amounted to PLN 5,947 thousand;
- the Mercure Częstochowa Centrum and the ibis Częstochowa hotels were sold for a total net price of 29,500 thousand, while the gain on the transaction of sale of the two hotels was PLN 4,498 thousand.
- non-hotel real property located in Warsaw at Łopuszańska 47 street was sold for PLN 14,362 thousand net, while the result on this transaction was PLN 11,270 thousand.
- the result on sale of other non-hotel real properties equals PLN 1,870 thousand.

More information about real properties sale transactions finalised in 2016 is included in Note 3.

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

5.6 REVALUATION OF NON-CURRENT ASSETS

REVALUATION OF NON-CURRENT ASSETS	2016	2015
Recognised impairment loss on tangible assets	(8 627)	(7 834)
Recognised impairment loss on assets under construction	0	(3 442)
Recognised impairment loss on investment property	(598)	(375)
Recognised impairment loss on intangible assets	(14)	0
Reversed impairment loss on tangible assets	10 787	12 495
Reversed impairment loss on investment property	0	1 526
Reversed impairment loss other financial assets (loans granted)	0	8 532
Total revaluation of non-current assets	**1 548**	**10 902**

Information on impairment is provided in Note 9, 10, 11 and 17.

5.7 RESTRUCTURING COSTS

RESTRUCTURING COSTS	2016	2015
Costs of employment restructuring	(1 985)	(3 166)
Recognised/released provisions	(337)	130
Total restructuring costs	**(2 322)**	**(3 036)**

5.8 RESULTS OF OTHER ONE-OFF EVENTS

RESULTS OF OTHER ONE-OFF EVENTS	2016	2015
Tax on civil law transactions	0	(1 547)
Incurred and estimated costs of purchase of interests in companies from Central & Eastern Europe	(1 862)	67
Leased hotels buyback costs	(1 925)	0
Total results of other one-off events	**(3 787)**	**(1 480)**

5.9 FINANCE INCOME

FINANCE INCOME	2016	2015
Interest on deposits	1 833	1 871
Foreign exchange differences	2 275	4 644
Actuarial gains/(losses) arising from valuation of provisions for jubilee awards	713	0
Other	80	544
Total finance income	**4 901**	**7 059**

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

5.10 FINANCE COSTS

FINANCE COSTS	2016	2015
Interest and debt service costs accrued on credit facilities	(5 136)	(10 747)
Interest and debt service costs accrued on bonds	(11 219)	(4 469)
Interest expense arising from provisions for employee benefits	(752)	(664)
Actuarial gains/(losses) arising from valuation of provisions for jubilee awards	0	(301)
Other	(351)	(310)
Total finance costs	**(17 458)**	**(16 491)**

In presented financial figures for 2016 and in comparable figures for 2015, the Group recognised all borrowing costs in the profit or loss for the period in which the costs were incurred. In 2016 and 2015, there were no borrowing costs that would be eligible for capitalisation.

In 2016, the Company paid PLN 4,427 thousand as interest on credit facilities and PLN 414 thousand of commissions and other debt service costs on credit facilities.

In 2016, the Group paid PLN 8,259 thousand as interest on issued bonds and PLN 614 thousand as commissions and other costs of bond issue. Moreover, in 2016 the Group paid PLN 203 thousand as interest payments under the IRS transaction (please refer to Note 32.3).

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

6. CURRENT AND DEFERRED TAX

Major components of tax charge are as follows:

	2016	2015
Current tax	**(46 714)**	**(48 255)**
- current tax charge	(48 496)	(49 017)
- adjustments of current tax from previous years	1 782	762
Deferred tax	**(3 293)**	**17 672**
- related to recognised and reversed temporary differences	1 886	17 672
- decrease (increase) as a result of change of tax rates	(5 179)	0
Tax charge recognised in the consolidated income statement	**(50 007)**	**(30 583)**

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

	2016	2015
Profit before tax	**257 154**	**212 165**
Tax calculated at the statutory rate of 19%	(48 859)	(40 329)
Tax effect of non-taxable revenue and non-deductible expenses	(3 222)	(8 588)
Tax effect of tax adjustments as well as posted deferred tax on tax losses and temporary differences from previous years	2 629	11 181
Tax effect of unrecognised tax losses	(93)	(135)
Utilised tax losses - tax effect	3 742	6 963
Impact of differing tax rates applicable to subsidiaries that operate in other legal systems	(168)	325
Effect of tax rate change	(5 179)	0
Other	1 143	0
Tax charge at the effective tax rate	**(50 007)**	**(30 583)**

In accordance with Polish regulations, in 2016 as well as in 2015, the Polish Companies calculated their corporate income tax liability at the rate of 19% of taxable income.

Beginning from January 1, 2010, till September 2016, Orbis S.A. and Hekon – Hotele Ekonomiczne S.A. formed the Tax Group (more information is provided in Note 2.4.22.4 of these Financial Statements).

The foreign subsidiaries of the Group in 2016 and 2015 calculated their corporate tax liability based on the following tax rates:

- UAB Hekon Lithuania 15%
- Czech Republic 19%
- Romania 16%
- Slovakia 22%
- Hungary 10% on income of HUF 500 million, 19% on the surplus over this amount

Beginning from January 1, 2017, the corporate income tax in Hungary equals 9%.

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

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

INCOME TAX RECEIVABLE/LIABILITIES	As at December 31, 2016	As at December 31, 2015
Income tax receivable from the tax office	3 079	368
Income tax liabilities payable to the tax office	3 143	4 874

The deferred tax results from the following temporary differences:

DEFERRED TAX	As at December 31, 2016	As at December 31, 2015
Deferred tax assets, of which:	**35 246**	**36 620**
Posted to profit or loss	34 910	36 166
- provisions for wages and salaries bonuses as well as for unused holidays	7 002	6 377
- provision for retirement benefits and similar obligations	3 984	4 039
- other provisions and accrued expenses	8 177	6 028
- revaluation of receivables	406	953
- difference between tax value and book value of non-financial non-current assets	8 902	11 503
- valuation of liabilities arising from credit facilities taken and bonds issued at amortised costs	491	220
- utilised tax losses	4 902	6 113
- other	1 046	933
Posted to equity	336	454
- actuarial gains/losses arising from the defined benefit plan	314	303
- valuation of derivative instruments to hedge future cash flows	22	151
Deferred tax assets, of which:	**35 246**	**36 620**
Long-term	15 421	20 773
Short-term	19 825	15 847
Deferred tax liabilities, of which:	**17 322**	**16 112**
Posted to profit or loss	17 231	15 919
- difference between tax value and book value of non-financial non-current assets	16 397	13 576
- non-invoiced revenue	347	979
- foreign exchange differences	214	241
- commissions on credit facility	0	565
- other	273	558
Posted to equity	91	193
- long-term investments	91	91
- actuarial gains/losses arising from the defined benefit plan	0	102
Deferred tax liabilities, of which:	**17 322**	**16 112**
Long-term	16 487	14 343
Short-term	835	1 769

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

Deferred tax is presented according to the net balance of deferred tax assets and deferred tax liabilities in each company, and in 2015 also in the Tax Group.

	As at December 31, 2016	As at December 31, 2015
Deferred tax assets	18 206	21 128
Deferred tax liabilities	282	620

As at December 31, 2016, the Group did not recognise the deferred tax asset on unused tax losses of PLN 3,431 thousand, because it is not probable that taxable income will be generated in future from which these unused tax losses could be deducted.

Information on unused tax losses as at December 31, 2016 in respective countries (amounts translated into PLN) is presented in the table below:

	Unused tax losses	Tax rate	Unrecognised deferred tax assets	Expiry date
Czech Republic	10 659	19%	2 025	2017-2021
Slovakia	6 393	22%	1 406	2017-2018
Total	**17 052**		**3 431**	

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

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

The Group did not recognise deferred tax on temporary differences associated with investments in subsidiaries on the basis of the exception allowed under IAS 12.39 and 12.44. The value of taxable temporary differences associated with investments in subsidiaries amounted to PLN 171,771 thousand as at December 31, 2016, and to PLN 128,164 thousand as at December 31, 2015. The value of deductible temporary differences associated with investments in subsidiaries and associates amounted to PLN 246,995 thousand as at December 31, 2016, and to PLN 288,271 thousand as at December 31, 2015.

(all amounts are quoted in PLN thousands, 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 the Parent Company by the weighted average number of issued ordinary shares outstanding during the financial year.

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

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

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

	2016	2015
Net profit attributable to owners of the parent	207 125	181 553
Weighted average number of ordinary shares issued (in thous.)	46 077	46 077
Earnings per share	**4,50**	**3,94**

8. DIVIDEND PAID OR PROPOSED TO BE PAID

By virtue of resolution of the General Meeting of Shareholders dated June 2, 2016 the net profit generated by Orbis S.A. in 2015, was appropriated for the dividend totalling PLN 69,116 thousand, i.e. PLN 1.50 per share. The dividend was paid on August 3, 2016. A decision was also made to keep the remaining part of profit, amounting to PLN 40,087 thousand, in the Company as retained earnings.

No decision concerning distribution of the net profit for 2016 has been taken by the date of publication of these financial statements.

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

9. PROPERTY, PLANT AND EQUIPMENT

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

PROPERTY, PLANT AND EQUIPMENT	As at December 31, 2016	As at December 31, 2015
Tangible assets	1 993 556	1 846 815
Assets under construction	43 782	77 048
Total	**2 037 338**	**1 923 863**

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

	Land and rights to perpetual usufruct of land acquired against consideration	Rights to perpetual usufruct of land acquired free of charge	Buildings and structures	Plant, machinery and equipment	Vehicles	Total tangible assets
As at January 1, 2016						
Opening gross book amount	**134 003**	**306 974**	**3 051 509**	**800 347**	**674**	**4 293 507**
Accumulated depreciation and impairment	(10 543)	(45 090)	(1 799 284)	(591 179)	(596)	(2 446 692)
Opening net book amount	**123 460**	**261 884**	**1 252 225**	**209 168**	**78**	**1 846 815**
Additions	**42 058**	**0**	**142 087**	**181 028**	**0**	**365 173**
purchase	42 058	0	91 560	138 751	0	272 369
transfer from investments	0	0	50 527	8 501	0	59 028
other	0	0	0	33 776	0	33 776
Disposals	**(4 617)**	**(4 890)**	**(71 531)**	**(6 057)**	**0**	**(87 095)**
sale	(3 343)	(1 437)	(21 476)	(3 323)	0	(29 579)
liquidation	0	(139)	(44)	(156)	0	(339)
other	0	0	(33 633)	0	0	(33 633)
reclassification to assets held for sale	(1 274)	(3 314)	(16 378)	(2 578)	0	(23 544)
Increase in impairment loss	0	0	(6 923)	(1 704)	0	(8 627)
Decrease in impairment loss	0	0	10 787	0	0	10 787
Depreciation charge for the period	(831)	(3 658)	(86 843)	(53 160)	(24)	(144 516)
Exchange differences on translation	1 286	0	6 981	2 750	2	11 019
Closing net book amount	**161 356**	**253 336**	**1 246 783**	**332 025**	**56**	**1 993 556**
As at December 31, 2016						
Closing gross book amount	**171 855**	**301 209**	**2 870 437**	**1 033 467**	**545**	**4 377 513**
Accumulated depreciation and impairment	(10 499)	(47 873)	(1 623 654)	(701 442)	(489)	(2 383 957)
Closing net book amount	**161 356**	**253 336**	**1 246 783**	**332 025**	**56**	**1 993 556**

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

The table below presents property, plant and equipment (tangible assets) **as at December 31, 2015:**

	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, 2015						
Opening gross book amount	**90 273**	**312 524**	**2 860 260**	**422 648**	**761**	**3 686 466**
Accumulated depreciation and impairment	(8 628)	(42 350)	(1 755 646)	(277 239)	(760)	(2 084 623)
Opening net book amount	**81 645**	**270 174**	**1 104 614**	**145 409**	**1**	**1 601 843**
Increase due to acquisition of subsidiaries	**23 877**	**0**	**216 528**	**62 092**	**104**	**302 601**
Additions	**18 801**	**0**	**47 243**	**48 870**	**7**	**114 921**
purchase	0	0	14 326	24 678	7	39 011
transfer from investments	18 801	0	32 917	15 308	0	67 026
other	0	0	0	8 884	0	8 884
Disposals	**(216)**	**(4 809)**	**(36 806)**	**(2 598)**	**0**	**(44 429)**
sale	(29)	(1 812)	(11 470)	(2 108)	0	(15 419)
liquidation	0	0	(33)	(94)	0	(127)
other	0	0	(8 887)	0	0	(8 887)
reclassification to assets held for sale	(187)	(2 997)	(16 416)	(396)	0	(19 996)
Increase in impairment loss	0	0	(7 398)	(436)	0	(7 834)
Decrease in impairment loss	0	0	14 021	0	0	14 021
Depreciation charge for the period	(802)	(3 481)	(87 516)	(44 463)	(32)	(136 294)
Exchange differences on translation	155	0	1 539	294	(2)	1 986
Closing net book amount	**123 460**	**261 884**	**1 252 225**	**209 168**	**78**	**1 846 815**
As at December 31, 2015						
Closing gross book amount	**134 003**	**306 974**	**3 051 509**	**800 347**	**674**	**4 293 507**
Accumulated depreciation and impairment	(10 543)	(45 090)	(1 799 284)	(591 179)	(596)	(2 446 692)
Closing net book amount	**123 460**	**261 884**	**1 252 225**	**209 168**	**78**	**1 846 815**

Increases on account of transfer from investments in progress disclosed in 2016 comprise predominantly expenditure for the developing of new hotels, opened in 2016 - the Mercure Kraków Stare Miasto and the ibis Gdańsk Stare Miasto, as well as for the modernisation of the former Orbis Wrocław hotel and its division into two hotels of different brands - ibis and Novotel.

The disposal on account of sale in 2016 comprises the net value of buildings, perpetual usufruct and other components of property, plant and equipment of the Mercure Opole hotel, that were sold as organised parts of enterprise. Moreover, this item presents the net value of the Mercure Częstochowa Centrum hotel and the ibis Częstochowa hotel, which were sold in December 2016.

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

The decrease due to reclassification to assets held for sale in 2016 concerns the transfer of perpetual usufruct of land in connection with the execution of a preliminary agreement for the sale of land in Gdańsk at Heweliusza street, as well as the transfer of components of property, plant and equipment (including perpetual usufruct and buildings) in connection with the execution on 9 February, 2017 of a preliminary agreement for the sale of two Mercure hotels - Jelenia Góra and Karpacz Resort. Pursuant to the agreement, they will be sold as organised parts of the enterprise.

The table below presents assets under construction and impairment losses thereon as at December 31, 2016 and as at December 31, 2015:

ASSETS UNDER CONSTRUCTION	As at December 31, 2016	As at December 31, 2015
Gross value of assets under construction	55 146	88 412
Impairment loss on assets under construction	(11 364)	(11 364)
Total	**43 782**	**77 048**

The change in the balance of assets under construction between December 31, 2016 and December 31, 2015 results from incurred investment expenditure amounting to PLN 300,943 thousand and disposals of PLN 334,209 thousand.

Capital expenditure of PLN 123,969 thousand was allocated in 2016 for the buyback of two hotels so far leased by Accor Pannonia Hotels Zrt. The transaction concerned the ibis Budapest Heroes Square hotel (139 rooms) and the Mercure Budapest City Center hotel (227 rooms). The remaining capital expenditure in 2016 was allocated above all for the development of new hotels, opened for guests in the third quarter of 2016, i.e. Mercure Kraków Stare Miasto and ibis Gdańsk Stare Miasto, as well as for modernisation of the Orbis Wrocław Hotel related to the division of that hotel and its rebranding into ibis and Novotel. Capital expenditure was also allocated for renovation of the Novotel Poznań Centrum hotel, which was launched in 2016 and is planned to be continued in 2017. This modernisation is connected with a partial rebranding of the hotel into the ibis brand (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.).

In 2016 there were no reasons for recognising impairment loss in respect of assets under construction. In the previous year, impairment loss of PLN 3,442 thousand was recognised.

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

As at December 31, 2016, the Group does not have any tangible assets held under finance lease.

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

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

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

IMPAIRMENT LOSS ON TANGIBLE ASSETS AND ASSETS UNDER CONSTRUCTION	As at December 31, 2016	As at December 31, 2015
Opening balance	**(122 645)**	**(110 874)**
increase due to acquisition of subsidiaries	0	(46 759)
recognised impairment loss on tangible assets	(8 627)	(7 834)
recognised impairment loss on assets under construction	0	(3 442)
reversed impairment loss on tangible assets	10 787	14 021
reclassification to assets held for sale	17 882	9 055
decrease in impairment losses in connection with sale/liquidation	9 590	15 554
impairment loss on tangible assets not subject to reversal *	6 952	8 052
exchange differences on translation	(1 926)	(418)
Closing balance	**(87 987)**	**(122 645)**

** 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 Group reviewed the economic value of cash- generating units (hotels) as well as other tangible assets and assets under construction in the context of on-going operations and prevailing adverse market conditions.

The economic value of the Group hotel properties was measured on the basis of their value in use, determined using the DCF method. Future cash flows were estimated independently for each hotel on the basis of changes in occupancy and Average Room Rate projected for subsequent years, and taking into account the location and present standard of each hotel (including hotels that require investment expenditure) and on the basis of budgets approved by the Management Board for a 5-year period. The rate of growth in the value of cash flows following the 5-year projection period was estimated at 2%. The adopted discount rate of 8.0% was calculated based on the weighted average cost of capital (WACC) of the Group. In case of special conditions resulting in material distortion of the values of DCF valuations, the recoverable amounts of assets were determined by means of estimating their fair value.

As a result of the review, the Group recognised an impairment loss of PLN 8,627 thousand and reversed an impairment loss of PLN 10,787 thousand. None of the increased/reversed individual impairment losses was material.

The recognised impairment loss concerned three hotels located in smaller cities and the reasons for its recognition included a negative assessment of the prospects of development on those markets, as well as the offers to buy real property received by the Group. In addition, an impairment loss for one hotel in Budapest, which is expected to generate a loss in the coming years, has been created.

The reason for reversal of impairment losses in respect of four hotels was the improvement in the hotels’ results, which was owed to better business trends on the individual markets, as well as capital expenditures incurred in preceding years to improve the hotels’ standard.

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

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

In 2016 the impairment loss on tangible assets was reduced of additional PLN 9,590 thousand mainly in connection with the sale of the Mercure Opole hotel and the Mercure Częstochowa Centrum hotel.
Impairment loss on tangible assets concerning the Mercure Jelenia Góra hotel and the Mercure Karpacz Resort hotel, in a total amount of PLN 17,882 thousand, was reclassified to item Assets classified as held for sale, due to the preliminary sale agreement in respect of those hotels, signed in February 2017.

10. INVESTMENT PROPERTY

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

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

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

The table below presents investment property **as at December 31, 2015**:

	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, 2015				
Opening gross book amount	**1**	**4 027**	**21 070**	**708**	**25 806**
Accumulated depreciation and impairment	0	(542)	(13 438)	(708)	(14 688)
Opening net book amount	**1**	**3 485**	**7 632**	**0**	**11 118**
Disposals	**(1)**	**0**	**0**	**0**	**(1)**
sale	(1)	0	0	0	(1)
Increase in impairment loss	0	0	(375)	0	(375)
Depreciation charge for the period	0	(45)	(410)	0	(455)
Closing net book amount	**0**	**3 440**	**6 847**	**0**	**10 287**
	As at December 31, 2015				
Closing gross book amount	**0**	**4 027**	**21 068**	**711**	**25 806**
Accumulated depreciation and impairment	0	(587)	(14 221)	(711)	(15 519)
Closing net book amount	**0**	**3 440**	**6 847**	**0**	**10 287**

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

In the current accounting period the Group tested investment property for impairment in the context of on-going operations and prevailing adverse market conditions.

A review of the value of investment properties revealed the need to recognize the impairment loss of PLN 598 thousand due to revaluation in 2016. Pursuant to the accounting policy any recognised and reversed impairment losses on investment property are disclosed in the revaluation of non-current assets item of the income statement.

IMPAIRMENT LOSS ON INVESTMENT PROPERTY	As at December 31, 2016	As at December 31, 2015
Opening balance	**(375)**	**0**
recognised impairment loss	(598)	(375)
decrease in impairment losses in connection with sale/liquidation	354	0
impairment loss not subject to reversal	27	0
Closing balance	**(592)**	**(375)**

No valuation of investment property based on valuation by an independent expert was made as at December 31, 2016.

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

The fair value of this property is measured by the Group internally, on the basis of received offers to buy property and market analyses performed by the property management department of the Parent Company. As at December 31, 2016, 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:

	2016	2015
Income from rent on investment property	1 620	1 710
Direct operating expenses of investment property which generates income from rent	(922)	(957)
Direct operating expenses of investment property which does not generate income from rent	(759)	(932)

As at December 31, 2016 investment property includes:

- in Bielsko-Biała – ownership title to office premises;
- in Gdańsk – right to perpetual usufruct of land, building;
- in Katowice – cooperative ownership title to three garages;
- in Konin – right to perpetual usufruct of land and interest in an office building;
- in Lublin – construction facility (coach depot),
- in Łódź – car park and right to perpetual usufruct of land;
- in Poznań – right to perpetual usufruct of land as well as buildings and structures developed thereon;
- in Szczecin – right to perpetual usufruct of land, ownership title to buildings;
- in Warsaw – non-residential premises with two parking spaces;
- in Włocławek – cooperative ownership title to premises;
- in Zakopane – building of the Giewont hotel and right to perpetual usufruct of land on which the hotel is developed.

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

11. INTANGIBLE ASSETS

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

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

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

The table below presents intangible assets **as at December 31, 2015:**

	Goodwill	Permits, patents, licenses and similar	Computer software	Other intangible assets	Total intangible assets
As at January 1, 2015					
Opening gross book amount	**108 153**	**21**	**14 541**	**2 923**	**125 638**
Accumulated depreciation and impairment	(901)	(1)	(11 897)	0	(12 799)
Opening net book amount	**107 252**	**20**	**2 644**	**2 923**	**112 839**
Increase due to acquisition of subsidiaries	**0**	**40**	**1 509**	**104**	**1 653**
Additions	**0**	**63**	**4 599**	**1 984**	**6 646**
purchase	0	63	357	1 984	2 404
other	0	0	4 242	0	4 242
Disposals	**0**	**0**	**(62)**	**(4 341)**	**(4 403)**
sale	0	0	(57)	0	(57)
liquidation	0	0	(1)	0	(1)
other	0	0	0	(4 341)	(4 341)
reclassification to assets held for sale	0	0	(4)	0	(4)
Depreciation charge for the period	0	(52)	(2 502)	0	(2 554)
Exchange differences on translation	0	0	4	4	8
Closing net book amount	**107 252**	**71**	**6 192**	**674**	**114 189**
As at December 31, 2015					
Closing gross book amount	**108 153**	**1 041**	**31 373**	**1 200**	**141 767**
Accumulated depreciation and impairment	(901)	(970)	(25 181)	(526)	(27 578)
Closing net book amount	**107 252**	**71**	**6 192**	**674**	**114 189**

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

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

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

Information concerning impairment loss relating to intangible assets:

IMPAIRMENT LOSS ON INTANGIBLE ASSETS	As at December 31, 2016	As at December 31, 2015
Opening balance	**(627)**	**0**
Increase due to acquisition of subsidiaries	0	(798)
recognised impairment loss	(14)	0
impairment loss not subject to reversal	88	189
reversal of impairment related to the sale / liquidation	1	0
exchange differences on translation	(24)	(18)
Closing balance	**(576)**	**(627)**

Goodwill impairment test

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

Goodwill is tested for impairment annually. For testing purposes, goodwill was allocated to hotels of the company Hekon Hotele Ekonomiczne S.A. (presently Orbis S.A.) that fall within two operating segments:
- Up&Midscale Hotels – allocated goodwill amounts to PLN 37,803 thousand;
- Economy Hotels – allocated goodwill amounts to PLN 69,449 thousand.

The recoverable amount of both segments was determined based on the value in use, calculated by means of projected cash flows adopted for a 5-year period, and of a discount rate of 8.0% per year. Future cash flows were estimated for each hotel separately on the basis of changes in occupancy and Average Room Rate projected for subsequent years, and taking into account the location and present standard of each hotel (including hotels that require investment expenditure). The growth rate of cash flows following the projected period was estimated at 2%. 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. was not impaired as at December 31, 2016.

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

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

12. INVESTMENTS IN ASSOCIATES

As at December 31, 2015, the Group held an investment in the associate Blaha Hotel Szállodaüzemeltető Kft, the basic financial data of which were as follows:

	As at December 31, 2015
Non-current assets	25 474
Current assets	1 859
Non-current liabilities	3 096
Current liabilities	1 384

Reconciliation of the above figures to the carrying amount of interests in Blaha Hotel Kft. disclosed in the consolidated financial statements of the Group for 2015:

	As at December 31, 2015
Net assets of the associate	22 853
Group's percentage share of interests in Blaha Hotel Szállodaüzemeltető Kft.	44,42%
Carrying amount of Group's interests in Blaha Hotel Szállodaüzemeltető Kft	10 151

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

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

	2016 *	2015
Revenue	8 659	7 337
Net profit (loss) for the period	284	(193)
Share of net profits (losses) of associates	**126**	**(86)**

** Data for the period from January 1, 2016, until the sale of shares in the associate*

	2016
Proceeds from disposal of interests in associates	15 785
Book value of investments in associate as at the date of loss of material interest	(10 677)
Gain on disposal of interest in associates	**5 108**

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

13. OTHER FINANCIAL ASSETS

OTHER FINANCIAL ASSETS	As at December 31, 2016	As at December 31, 2015
Receivables from the sale of real property	10 944	7 888
Cash on the escrow account	4 566	0
Other financial assets total	**15 510**	**7 888**

The item Other financial assets includes receivables on account of sale of real properties on which the Mercure Mrągowo & SPA hotel is located. An organised part of the enterprise formed by the Mercure Mrągowo & 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, while PLN 11,500 thousand will be paid in the following instalments:

- PLN 500 thousand will be paid by the buyer by September 30, 2017
- PLN 4,000 thousand will be transferred into Orbis account by December 31, 2017,
- 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 7,000 thousand was presented in Other financial assets, meanwhile the remaining part, i.e. PLN 4,500 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 & SPA hotel.

Moreover, other financial assets comprise also receivables on account of disposal of an organised part of the enterprise of the Mercure Kasprowy hotel in Zakopane. In accordance with the concluded sale and purchase agreement, 20% of the price, i.e. an amount of PLN 11,270 thousand will be paid in instalments. This amount receivable has been secured at an escrow account. The following payment dates were set:
- 6% of the sale price, i.e. PLN 3,381 thousand was paid into the bank account of Orbis S.A. on January 4, 2016,
- 7% of the price, i.e. PLN 3,944 thousand will be paid by December 31, 2017; this amount is presented in Other short-term receivables item,
  7% of the price, i.e. PLN 3,944 thousand will be transferred into Orbis' account by December 31, 2019; this amount is presented in Other financial assets item.

Cash on the escrow account is cash deposited by the subsidiary UAB Hekon and is allocated for the purchase of the ibis hotel in Vilnius (description of the transaction in Note 3 to these Statements).

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

14. OTHER LONG-TERM ASSETS

OTHER LONG-TERM ASSETS	As at December 31, 2016	As at December 31, 2015
Long-term prepayments - insurance costs	429	421
Other long-term investments - works of art.	464	464
Total other long-term assets	**893**	**885**

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

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

15. INVENTORIES

INVENTORIES	As at December 31, 2016	As at December 31, 2015
Raw materials	7 084	6 672
Merchandise	83	91
Total inventories	**7 167**	**6 763**

The Group did not have any reasons to recognise any impairment of inventories in 2016 and 2015.

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

16. SHORT-TERM RECEIVABLES

Trade receivables are presented in the table below:

SHORT-TERM RECEIVABLES	As at December 31, 2016	As at December 31, 2015
Trade receivables	63 121	54 435
of which: from related parties	4 847	5 177
Impairment loss on receivables	(4 168)	(3 880)
Net trade receivables	**58 953**	**50 555**

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

OTHER SHORT-TERM RECEIVABLES	As at December 31, 2016	As at December 31, 2015
Short-term receivables	**24 812**	**24 874**
Public law receivables, excl. corporate income tax	5 573	12 761
Receivables claimed in court	2 364	2 364
Amounts receivable on account of sale of tangible assets	14 671	3 381
Prepayments	2 212	5 491
Other receivables	2 356	3 242
Impairment loss on other receivables	(2 364)	(2 365)
Short-term prepayments and advances	**8 340**	**9 628**
Prepayments, of which:	8 340	9 628
rent	5 665	7 217
Net other short-term receivables	**33 152**	**34 502**

The item of Amounts receivable on account of sale of fixed assets includes amounts receivable on account of the sale of non-hotel real property in Warsaw at Łopuszańska 47 street, equal to PLN 6,227 thousand (including tax), payable by March 31, 2017, as well as the short-term part of the amount receivable on account of sale of the Mercure Mrągowo Resort & SPA hotel (PLN 4,500 thousand) and the short-term receivable on account of sale of an organised part of the enterprise of the Mercure Kasprowy Zakopane hotel (PLN 3,944 thousand). More information about receivables on account of the sale of the Mercure Mrągowo Resort & SPA hotel and the Mercure Kasprowy Zakopane hotel is included in Note 13 to this report.

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

Changes in impairment losses on receivables are presented below:

IMPAIRMENT LOSS ON RECEIVABLES	As at December 31, 2016	As at December 31, 2015
Opening balance	**(6 245)**	**(3 014)**
increase due to acquisition of subsidiaries	0	(2 804)
recognised impairment loss	(2 592)	(1 700)
reversed impairment loss	2 085	1 104
utilised impairment loss	352	171
exchange differences	(132)	(2)
Closing balance	**(6 532)**	**(6 245)**

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

The maximum credit risk related to the Group's loans and receivables equals the amount presented in the statement of financial position. No significant concentration of risk occurs in view of a considerable share of relatively small transactions in the total turnover.

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

More information on credit risk is provided in Note 31.2.3 to this report.

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

(all amounts are quoted in PLN thousands, 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, 2016	As at December 31, 2015
Non-overdue receivables	69 670	60 993
Overdue receivables, of which:	28 967	30 309
- overdue for up to 1 month	17 158	14 780
- overdue for a period from 1 to 3 months	4 958	9 390
- overdue for a period from 3 to 6 months	2 784	1 059
- overdue for a period from 6 months to 1 year	945	996
- overdue for more than 1 year	3 122	4 084
Total gross short-term receivables	**98 637**	**91 302**
Impairment loss on non-overdue receivables	(191)	(186)
Impairment loss on overdue receivables, of which:	(6 341)	(6 059)
- overdue for up to 1 month	(297)	(201)
- overdue for a period from 1 to 3 months	(277)	(459)
- overdue for a period from 3 to 6 months	(1 743)	(376)
- overdue for a period from 6 months to 1 year	(902)	(945)
- overdue for more than 1 year	(3 122)	(4 078)
Total impairment loss on receivables	**(6 532)**	**(6 245)**
Net short-term receivables	**92 105**	**85 057**

As at December 31, 2016, receivables amounting to PLN 22,626 thousand were overdue but not impaired. Ageing of these receivables is presented below:

RECEIVABLES AGEING	As at December 31, 2016	As at December 31, 2015
Overdue non-impaired receivables, of which:	**22 626**	**24 250**
- overdue for up to 1 month	16 861	14 579
- overdue for a period from 1 to 3 months	4 681	8 931
- overdue for a period from 3 to 6 months	1 041	683
- overdue for a period from 6 months to 1 year	43	51
- overdue for more than 1 year	0	6

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

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

17. OTHER SHORT-TERM FINANCIAL ASSETS

OTHER SHORT-TERM FINANCIAL ASSETS	As at December 31, 2016	As at December 31, 2015
Loans to other entities	1 078	9 608
Impairment loss on loan	(1 078)	(1 031)
Total other short-term financial assets	**0**	**8 577**

Other short-term financial assets included a loan granted by Accor Pannonia Hotels Zrt. to external companies, namely: City Budapest Zrt. and Hotel Liget. Zrt. This receivable was received in H1 2016 as part of the buyback transaction of two hotels located in Budapest.

18. CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	As at December 31, 2016	As at December 31, 2015
Cash at bank and in hand	231 224	210 331
Short-term bank deposits	25 627	60 286
Cash on the escrow account	282 511	0
Other cash and cash equivalents	1 432	1 066
Total cash and cash equivalents	**540 794**	**271 683**

Cash in the escrow account is subject to restricted disposal. It includes cash of PLN 282,511 thousand deposited on the escrow account by a subsidiary of Accor Pannonia Hotels Zrt in connection with a buy-back agreement of five leased hotels (described in Note 3 to these financial statements).

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

The Group transfers temporarily disposable cash to short-term bank deposits with maturity dates ranging from 1 to 365 days.

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

19. ASSETS CLASSIFIED AS HELD FOR SALE

As at December 31, 2016, assets classified as held for sale comprise:

- the right to perpetual usufruct of land in Heweliusza street in Gdańsk, and
- the components of property, plant and equipment (including perpetual usufruct and building) of the Mercure Jelenia Góra and the Mercure Karpacz Resort hotels, in connection with the execution as at February 9, 2017 of a preliminary agreement for the combined sale of these hotels in the form of the organised parts of the enterprise (more information is provided in Note 35).

The table below presents changes in assets classified as held for sale in 2016 and 2015.

ASSETS CLASSIFIED AS HELD FOR SALE	As at December 31, 2016	As at December 31, 2015
Opening balance	**23 057**	**11 046**
Additions	**23 634**	**20 000**
transfer from tangible assets	23 544	19 996
transfer from intangible assets	87	4
transfer from other assets	3	0
Disposals	**(23 060)**	**(7 989)**
sale of property	(23 060)	(7 989)
Closing balance	**23 631**	**23 057**

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

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

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

ASSETS CLASSIFIED AS HELD FOR SALE	As at December 31, 2016	As at December 31, 2015
Opening balance	**(9 055)**	**0**
decrease in impairment losses in connection with sale/liquidation	9 055	0
transfer from tangible assets	(17 882)	(9 055)
Closing balance	**(17 882)**	**(9 055)**

As at December 31, 2016, impairment loss relating to assets classified as assets held for sale in the amount of PLN 17 882 thousand concerned the following hotels: the Mercure Jelenia Góra hotel and the Mercure Karpacz Resort hotel. In 2016, the balance of impairment loss decreased due to the sale of the Mercure Mrągowo Resort & SPA hotel.

20. EQUITY

20.1 SHARE CAPITAL

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

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

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

	As at December 31, 2016	As at December 31, 2015
Number of shares issued and paid	46 077 008	46 077 008
Par value per share	2	2
Shares at the beginning of period	**46 077 008**	**46 077 008**
Change in the period	0	0
Shares at the end of period	**46 077 008**	**46 077 008**

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

As at February 21, 2017, shareholders who hold, directly or indirectly through subsidiaries, at least 5% of the total number of voting rights at the General Meeting of Shareholders, determined as at February 21, 2017 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. 21, 2017 (no. of voting rights at the GM)	Percentage share of share capital as at Feb. 21, 2017 (percentage share of total number of voting rights at the GM)	Change in the structure of ownership of major blocks of shares from Jan. 1, 2016 till Feb. 21, 2017
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 2, 2016, and has been presented under Section 5.2 of the Director's Report of the Orbis Group and Orbis S.A. for 2016.

20.2 RESERVES

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

	As at December 31, 2016			As at December 31, 2015		
	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	(118)	23	(95)	(795)	151	(644)
Total reserves	**133 306**	**(68)**	**133 238**	**132 629**	**60**	**132 689**

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

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

20.3 FOREIGN CURRENCY TRANSLATION RESERVE

This item includes exchange differences on translation of financial statements of foreign subsidiaries.

20.4 RETAINED EARNINGS

Retained earnings include profits from past years, net profit for the current year and profits transferred to equity that are subject to limited distribution, recognised in accordance with provisions of the Code of Commercial Companies and Partnership in force in Poland. As at December 31, 2016 and December 31, 2015, profits subject to limited distribution totalled PLN 30,718 thousand.

20.5 NON-CONTROLLING INTERESTS

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

20.6 CAPITAL MANAGEMENT

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

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

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

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

The ROE ratio demonstrates the yield generated on the capital invested in an enterprise and is computed for an annual period as a quotient of the net result and average equity during the period. In 2016, return on equity significantly went up owing to an increase in the net profit as compared to 2015.

	2016	2015
Net profit	207 147	181 582
Equity - opening balance	1 783 288	1 952 322
Equity - closing balance	1 950 676	1 783 288
Return on equity	**11,10%**	**9,72%**

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

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

	As at December 31, 2016	As at December 31, 2015
Equity	1 950 676	1 783 288
Non-current assets	2 193 359	2 088 391
Equity-to-non-current assets ratio	**88,94%**	**85,39%**

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

21. BORROWINGS

On December 19, 2014, Orbis S.A. (as the borrower) together with the subsidiary Hekon – Hotele Ekonomiczne S.A. (as the guarantor) executed a credit facility agreement with Bank Polska Kasa Opieki S.A. and Société Générale S.A. by virtue of which the Banks granted to Orbis S.A. a credit facility of up to the sum of PLN 480,000 thousand. According to the executed agreement, the credit facility was allocated for:

- financing 80% of the price payable for interests in companies in Central & Eastern Europe purchased by Orbis S.A.;
- corporate purposes of Orbis S.A., up to the sum not higher than 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 will be paid at the end of each quarter, while capital instalments at the end of June and December. Pursuant to the current payment schedule, the date of payment of the last instalment falls on June 26, 2020.

On June 30, 2015, Orbis S.A. made an early payment of PLN 300,000 thousand, earmarking for this purpose all sums obtained from the issue of bonds (please refer also to Note 22). On December 31, 2015, the Company repaid PLN 17,645 thousand of the principal.

As at December 31, 2016, Orbis S.A. had liabilities under a credit facility of PLN 122,945 thousand. During 12 months of 2016, Orbis S.A. repaid two principal instalments under the credit facility, totalling PLN 35,289, as well as PLN 4,427 thousand as interest on credit facilities and PLN 414 thousand as commissions and other borrowing costs resulting from credit facilities. The decrease in the balance of debt as compared to December 31, 2015, was also attributable to the repayment of the overdraft by the subsidiary Katerinska Hotels s.r.o.

Borrowings	As at December 31, 2016	As at December 31, 2015
Liabilities arising from credit facilities (outstanding capital)	123 512	158 801
Credit facilities valued at amortised cost	(567)	(1 046)
Overdrafts	0	1 357
Total borrowings	**122 945**	**159 112**

The amount of unused credit lines under overdrafts as at December 31, 2016 was PLN 44.6 million, of which the credit lines unused by Orbis S.A. amounted to PLN 20.0 million and those of subsidiary Katerinska Hotel s.r.o.: PLN 24.6 million (i.e. CZK 150.0 million). The remaining Group companies did not have unused credit lines under overdrafts.

Information on collaterals established in connection with the credit facility taken is provided in Note 30.1 to the financial statements.

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

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 a total nominal value of PLN 300,000 thousand. The issue price of the bonds is equal to their nominal value. The funds raised from this bond issue were used for partial repayment of credit facility.

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

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

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

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

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

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

In 2016, Orbis paid PLN 8,259 thousand as interest on issued bonds and PLN 614 thousand as commissions and other costs of bond issue. Moreover, in 2016 the Company paid PLN 203 thousand as interest payments under the IRS transaction (please refer to Note 32.3).

BONDS	As at December 31, 2016	As at December 31, 2015
Liability under bond issue (principal amount to be repaid)	500 000	300 000
Valuation of bonds at amortised cost	1 372	(771)
Total liabilities under bonds	**501 372**	**299 229**

Information on securities established in connection with the issue of bonds is provided in Note 30.1 to the financial statements.

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

23. DEFERRED REVENUE

DEFERRED REVENUE LONG-TERM	As at December 31, 2016	As at December 31, 2015
Advance payments received	4 001	5 300
Total deferred revenue	**4 001**	**5 300**

Advance payments received in the amount of PLN 3,428 thousand are a result of a preliminary sale and purchase agreement concerning the Giewont hotel in Zakopane and the accompanying rental contract, concluded on April 3, 2012. Pursuant to the executed preliminary sale and purchase agreement, Orbis received an advance payment towards the selling price amounting to PLN 5,428 thousand. 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, 2016 is PLN 872 thousand, of which the current portion of PLN 299 thousand is presented under the current deferred revenue.

DEFERRED REVENUE SHORT-TERM	As at December 31, 2016	As at December 31, 2015
Advance payments towards the sale of real property	2 074	2 000
Other prepayments and advances	15 484	14 864
Deferred revenue under real property lease	3 908	3 721
Total deferred revenue	**21 466**	**20 585**

As at December 31, 2016, the balance of deferred revenue arising from the sale of real property comprises earnest money towards the sale of the right of perpetual usufruct of land in Heweliusza street in Gdańsk. As at the end of 2015, under this item the Company disclosed an advance payment towards the sale of real property in Łopuszańska street in Warsaw.

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

24. OTHER NON-CURRENT LIABILITIES

OTHER NON-CURRENT LIABILITIES	As at December 31, 2016	As at December 31, 2015
Liabilities concerning tangible assets	4 522	2 246
Deposits received	592	826
Total other non-current liabilities	**5 114**	**3 072**

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

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

25. PROVISIONS FOR LIABILITIES

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

Increase in the remaining provisions in 2016 includes mainly the provision created in accordance with IAS 37 for onerous contracts, i.e. the operating lease agreement of the Novotel hotel in Hungary and the ibis hotel in Slovakia, with regard to which a provision was reversed in the second half in 2016.

MOVEMENTS IN PROVISIONS FOR LIABILITIES	Provision for litigations	Provision for restructuring costs	Other provisions for liabilities	Total provisions for liabilities
As at January 1, 2015	**777**	**464**	**0**	**1 241**
Increase resulting from the acquisition of subsidiaries	0	57	347	404
Provision recognised in the period	0	335	974	1 309
Provision utilised in the period	0	(179)	0	(179)
Provision released in the period	0	(343)	0	(343)
Exchange differences on translation	0	2	7	9
As at December 31, 2015	**777**	**336**	**1 328**	**2 441**
Short-term provisions	777	336	1	1 114
Long-term provisions	0	0	1 327	1 327
Total provisions as at December 31, 2015	**777**	**336**	**1 328**	**2 441**

Description of major disputes is provided in Note 30.3.

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

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

26. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

The table below presents trade payables:

TRADE PAYABLES	as at December 31, 2016	as at December 31, 2015
Trade payables	117 429	77 874
of which: liabilities towards related parties	17 674	11 915
Total trade payables	**117 429**	**77 874**

LIABILITIES ASSOCIATED WITH TANGIBLE ASSETS	as at December 31, 2016	as at December 31, 2015
Liabilities associated with tangible assets	24 945	34 734
Total liabilities associated with tangible assets	**24 945**	**34 734**

Other current liabilities are composed of the following items:

OTHER CURRENT LIABILITIES	as at December 31, 2016	as at December 31, 2015
Current liabilities	**22 643**	**16 988**
Taxes, social insurance and other benefits payable	14 409	10 626
Settlements with employees	4 838	3 435
Deposits received	2 903	2 260
Other liabilities	493	667
Accrued expenses	**55 030**	**49 468**
Obligations towards employees	44 242	37 286
Public law liabilities	8 486	9 283
Other	2 302	2 899
Total other current liabilities	**77 673**	**66 456**

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

As at December 31, 2016 and as at December 31, 2015, the Group does not have any finance lease liabilities.

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

27. EMPLOYEE BENEFITS

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

Provision for retirement benefits and similar obligations

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

POLAND

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

The actuarial valuation of provisions for retirement and similar benefits for Orbis S.A. was made taking into account provisions of the Act of November 16, 2016, on Amendments to the Act on Pensions from the Social Insurance Fund and Certain Other Acts (Dz.U.2017 item 38).

As at December 31, 2016, the amount of the provision was measured on an individual basis, separately for each employee.

The provision per employee is calculated based on an anticipated amount of retirement or disability benefit that the Group is obligated to pay under the Departmental Collective Labour Agreement. The cash benefit amounts to a specified percentage of the assessment base, dependent on the length of service in the Group. The assessment base is a one-month salary of the employee. The anticipated amount of the benefit factors in the expected growth in the assessment base until attainment of the retirement age. The established amount is discounted on an actuarial basis as at December 31, 2016. The discounted amount is reduced by the amounts of annual allocations for the provision, discounted on an actuarial basis as at the same date, made by the Group to increase the provisions per employee.

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

The likelihood that a given person reaches retirement age as a Group employee was determined by using the competing risks method that takes into account the following risks:
- possibility of dismissal from job;
- risk of total incapacity to work;
- risk of death.

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

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

The likelihood that an employee will become a disability pensioner was assessed on the basis of the pttz2015 table.

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

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

Principal actuarial assumptions for retirement & disability benefits - Poland	2015	2016	2017	2018 - 2026	successive years
- discount rate	3,00%	3,50%	3,50%	3,50%	3,50%
- projected future growth in the benefit assessment base			3,50%	3,00%	2,50%

HUNGARY

Amounts of provisions for retirement and similar benefits are measured on the basis of an actuarial valuation. The most recent actuarial valuation was carried out by I.A.C.T.A. Actuarial Consulting Ltd.

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

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

- the risk that employee will not meet the conditions for being granted a retirement benefit
- employee mortality, determined on the basis of TGH05/TGF05 table
- employee rotation
- salary increase

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

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

Principal actuarial assumptions for retirement & disability benefits - Hungary	2015	2016	2017	2018 - 2026	successive years
- discount rate	2,00%	1,50%	1,50%	1,50%	1,50%
- projected future growth in the benefit assessment base		3,20%	3,20%	3,20%	3,20%

Provision for jubilee awards

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

As at December 31, 2016, the provision was measured on an individual basis, separately for each employee.

The provision per employee is calculated based on an anticipated amount of jubilee awards that the Group agrees to pay under the Departmental Collective Labour Agreement. The jubilee award amounts to a specified percentage of the assessment base, dependent on the length of service in the Group. The assessment base is the minimum salary of the employee. The anticipated amount of the award factors in the expected increase of the assessment base until attainment of the entitlement to the jubilee award. The thus established amount is discounted on an actuarial basis as at December 31, 2016. The discounted amount is reduced by the amounts of annual allocations for the provision, discounted on an actuarial basis as at the same date, made by the Group to increase the provisions per employee.

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

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

Principal actuarial assumptions for jubilee awards - Poland	2015	2016	2017	2018 - 2025	successive years
- discount rate	3,00%	3,50%	3,50%	3,50%	3,50%
- projected future growth in the benefit assessment base			0,00%	4,00%	3,50%

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

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.

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

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

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

2015	Jubilee awards	Retirement & disability benefits	Total liabilities
Service cost:			
current service cost	840	267	1 107
past service cost and (gain)/loss from settlements	2 044	(95)	1 949
Net interest expense	473	190	663
Remeasurement on the net future employee benefit liability:			
actuarial gains and losses arising from changes in demographic assumptions	(156)	(445)	(601)
actuarial gains and losses arising from changes in financial assumptions	301	253	554
actuarial gains and losses arising from experience adjustments	1 192	757	1 949
Components of future employee benefit plan costs recognised in profit of loss	**4 694**	**362**	**5 056**
Components of future employee benefit plan costs recognised in other comprehensive income	**0**	**565**	**565**
Total	**4 694**	**927**	**5 621**

The current and past service cost is included in the Group's profit or loss as employee benefit expense. The net interest expense is presented in finance costs.

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

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

Movements in the present value of future employee benefit obligation:

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

	Jubilee awards	Retirement & disability benefits	Total liabilities
Present value of obligation - as at January 1, 2015	**15 085**	**5 188**	**20 273**
Increase resulting from the acquisition of subsidiaries	0	1 222	1 222
Current service cost	840	267	1 107
Past service cost and (gain)/loss from settlements	2 044	(95)	1 949
Interest cost	473	190	663
Remeasurement (gains)/losses:			
actuarial gains and losses arising from changes in demographic assumptions	(156)	(445)	(601)
actuarial gains and losses arising from changes in financial assumptions	301	253	554
actuarial gains and losses arising from experience adjustments	1 192	757	1 949
Benefits paid	(1 412)	(192)	(1 604)
Exchange differences on translation	0	4	4
Present value of obligation - as at December 31, 2015	**18 367**	**7 149**	**25 516**
Short-term provisions	2 048	645	2 693
Long-term provisions	16 319	6 504	22 823
Total present value of obligation - as at December 31, 2015	**18 367**	**7 149**	**25 516**

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

At the time of calculation of the provision for jubilee awards and retirement benefit obligations, a sensitivity analysis was conducted. The analysis concerned the impact of the discount rate and projected growths in benefit assessment bases on the amount of the provision as at December 31, 2016. 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 809 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 756 thousand.

The sensitivity analysis of projected growths in benefit assessment bases has shown that the adoption of a base 0.5 percentage point lower would decrease the provision by PLN 698 thousand, whereas if the base were increased by 0.5 percentage point, the amount of the provision would go up by PLN 1,042 thousand.

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

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

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

The weighted average duration of the defined benefit plan as at December 31, 2016 is 5 years in Orbis and 19 years in Accor Pannonia.

Maturity analysis of the expected benefit payments is as follows:

Forecast cash flows due to employee benefits in the next 10 years	Jubilee awards	Retirement & disability benefits	Total liabilities
2017	1 982	1 041	3 023
2018	2 174	567	2 741
2019	2 316	638	2 954
2020	1 922	772	2 694
2021	2 479	812	3 291
years 2022 - 2026	13 321	3 474	16 795
Total	**24 194**	**7 304**	**31 498**

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

28. OPERATING LEASE AGREEMENTS

The Group's operating lease commitments apply to agreements that concern predominantly buildings. As at December 31, 2016 the Group pursued business in 16 hotels used under operating lease agreements. The majority of these agreements is denominated in foreign currencies. Expiry dates of concluded agreements range from 3 to 15 years.

Operating lease agreements of hotel buildings per type of contract:

Type of contract	Number of hotels	Annual rent	Minimum lease payment	Expiry date
Fixed rent with buyout option *	7	(46 458)	(45 494)	2024-2027
Fixed rent without buyout option	5	(25 276)	(23 198)	2023-2031
Fixed rent with variable interest	1	(8 252)	(7 041)	2022
Variable lease with minimum lease payment	1	(5 120)	(4 813)	2019-2025
Variable rent without minimum lease payment	2	(11 437)	0	2018-2025
Total	**16**	**(96 543)**	**(80 546)**	

Operating lease agreements of hotel buildings per country:

	Number of hotels	Annual rent	Minimum lease payment	Expiry date
Poland	1	(7 786)	(7 786)	2021
Czech Republic	2	(12 655)	(12 581)	2027-2031
Lithuania	1	(5 120)	(4 813)	2019
Romania	1	(8 068)	0	2018
Slovakia	2	(5 859)	(2 140)	2023-2025
Hungary*	9	(57 056)	(53 226)	2022-2026
Total	**16**	**(96 543)**	**(80 546)**	

** Incl.5 hotels which have been subject to buyout transaction on January 2, 2017 (description of the transaction in the Note 3 of these statements) and 1 hotel which is scheduled to be purchased in May 2017 (description in Note 35 of these statements)*

In addition, as at December 31, 2016, the Group had 137 passenger vehicles in operating lease. The dates of termination of passenger vehicles lease contracts are from 1 to 3 years.

In 2016 lease payments amounting to PLN 99,603 thousand were recognised in profit or loss, in which PLN 82,450 thousand minimum lease payment. In 2015, lease payments amounting to PLN 102,145 thousand were recognised in profit or loss, in which PLN 81,500 thousand minimum lease payment.
The costs of lease of hotel buildings (PLN 96,543 thousand in 2016 and PLN 100,073 thousand in 2015) are presented in the income statement under the Costs of properties rental item. This item also includes costs of rental of non-hotel properties, including in particular the rental of an office by Accor Pannonia Hotels Zrt.

The costs of lease of passenger vehicles (PLN 1,904 thousand in 2016 and PLN 2,058 thousand in 2015) are presented in the income statement under the Outsourced services item.

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

Future minimum operating lease payments are as follows:

Future minimum operating lease payments	as at December 31, 2016	as at December 31, 2015
Future minimum operating lease payments, due in:		
one year	54 684	82 525
from 1 to 5 years	167 823	315 555
more than 5 years	139 697	326 463
Total future minimum operating lease payments	**362 204**	**724 543**

** The future lease payments do not include payments of 5 hotels, which have been have been subject to buyout transaction on January 2, 2017 and from June 2017 payments relating to 1 hotel which is scheduled to be purchased in May 2017.*

29. FUTURE CAPITAL COMMITMENTS

As at December 31, 2016, the Orbis Group was bound by future capital commitments under executed contracts amounting in total to PLN 74,388 thousand. The highest amounts concern works related to the construction of the ibis Vilnius hotel in Lithuania (EUR 8.6 million, i.e. approx. PLN 38 million). The remaining amount concerns, amongst others, the modernisation works carried out in the Novotel Poznań Centrum hotel (PLN 21.1 million) in connection with the planned division of the hotel and its partial rebranding into ibis, as well as renovation of the Novotel Kraków City West (PLN 9.2 million).

30. CONTINGENT ASSETS AND LIABILITIES

30.1 LIABILITIES ARISING FROM CREDIT FACILITY AGREEMENTS, LEASE AGREEMENTS AND BOND ISSUE

On December 19, 2014, Orbis S.A. (as the borrower) together with the subsidiary Hekon – Hotele Ekonomiczne S.A. (as the guarantor) executed a credit facility agreement with Bank Polska Kasa Opieki S.A. and Société Générale S.A. by virtue of which the Banks granted to Orbis S.A. a credit facility of up to the sum of PLN 480,000 thousand, used in the amount of PLN 476,445 thousand.

Orbis S.A.' s liabilities under the credit facility agreement have been secured by way of:

- 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/00193710/4),
- 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 on 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 market value of the Sofitel Warsaw Victoria hotel, encumbered by mortgage under a credit facility, determined by independent property valuers as at December 1, 2016, amounted to PLN 227,866 thousand. The book value of the real properties is PLN 120,504 thousand as at December 31, 2016.

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 Mercure Warszawa Grand hotel and the Novotel Warszawa Centrum hotel encumbered by mortgage, determined by independent property valuers as at May 29, 2015, was PLN 468,476 thousand. The book value of these real properties as at December 31, 2016 is PLN 191,965 thousand. Additionally, the market value of the Mercure Warszawa Centrum hotel determined as at December 1, 2015, by the valuation survey dated July 7, 2016 was PLN 177,229 thousand. The book value of these real properties as at December 31, 2016 is PLN 54,860 thousand.

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

30.2 LIABILITIES ARISING FROM AGREEMENTS FOR THE PURCHASE AND SALE OF ASSETS

In connection with the agreement of purchase, executed on December 23, 2016, by the subsidiary Accor Pannonia Hotels Zrt., of five leased hotels by way of acquisition of shares in 5 Hotel Kft., as at December 31, 2016, the Group has a liability of PLN 282 511 thousand being the initially established purchase price of these shares. The description of the transaction of provided in Note 3 to these financial statements.

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, and from its liability for other representations after the lapse of 12 months from the date of the agreement.

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

30.3 LEGAL CLAIMS

Litigation pending before courts, arbitration or public administration bodies:

LEGAL CLAIMS	DESCRIPTION AND THE COMPANY'S STANCE
Litigation – description Proceedings for handing over of real property located in Warsaw, in the district of Wilanów, at ul. St.Kostki Potockiego 27, marked as the plot of land no. 21/1 with an area of 4,397 sq.m. **Value of the litigation** 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 **Date of launching the legal proceedings** Statement of claim dated September 29, 2005 **Parties to the proceedings** Plaintiff: State Treasury, represented by the Municipal Office of the Capital City of Warsaw, Defendant: Orbis S.A.	Orbis S.A. motions 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. Administrative proceedings initiated by heirs of the former owner, Adam Branicki, for restitution of the real property "Kolonia Adamówka Wilanowska dz. 15" are currently pending before the Head of Mazowieckie Voivodship, i.e. the authority of first instance. During these proceedings, at a hearing on January 5, 2010 the applicants' attorney filed a written declaration, informing that the party he represents would not seek compensation from Orbis S.A. for the use of the real property. The declaration forms an appendix to the record of the hearing. However, the declaration was not supported by a relevant power of attorney granted by the heirs of Adam Branicki authorizing the attorney to renounce claims on their behalf. As at the day of report publication no steps are being taken in this case.
Litigation – description Proceedings for declaration of invalidity of an administrative decision of the President of the City of Warsaw dated April 11, 1950, No. L dz. WPB/3116/49/P concerning refusal to reinstate a time limit for filing an application for a temporary ownership title to the land located at ul. Wspólna 19, land and mortgage reg. no. 1651/2 letter C (the area of a former real property with land and mortgage reg. no. 1651/2 letter C, corresponds partially 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 a part of the Hotel building is situated). **Value of the litigation** Unknown **Date of launching the legal proceedings** Application dated March 2, 2000 **Parties to the proceedings** Applicant: J. Ostrowska - Bazgier (heirs of Abraham Juda vel Adam Kaltman) Participant: "Parking- Wspólnota" Sp. z o.o in liquidation Participant: Orbis S.A.	On August 10, 2010, the Minister of Infrastructure issued a decision (served on Orbis S.A. on August 19, 2010) declaring invalidity of the administrative decision of the President of the City of Warsaw of 1950 refusing to grant to the applicants the temporary ownership title to the land concerned. On September 1, 2010, Orbis S.A. applied for re-consideration of the case. The Law Office "Domański, Zakrzewski. Palinka" [DZP] was appointed to defend the case on behalf of Orbis S.A. In subsequent pleadings, DZP challenged the timely filing of the decree motion by former owners. The proceedings have been suspended. On August 25, 2012, the Applicant filed a motion with the Ministry of Transport, Construction and Maritime Economy for revocation of decision No. 755/93 of the Head of Mazowieckie Voivodship concerning the acquisition by Orbis S.A. of the right to perpetual usufruct of the land built-up with the Grand Hotel at ul. Krucza 28 in Warsaw. Orbis S.A. motioned for refusal to initiate proceedings on this case. The Minister of Transport, Construction and Maritime Economy suspended proceedings on this case. Orbis S.A. filed petition for ascertainment of acquisition of the estate of the deceased persons with unknown place of residence. The Court resumed proceedings on this case and in first instance issued decision dismissing the application of Orbis S.A. Orbis S.A. filed an appeal against this decision. The Regional Court revoked the decision of the District Court for Warszawa – Śródmieście dated March 14, 2014 concerning dismissal of the application of Orbis S.A. for ascertainment of acquisition of the estate of Bajla Arager and Ita Frajdla Sadowska and referred the case to the District Court for reconsideration. The case was joined by the City of Warsaw, which made an application for ascertaining acquisition of estate of Bajla Arager and Ita Frajdla. The case is pending.

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

Litigation - description Request to reimburse aid received from the Polish Agency for Enterprise Development PARP **Value of the litigation** PLN 616 thousand plus interest **Date of launching the legal proceedings** July 21, 2014 **Parties to the proceedings** Requesting party: Polish Agency for Enterprise Development [PARP] Requested party: Orbis S.A.	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 an amount of 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. will claim this amount by means of civil proceedings. On April 11, 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 the decision. The Minister of Infrastructure upheld PARP decision. On July 11, 2016 Orbis S.A. paid to PARP a sum of PLN 261 thousand. Orbis S.A. intends to file an appeal with the Voivodship Administrative Court.
Litigation - description 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. **Value of the litigation** PLN 350 thousand **Date of launching the legal proceedings** Statement of claim dated April 19, 2013 **Parties to the proceedings** Plaintiff: Orbis S.A. (legal successor of: Hekon-Hotele Ekonomiczne S.A.) Defendant: Municipality Office of the town of Elbląg	Hekon Hotele-Ekonomiczne S.A. lost its case in proceedings before the court of first instance and subsequently, as a result of the filed appeal, the court of second instance held that the provision concerning the contractual penalty had been invalid from the beginning, and the court held that the contractual penalties paid by Hekon Hotele-Ekonomiczne S.A. should be reimbursed. The municipality of the town of Elbląg filed a last-resort (cassation) appeal and Hekon S.A. filed for dismissal of the appeal. The Supreme Court decided to consider the case at a hearing in camera on October 22, 2015. The Court revoked the decision of the Court of Appeal, prepared a written statement of reasons and referred the case to be reconsidered. On March 1, 2016, the Appellate Court issued a ruling on this case and statement of reasons was issued in April. The Court ruled that only the contractual penalty of PLN 100 thousand for the year 2010 is due to the town of Elbląg. According to the statement of reasons for this judgement, contractual penalties for subsequent years are not due, since according to the position of the Supreme Court contained in the last-resort (cassation) judgment, the contractual penalty so imposed would have to be paid indefinitely. The Court dismissed the remaining claims of Hekon-Hotele Ekonomiczne S.A. and ruled on the value of costs. In June 2016 Hekon filed a cassation appeal against the judgment of the Appellate Court in Gdańsk. Orbis S.A. (as the legal successor of Hekon-Hotele Ekonomiczne S.A.) awaits a decision whether or not the cassation appeal will be considered. On the basis of the request for payment received in October, Orbis S.A. paid to the municipality of the town of Elbląg a sum of PLN 163 thousand by way of the awarded penalty and costs of litigation.

Furthermore, as at December 31, 2016, 12 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);
- Poznań (Novotel Malta);
- Częstochowa (Mercure Częstochowa Centrum - concerning the fees up to the day of sale of the real property);
- Sopot (Sofitel Grand),
- Gdańsk (Novotel Centrum, Mercure Gdańsk Stare Miasto, ibis Gdańsk Stare Miasto and adjacent area, Mercure Posejdon, Novotel Marina);
- Zegrze (built-up plot of land).

In the Group's opinion, fee revaluations made by Mayors of respective cities are either unjustified or calculations should be based on different rates. As at the end of the reporting period, the accumulated value of the fees challenged by the Group totals PLN 6,848 thousand and is disclosed in other current liabilities.

In 2016, Orbis S.A. received a ruling to its favour concerning fees for perpetual usufruct of real property in Kraków, on which the ibis and ibis budget Kraków Stare Miasto hotels are located. The Regional Court in Kraków determined a lower value of annual fees for 2010-2016 than proposed by the City Mayor. The Court allocated the value of payments made by Orbis S.A. so far in the amount of PLN 1,932 thousand against the difference between the current fee and the new value of the fee.

A tax audit was completed in June 2016 in the company Accor Pannonia Hotels Zrt., devoted to VAT and CIT tax payments during the years 2011-2012. According to the decision of the tax authorities, the company paid additional liabilities to the tax office together with interest in the amount of approx. PLN 325 thousand (HUF 23.2 million).

31. RISK AREAS

31.1 BUSINESS RISK

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

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

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

31.1.2 Competition risk

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

Growing competition may have an adverse impact on the price and occupancy of hotel establishments run by the Orbis Group companies and, consequently, on financial performance.

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

31.1.3 Risk related to cooperation with travel agents

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

31.2 FINANCIAL RISK

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

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

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

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

The Orbis Group does not use any financial instruments, including derivatives, for speculative purposes.

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

31.2.1 Interest rate risk

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

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

As at December 31, 2016, Orbis S.A.'s liabilities with variable interest rates comprised:

- Credit facility at Bank Pekao S.A. and Société Générale S.A. of PLN 122.9 million bearing interest at a rate equal to WIBOR 3M plus margin. Interest rate on this credit facility is based on variable reference rates that are updated on a quarterly basis.
- Liabilities arising from the bond issue – PLN 501.4 million. The first tranche of bonds issued on June 26, 2015 (PLN 300.0 million) bear interest per annum at a variable interest rate equal to WIBOR for six-month deposits (WIBOR 6M), plus interest rate margin of 0.97 p.p. The second tranche of bonds issued on July 29, 2016 (PLN 200.0 million) bear interest per annum at a variable interest rate equal to WIBOR for six-month deposits (WIBOR 6M), plus interest rate margin of 1.05 p.p.

In 2016, interest rates on credit facilities and bonds were based on the following rates:

- WIBOR 3M: 1.67 – 1.73
- WIBOR 6M: 1.74 – 1.81

An analysis of sensitivity to the interest rate risk arising from credit facilities taken and bonds issued was performed on the basis of the balance of debt incurred and bonds issued as at the balance sheet closing date. A change in the interest rate on the credit facility by 0.5 p.p would increase/decrease finance costs by PLN 618 thousand. A 0.5 p.p. change in the interest rate on bonds would result in an increase/decrease in finance costs by PLN 2,500 thousand.

In case of bonds, cash flow volatility is offset by means of the executed Interest Rate Swap transaction (described in Note 32.3). The Group performed an analysis of sensitivity to interest rate risk with regard to the executed contract. If interest rates were by 0.5 p.p. higher, the Group's other comprehensive income would go up by PLN 735 thousand. In case interest rates declined by 0.5 p.p., other comprehensive income of the Group would decrease by PLN 743 thousand.

31.2.2 Currency risk

A portion of sales revenue and costs of the conducted business is generated by foreign companies of the Orbis Group. Similarly, Polish companies execute transactions denominated in foreign currencies. Hence, a risk of fluctuations in foreign currency exchange rates arises. In case incurred costs and generated revenue are denominated in different foreign currencies, the Group may be exposed to the foreign exchange risk. Certain expenses, like rent costs and fees to companies of the Accor Group, for example, are denominated in or indexed to foreign currencies, predominantly the euro. There is a risk that unfavourable changes in the exchange rate will adversely impact return on sales and, thereby, the financial result of the Group.

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

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (i.e. in other currencies than the functional currency of respective Group companies) as at the end of reporting period are as follows:

		as at December 31, 2016	as at December 31, 2015
Cash and cash equivalent			
foreign currency	EUR	78 597	21 209
Polish currency equivalent	PLN	347 713	90 380
foreign currency	USD	153	77
Polish currency equivalent	PLN	639	300
Other short-term financial assets			
foreign currency	EUR	0	2 000
Polish currency equivalent	PLN	0	8 523
Receivables			
foreign currency	EUR	4 667	4 621
Polish currency equivalent	PLN	20 647	19 692
foreign currency	USD	18	2
Polish currency equivalent	PLN	75	8
Payables			
foreign currency	EUR	8 473	4 739
Polish currency equivalent	PLN	37 485	20 195
foreign currency	USD	6	8
Polish currency equivalent	PLN	25	30
foreign currency	CZK	0	41
Polish currency equivalent	PLN	0	6
foreign currency	HUF	276	463
Polish currency equivalent	PLN	4	6

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

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

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

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

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

	10% increase of the exchange rate	
	2016 result	2015 result
Cash and cash equivalent	34 835	9 068
Short-term financial assets	0	852
Receivables/Payables	(1 679)	(54)
Total effect of exchange rate fluctuations on result	**33 156**	**9 866**

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

31.2.3 Credit risk

The credit risk to which the Group is exposed may result from:

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

In the Group's assessment, the risk related to its clients does not differ from the average credit risk on the markets on which Group companies operate.

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

Solvency checks are performed before a credit is granted to each new customer and at each renewal of the contract for a successive term. To meet these requirements, the hotels and the Head Office units may use the following set of tools:

- reports from information agencies to help in assessing customers' creditworthiness.
- customer payment history - significant payment delays, particularly inclusion on the internal "debtor blacklist" of the Group prevents further crediting.
- presence of other negative information on customer's solvency: any information from the local or global market about the customer's payment failures must be carefully examined and the credit blocked, where justified.

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

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

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

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

31.2.4 Liquidity risk

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

The amount of unused credit lines under overdrafts as at December 31, 2016 was PLN 44.6 million, of which the credit lines unused by Orbis S.A. amounted to PLN 20.0 million and those of subsidiary Katerinska Hotel s.r.o.: PLN 24.6 million (i.e. CZK 150.0 million). The remaining Group companies did not have unused credit lines under overdrafts.
As at December 31, 2015, the Orbis Group had unused credit lines amounted to PLN 20.1 million under an overdraft.

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

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

The debt-to-equity ratio is calculated as a quotient of total debt and total equity and liabilities. As at the end of 2016, the debt-to-equity rate rose, primarily owing to the issue of a second tranche of bonds of PLN 200.0 million.

	as at December 31, 2016	as at December 31, 2015
Total debt	909 459	700 608
Total equity and liabilities	2 860 135	2 483 896
Debt-to-equity ratio	**31,8%**	**28,2%**

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 cash at the end of the financial year. The higher value of cash results in particular from the issue of PLN 200 million worth of bonds in July 2016.

	as at December 31, 2016	as at December 31, 2015
Current assets and assets classified as held for sale	666 776	395 505
Current liabilities	284 505	245 771
Current ratio	**2,34**	**1,61**

The Group forecasts future flows arising from financial payables. The forecast takes into account payables existing as at the date of preparation of the financial statements. Interest rates applicable as at December 31, 2016 are assumed for future interest periods. Interest and loans instalments are classified in accordance with their maturity dates.

Projected expenditure payable in the period	up to 1 year	from 1 year to 3 years	from 3 years to 5 years
Borrowings	38 805	74 454	18 001
Bonds	14 020	28 040	515 558
Trade payables	117 429	0	0
Other payables*	33 179	4 741	373
Total expenditure on account of payables	**203 433**	**107 235**	**533 932**

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

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

31.3 LEGAL RISK

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

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

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

31.4 REPUTATIONAL RISK

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

The Orbis Group monitors media activity on a current basis and responds to problems notified on social media portals. Also, the Group has implemented detailed procedures for responding to (acting in) crisis situations in order to prevent negative events and, if they occur, to minimise their effects.

31.5 RISK FACTORS RELATED TO THE BONDS

31.5.1 Risk of earlier redemption of the Bonds for reasons other than the Bondholder's request

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

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

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

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

32. FINANCIAL INSTRUMENTS

32.1. CATEGORIES OF FINANCIAL INSTRUMENTS

The following table presents the main categories of financial instruments:

	as at December 31, 2016	as at December 31, 2015
Financial assets		
Cash and cash equivalents	540 794	271 683
Loans and receivables (including trade receivables)	93 702	79 133
Financial liabilities		
Amortised cost (including trade payables)	780 039	580 383
Derivative instruments in designated hedge accounting relationships	118	795

32.2. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at December 31, 2016 and December 31, 2015, the only assets and liabilities that were subject to measurement at fair value following their initial recognition and were recognised at fair value in the statement of financial position were derivative instruments, i.e. Interest Rate Swap.

The table 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, 2016		as at December 31, 2015	
	The carrying amount	The fair value	The carrying amount	The fair value
Financial assets				
Cash and cash equivalents	540 794	540 794	271 683	271 683
Other financial assets (long-term)	15 510	15 510	7 888	7 888
Short-term financial assets (loans granted)	0	0	8 577	8 577
Trade receivables and other short-term receivables	78 192	78 192	62 668	62 668
Financial liabilities				
Borrowings	122 945	124 904	159 112	160 551
Debt securities - bonds issued	501 372	507 500	299 229	303 000
Derivative instruments (liabilities)	118	118	795	795
Trade payables and other payables long- and short-term	155 722	155 722	122 042	122 042

According to the Management Board, as at December 31, 2016 and December 31, 2015 the carrying amount of financial instruments of the Company, with the exception of liabilities arising from credit facilities and issued bonds, was close to their fair value.

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

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

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

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

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

32.3. HEDGE ACCOUNTING

To reduce the risk of changing interest rates and hedge future cash flows, on September 15, 2015 Orbis S.A. entered into a pay-floating receive-fixed Interest Rate Swap with the bank Société Générale S.A. The amount of the hedging instrument is PLN 150 million, which accounts for 50% of the value of the first tranche of bonds issued in the amount of PLN 300 million. The swap matures on June 26, 2018. Interest payment dates fall every six months, starting from June 27, 2016, and have been correlated with dates of payment of interest on bonds. In 2016, Orbis S.A. paid PLN 203 thousand in settlement of the Interest Rate Swap interest payment. At the end of the presented reporting periods, the swap's valuation at fair value was disclosed in the Group's equity through other comprehensive income. In 2016, no ineffectiveness arising from cash flow hedges occurred that would require to be disclosed in the financial result of the Group.

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

33. RELATED PARTY DISCLOSURES (TRANSACTIONS)

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

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

Salaries and other short-term benefits for serving as member of governing bodies of Orbis S.A.	in 2016	in 2015
Management Board		
Gilles Stephane Clavie	2 100	1 784
Ireneusz Andrzej Węgłowski	1 023	1 048
Dominik Sołtysik	591	0
Marcin Szewczykowski	960	934
Laurent Francois Picheral	0	203
Supervisory Board		
Jan Ozinga	0	0
Bruno Coudry	73	66
Artur Gabor	98	89
Christian Karaoglanian	0	0
Jacek Kseń	98	85
Jean-Jacques Morin	0	0
Laurent Francois Picheral	0	0
Andrzej Procajło	77	70
Andrzej Przytuła	77	70
Jarosław Szymański	77	70
Sophie Isabelle Stabile (Chairman of the Supervisory Board until June 2, 2016)	0	0
Jean-Jacques Dessors (Member of the Supervisory Board until May 31, 2015)	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.

33.2. RELATED PARTY TRANSACTIONS

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

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

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

Within the framework of the agreement signed by Accor S.A. and Orbis S.A. on January 15, 2016, Orbis S.A. received a sum of EUR 4 million (equivalent to PLN 17.3 million). The payment of this sum concerned directly the release of Accor S.A. from the guarantee it granted to Orbis S.A. as part of the agreement to purchase shares in subsidiaries and was connected with the operations of specified assets (the ibis Budapest Heroes Square hotel and the Mercure Budapest City Center hotel) in Hungary, which assets were purchased in 2016 by a subsidiary Accor Pannonia Hotels Zrt. The transaction with the shareholder and, consequently, the sum received does not constitute income of Orbis S.A. according to the International Financial Reporting Standards, because it is not connected in any way with the operations of the Company or the Group, which is why it was recognised directly in Orbis S.A. equity (in retained earnings item).

The purchase of interests in companies pursuing hotel business in the Central & Eastern Europe (described in Note 1.1.3 of the Additional Information to the Consolidated Financial Statements of the Orbis Group for 2015) represented a significant transaction with related parties in 2015.

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

REVENUES AND EXPENSES	2016	2015
Net sales of services	4 777	4 580
from the parent	3 580	3 868
from other Accor Group companies	1 046	579
from associates	151	133
Other revenue	3 405	2 292
from the parent	3 387	2 288
from other Accor Group companies	0	4
from associates	18	0
Purchases of services, merchandise and raw materials	65 120	53 443
from the parent	47 538	38 989
from other Accor Group companies	17 579	14 450
from associates	3	4

RECEIVABLES AND PAYABLES	As at December 31, 2016	As at December 31, 2015
Trade receivables	4 847	5 177
from the parent	4 242	4 752
from other Accor Group companies	605	225
from associates	0	200
Other receivables	50	76
from other Accor Group companies	50	51
from associates	0	25
Trade payables	17 674	11 915
from the parent	15 145	9 956
from other Accor Group companies	2 529	1 916
from associates	0	43

No impairment loss was recognised on the presented receivables.

Balances arising from related party transactions will be settled by way of payments.

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

No transactions involving transfer of rights and obligations either free of charge or against consideration, were executed between the Group and related parties:

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

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

34. EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

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

	2016	2015
Change in receivables in the statement of financial position	**(14 670)**	**(43 502)**
change due to acquisition of subsidiaries	0	47 554
change in other long-term receivables and prepayments	(8)	(147)
commissions on borrowings	0	(226)
change in receivables on account of sale of tangible assets	13 183	0
change in prepayments	1 038	5 491
exchange differences on translation	2 097	0
Change in the statement of cash flows	**1 640**	**9 170**
Change in liabilities, except borrowings, in the statement of financial position	**43 025**	**78 277**
change due to acquisition of subsidiaries	0	(72 486)
change in investment liabilities	6 437	(8 742)
exchange differences on translation	(3 213)	0
Change in the statement of cash flows	**46 249**	**(2 951)**
Change in deferred revenue in the statement of financial position	**(418)**	**10 730**
change due to acquisition of subsidiaries	0	(6 744)
advance payments received towards sale of real property	(74)	20
exchange differences on translation	(264)	0
Change in the statement of cash flows	**(756)**	**4 006**
Change in provisions in the statement of financial position	**3 014**	**6 443**
change due to acquisition of subsidiaries	0	(1 622)
actuarial gains and losses in respect of defined employee benefit plan recognised in other comprehensive income	86	(560)
exchange differences on translation	(175)	0
Change in the statement of cash flows	**2 925**	**4 261**
Change in inventories in the statement of financial position	**(404)**	**(2 640)**
change due to acquisition of subsidiaries	0	2 803
exchange differences on translation	118	0
Change in the statement of cash flows	**(286)**	**163**
Other adjustments	**(1 527)**	**(8 814)**
revaluation of non-current assets	(1 548)	(2 370)
revaluation of investments in subsidiaries	10	0
revaluation of other financial assets	0	(8 532)
exchange differences on translation	0	2 088
other	11	0
Change in the statement of cash flows	**(1 527)**	**(8 814)**

35. EVENTS AFTER THE REPORTING PERIOD

On January 1, 2017, a merger of subsidiaries, i.e. Katerinska Hotel s.r.o. (merging company) with Nový Smíchov Gate a.s. (merged company) took place. As at that day, Katerinska Hotel s.r.o. took over the rights and obligations of Nový Smíchov Gate a.s., which was removed from the register of companies.

On January 2, 2017, completion of a buy-back agreement of five leased hotels in Hungary took place (the transaction is described in Section 3.1 of the financial statements). On that date the price was paid and application was filed to register the new shareholder of 5 Hotel Kft. In connection with the transaction, from January 2, 2017, Orbis S.A. indirectly holds 99.92% share in the share capital of 5 Hotel Kft.

On January 30, 2017, the major shareholder of Orbis S.A. (which holds 52.7% of Orbis shares), Accor S.A., exercised its buy–out option right over the hotel Sofitel Budapest Chain Bridge located in Budapest, with a buy-out date of May 31, 2017 (the "Option Right"), indicating that the Option Right will be exercised by the Orbis subsidiary – Accor Pannonia Hotels Zrt., a private company limited by shares, with its corporate seat in Budapest which currently operates the Hotel under a lease agreement. The Option Right will be exercised with respect to the sellers: HVB Leasing Maestoso Ingatlanhasznosito Kft with its corporate seat in Budapest and Universale International Realitäten GmbH with its corporate seat in Vienna.

At the same time Accor authorized Orbis to take all legal and actual actions necessary to exercise the Option Right, including taking a decision whether the Option Right will be exercised through the purchase of shares in a company which is the owner of the Hotel or direct purchase of real estate.

Orbis S.A. accepted exercising of the Option Right, including in particular the obligation to pay the purchase price for the Hotel of the maximum EUR 44 million, where the final amount depends on the type of transaction (share deal or real estate deal), which will be executed under the Option Right.

The exercise of Option Right by the Orbis subsidiary is aimed at optimization of hotel business by elimination of costs associated with leasing of the Hotel and obtaining potential possibility of future sale of the Hotel under the management back sale transaction, which will be subject to further financial and operational analysis.

On February 9, 2017 Orbis S.A. concluded a preliminary sale agreement of organized parts of the enterprise in the form of the Mercure Jelenia Góra hotel and Mercure Karpacz Resort hotel for a total net price of PLN 26,500 thousand. The preliminary agreement provides that the final sale agreement shall be concluded until March 31, 2017, subject to the consent of the Issuer's General Meeting of Shareholders for the sale of the Hotels. The payment of the sale price by the Buyer shall be made in accordance to the following arrangements:

- 10% of the net sale price, that is PLN 2,650 thousand was paid as an earnest payment, prior to the signing of the preliminary agreement,
- the remaining 90% of the net sale price, that is PLN 23,850 thousand shall be paid no later than 5 working days from the conclusion of the final sale agreement.

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Date	Name and Surname	Position/Function	Signature
Feb. 21, 2017	Gilles Stephane Clavie	President of the Management Board	
Feb. 21, 2017	Ireneusz Andrzej Węgłowski	Vice-President of the Management Board	
Feb. 21, 2017	Dominik Sołtysik	Member of the Management Board	
Feb. 21, 2017	Marcin Szewczykowski	Member of the Management Board	

SIGNATURE OF THE MEMBER IN CHARGE OF BOOKKEEPING

Date	Name and Surname	Position/Function	Signature
Feb. 21, 2017	Marcin Szewczykowski	Member of the Management Board	

DECLARATIONS OF THE MANAGEMENT BOARD

True and fair view of the financial statements

The Management Board of Orbis S.A. hereby declares that according to its best knowledge the consolidated financial statements of the Orbis Group for the year 2016 and comparative figures for the year 2015 have been prepared in accordance with the accounting principles applied by the Group and with the International Financial Reporting Standards and reflect, in a true, fair and transparent manner, the economic and financial standing of the Orbis Group and its financial result.

The Directors' Report on the operations of the Orbis Group and Orbis S.A. in 2016 gives a true view of the development, achievements and situation of Orbis Group, including a description of the basic threats and risks.

Selection of an entity authorised to audit the financial statements

The Management Board of Orbis S.A. hereby declares that the entity authorised to audit the financial statements, entrusted with the task of audit financial statements of the Orbis Group has been selected in conformity with the law. This entity and the licensed auditors in charge of the said review met the requirements necessary to issue an unbiased and independent report on the review, 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 21, 2017.