Orbis Group
and Orbis S.A.

DIRECTORS' REPORT ON THE OPERATIONS FOR 2019

This Directors' Report on the Operations of the Orbis Group and Orbis S.A. for 2019 has been prepared in accordance with §70 and §71 of the Regulation of the Minister of Finance dated March 29, 2018, on current and periodic information published by issuers of securities and conditions for recognizing as equivalent the information required by laws of a non-member state (official journal "Dz.U." 2018, item 757).

According to §71.8 of the above Regulation, the Directors' Report on the Operations of the Orbis Group for 2019 and Directors' Report on the Operations of Orbis S.A. 2019 have been compiled in a single document.

Consolidated data is presented throughout this Report except Section 4 which contains financial information relating to Orbis S.A. for 2019. Given that Orbis S.A. is the parent company of the Group, the greater part of information contained in the remaining sections of the Report also apply to the business of Orbis S.A. Therefore, in order to fully comprehend the business of Orbis S.A., it is recommended to read the entire Report.

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PRESENTATION OF THE ORBIS GROUP

Mercure Budapest Korona

1 PRESENTATION OF THE ORBIS GROUP

1.1 Orbis Group at a Glance

Orbis is the largest group in Poland and in the Eastern Europe that invests in hotel properties in this region. The group's network comprises 73 hotels, including 63 subsidiary and 10 leased hotels (with a total of over 14 000 rooms) in 6 countries of the region, namely the Czech Republic, Hungary, Lithuania, Poland, Romania and Slovakia. Hotels operate under the following Accor brands: Sofitel, MGallery by Sofitel, Novotel, Mercure, ibis, ibis Styles and ibis budget, soon to be followed by adagio, Tribe and JO&JOE. These globally renowned brands guarantee quality service of different standard ranging from 5-star luxury hotels to 1-star economy hotels.

Our expertise and strong position in the hospitality business allow us to face new challenges to continue the development of the Orbis Group in the region in a sustainable manner…

Orbis S.A. is the leader of hotel real property market in Eastern Europe. The Company invests in the development and upgrading of hotels, it is also active in other areas of asset management.

Orbis S.A. has been listed on the Warsaw Stock Exchange since 1997. Its strategic investor is Accor S.A.

Human factor is central to the hospitality industry. We put strong accent on management culture & human capital, as well as sustainability, ethics and corporate social responsibility.

Our expertise and strong position in the hospitality business allow us to face new challenges to continue the development of the Orbis Group in the region in a sustainable manner.

Our business model

Following the divestment of the entire asset light business in 2019, Orbis entered into long-term management agreements under which Accor, the company's long-term strategic partner, will manage all Orbis hotels. The partnership with Accor offers Orbis the opportunity to operate under any of all the 39 hotel brands in the Accor's portfolio. Orbis hotels currently operate under the following brands: Sofitel, MGallery by Sofitel, Novotel, Mercure, ibis, ibis Styles and ibis budget, soon to be followed by adagio, Tribe and JO&JOE.

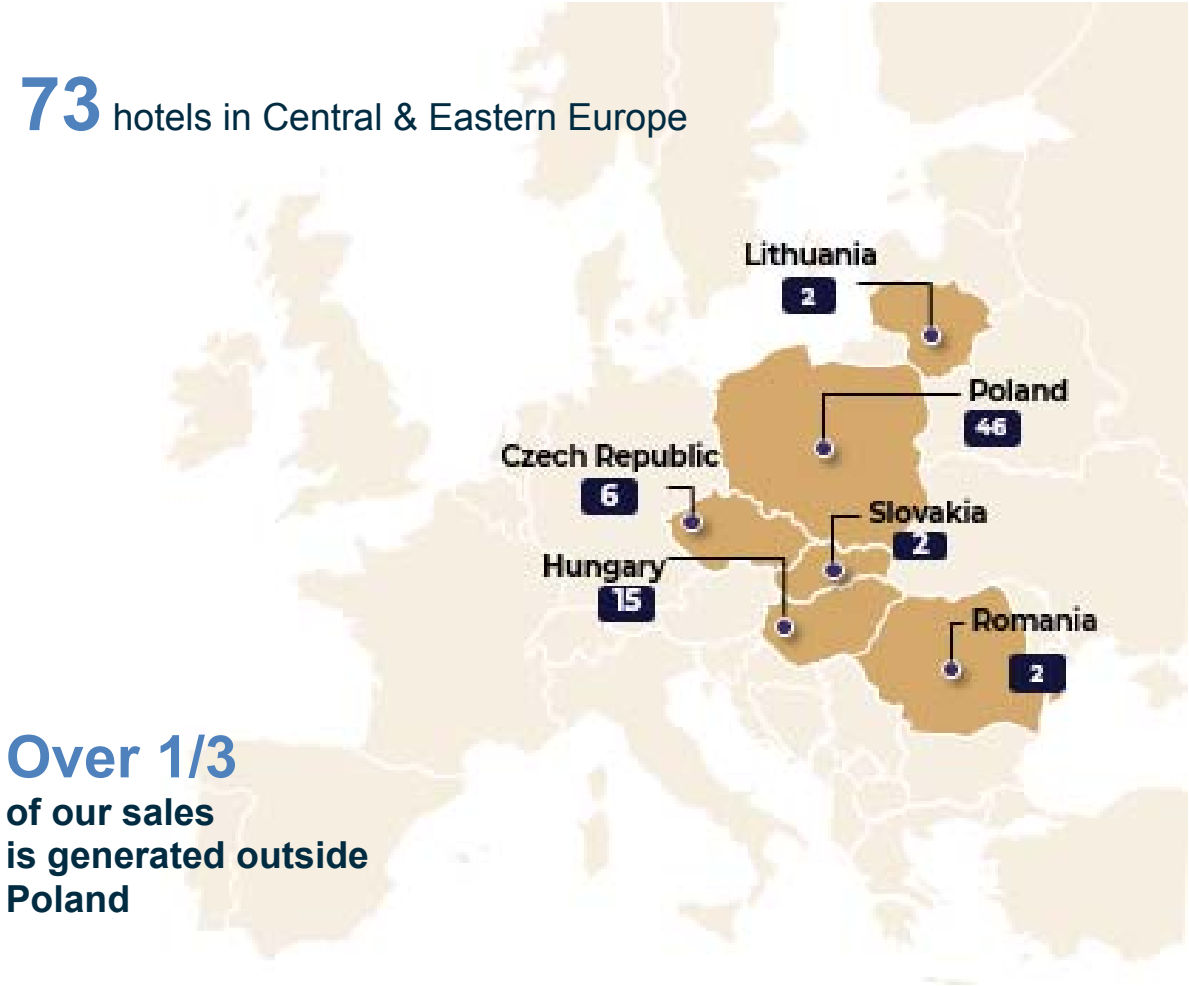
Upscale and luxury hotels

Midscale hotels

Economy hotels

Our markets

Orbis Group is the largest hotel group in Eastern Europe that invests in hotel properties in this region. The group's network comprises 73 hotels, including 63 subsidiary and 10 leased hotels (with a total of over 14 000 rooms) in 6 countries of the region, namely the Czech Republic, Hungary, Lithuania, Poland, Romania and Slovakia.



Highlights of 2019

PLN 1 455.3 m (+3.9%)
Net sales

PLN 509.2 m (+12.3%)
Operating EBITDA

4.3% RevPAR growth

Financial performance is discussed on pages 25-38 of the Report.
The financial results for 2019 and like-for-like periods presented in the report are generated from continuing operations, unless otherwise stated.

Our brands

Authentic luxury hotels with a French soul

In the Orbis Group: 3 hotels, 700 rooms

International luxury non-standardised brand. Hotels combining French origin with the best of local culture. Designed by renowned architects who imbue them with French style and elegance.

Luxury boutique hotels, inspired and generous

In the Orbis Group: 1 hotel, 170 rooms

International upscale non-standardised brand.
Boutique hotels that offer luxury stays including theme weekends, seminars, business trips. Each hotel is inspired by an ancient or contemporary story.

Modern Easy Living

In the Orbis Group: 20 hotels, 4.6 thousand rooms

International midscale standardised brand. At Novotel, everyone is free to live as they want. Modern hotels designed to cater for the needs of businessmen and families with children alike. Our unique approach to hospitality, one that is built on simplicity and elegance, is loved the world over.

In harmony with people and places

In the Orbis Group: 14 hotels, 3.3 thousand rooms

International midscale non-standardised brand.
Combines the strength of an international brand, with guaranteed quality standards, with a laid-back atmosphere typical of personalised hotels. Hotels located in city centres and seaside or mountain resorts.

In the Orbis Group: 24 hotels, 3.9 thousand rooms

Well-being at the best price

European leader in the economy hotel segment.
Standardised brand. Modern rooms furnished with comfortable beds. A wide selection of restaurants of different styles. Focus on the quality.

In the Orbis Group: 3 hotels, 440 rooms

Comfort, unique design, all inclusive

International non-standardised brand. The offer is addressed at persons travelling alone or on business as well as at families and tourists. In addition to the room, the offer includes breakfast, Wi-Fi access and numerous additional services.

In the Orbis Group: 8 hotels, 1.1 thousand rooms

Essential comfort at a budget price

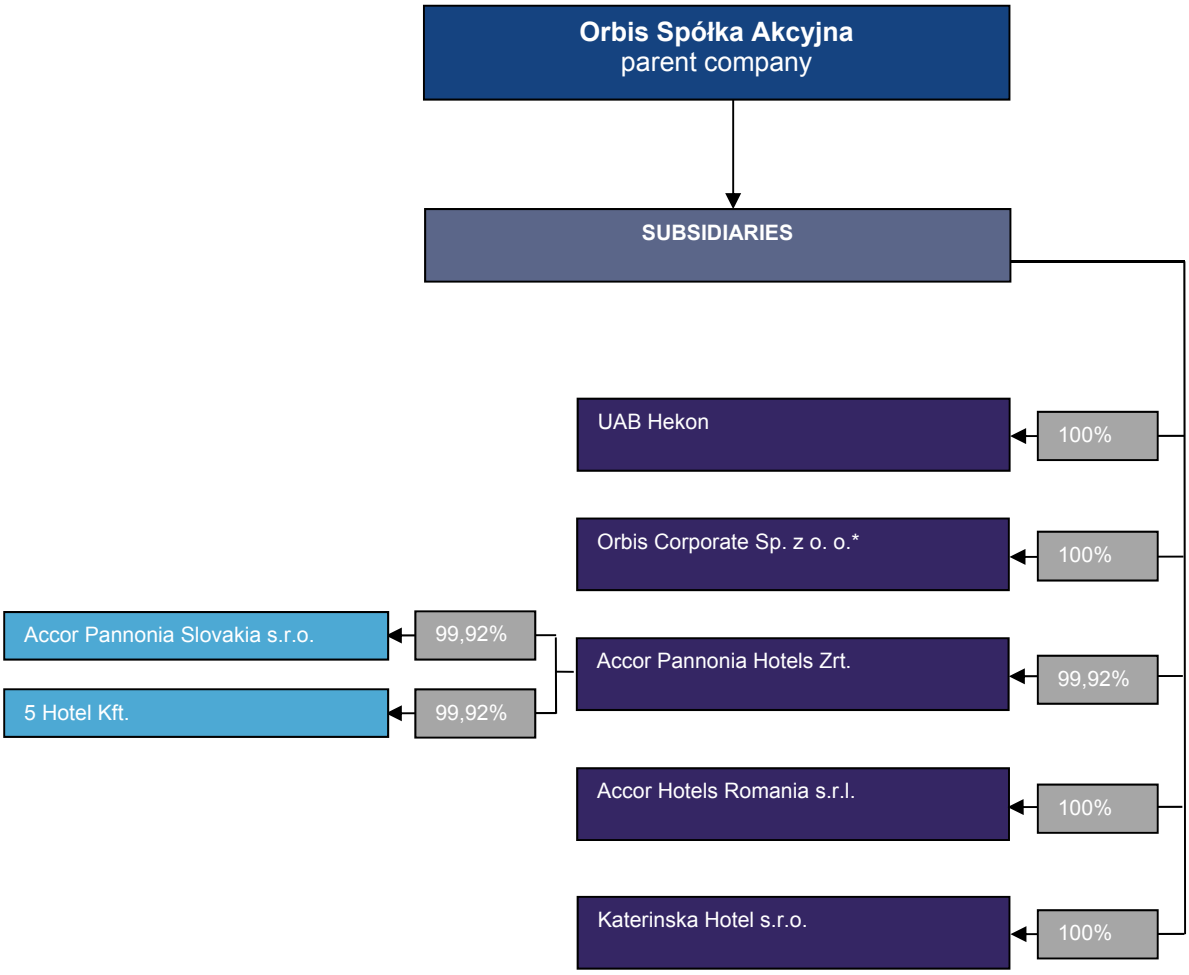
International standardised brand. Modern, simple design. Comfortable *Cocoon* rooms for 1-3 persons with shower and flat screen TV, Wi-Fi network and all-you-can-eat self-service breakfast buffet.

1.2 Structure of the Orbis Group and its Changes

The parent company of the Orbis Group is Orbis S.A. with its registered address in Warsaw, at 59 Złota Street, Warsaw, 00-120. The Company was established in the course of transformation of the State-Owned Enterprise Orbis (Przedsiębiorstwo Państwowe Orbis) on the basis of the Act of July 13, 1990, on Privatisation of State-Owned Enterprises (Official Journal "Dz.U." of 1990, No. 51 item 298, as further amended). On December 17, 1990, a notary's deed of transformation of the State-Owned Company Orbis into a single-shareholder company of the State Treasury was drafted (Notary's Deed Rep. A No. 1882/90). On January 9, 1991, the District Court for the Capital City of Warsaw, XVI Commercial Division, issued a decision on entering Orbis Spółka Akcyjna in the Commercial Register (RHB 25134). On June 28, 2001, the District Court for the Capital City of Warsaw, XIX Commercial Division of the National Court Register, entered Orbis Spółka Akcyjna in the Register of Business Operators.

Orbis Spółka Akcyjna is registered under the number KRS 0000022622 in the District Court for the Capital City of Warsaw, presently XII Commercial Division of the National Court Register (KRS). According to the Polish Classification of Business Activity [PKD], the Company's business operations are classified under section I, item 5510Z. The Company was assigned number 000046640 in the National Waste Database [BDO].

On December 31, 2019, the structure of the Orbis Group was as follows:



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

The information concerning operations of Orbis Group companies is presented in Section 1.3 of this Report.

Changes in the structure of the Orbis Group

On October 31, 2019, all shares held by Orbis in **Orbis Kontrakty Sp. z o.o.** with its registered address in Warsaw were sold to Accor Services Poland Sp. z o.o. as part of the sale of the asset light business in the form of an organized part of enterprise.

1.3 Companies of the Orbis Group

Operations in Poland

In Poland the hotel business is conducted by Orbis S.A.

As at December 31, 2019, the Group had 46 hotels with a total of 9 322 rooms on the Polish market. Cities with the largest number of hotels included:

- Warsaw – 12
- Wrocław – 7
- Kraków – 7
- Tricity – 7

Operations in Hungary

In Hungary, the Orbis Group has two subsidiaries:

- Accor Pannonia Hotels Zrt.
- 5 Hotel Kft.

The first of these companies is a hotel operator which as at December 31, 2019 operating 15 hotels (2 715 rooms), including thirteen hotels in Budapest.

The other company, which was acquired in 2017 by Accor Pannonia Hotels Zrt., is the owner of five hotel properties, which until the acquisition date were leased by the Hungarian subsidiary Accor Pannonia Hotels Zrt.

Operations in the Czech Republic

In the Czech Republic, the Orbis Group has subsidiary Katerinska Hotels s.r.o. which is a hotel operator.

As at December 31, 2019, the Group had 6 hotels with 1 147 rooms on the Czech market. Five hotels operate in Prague.

Operations in other countries

In other countries, the following subsidiaries are engaged in hotel business:

- Accor Hotels Romania s.r.l. with its registered address in Bucharest,
- Accor Pannonia Slovakia s.r.o. with its registered address in Bratislava,
- UAB Hekon with its registered address in Vilnius.

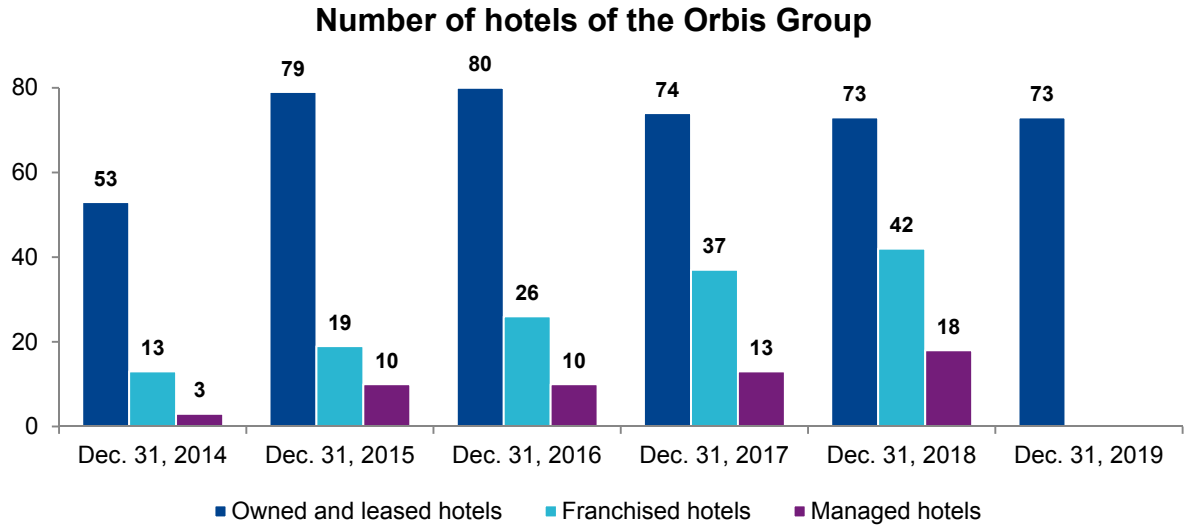
As at December 31, 2019, the network of Orbis hotels located in other countries of the region comprised:

- Romania: two hotels offering 352 rooms in total. Two of them operated in Bucharest,
- Lithuania: two hotels, operating in Vilnius, with a total of 323 rooms,
- Slovakia: two hotels located in Bratislava, with a total of 295 rooms.

The financial performance and operating ratios in individual countries are presented in Section 3.3.

1.4 Hotel Portfolio of the Orbis Group

The Orbis Group is the largest hotel operator in Poland and in the Central & Eastern Europe. At the end of December 2019, the Group's network comprised a total of 73 hotels with nearly 14.2 thousand rooms. The majority of these hotels (46 hotels) operate in Poland.



Hotel portfolio of the Orbis Group	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019/ Dec. 31, 2018
Number of hotels, of which:	**73**	**133**	**-45.1%**
Owned and leased hotels	73	73	-
Managed hotels	-	18	-100%
Franchised hotels	-	42	-100%
Number of rooms, of which in:	**14 154**	**21 675**	**-34.7%**
Owned and leased hotels	14 154	14 385	-1.6%
Managed hotels	-	2 658	-100%
Franchised hotels	-	4 632	-100%

Change in the number of franchised and managed hotels are the result of the divestment of the asset light business by the Group's companies on October 31, 2019, to companies of the Accor Group.

The sale transaction covered, in particular, all rights and obligations under the Master License Agreement executed by Accor and Orbis S.A. and Soluxury HMC and Orbis S.A. on January 7, 2015, based on which Orbis S.A. was the exclusive licensor of Accor brands in 16 countries of the Central and Eastern Europe until 2035. Hotel management and franchise agreements have also been sold as part of the transaction. As at the date of the transaction (October 31, 2019), 45 hotels with 4 908 rooms operated under franchise agreements, while 21 hotels with 3 138 rooms operated under management agreements.

At the same time, on October 31, 2019, Orbis entered into long-term management agreements with Accor which covered all the hotels owned or leased by Orbis and its subsidiaries. Hence, the cooperation with Accor, Orbis' strategic partner and shareholder of 20 years, continues. Furthermore, the transaction offers Orbis the opportunity to operate under any of all the 39 hotel brands in the Accor portfolio.

Following the divestment of the asset light business, the Group focuses fully on its core business, i.e. the asset heavy business.

Number of hotels in countries where the Group is operating per hotel brand as at December 31, 2019,

Number of hotels in the Orbis Group per country and per brand	Poland	Hungary	Czech Republic	Other countries
Sofitel	3	-	-	-
MGallery by Sofitel	-	-	1	-
Novotel	13	4	1	2
Mercure	8	3	1	2
ibis	13	6	3	2
ibis budget	8	-	-	-
ibis Styles	1	2	-	-
Total	**46**	**15**	**6**	**6**

1.5 Directions of the Orbis Group's Development

Following divestment of the asset light business, the Orbis Group can fully focus on its core business, i.e. the asset heavy business, which will be further developed through a number of investment schemes involving organic growth, acquisition of new real properties and modernization of existing buildings as well as development of new properties as part of expansion of hotel operations.

The development strategy of the Group's hotel network centres around its subsidiary hotels located in major destinations, i.e. 6 key urban centres of Poland (Warsaw, Kraków, Wrocław, Tricity, Poznań, Szczecin) and in the capital cities of all the countries where the Group operates. We currently operate hotels in 6 of these destinations (i.e. Warsaw, Budapest, Prague, Bucharest, Bratislava and Vilnius), furthermore, we have new hotels developments or acquisition of existing hotels in our pipeline.

We will be able to further strengthen our position as the hotel investor in the region if we pursue new projects to boost the attractiveness of our asset portfolio and constantly strive to maintain operational excellence. With future renovations, expansions, acquisitions and efficient property management we will remain a committed hotelier which is ready to offer our hotels at the standard expected from us by our guests and partners, in line with sustainable development (CSR) guidelines.

The Group's strategy also involves improvement of operational performance of its hotels through partnership with the Accor Group and leveraging long-term value for our investors, partners and associates. Collaboration with Accor gives Orbis the opportunity to operate under any of all the 39 hotel brands in the Accor portfolio, which is clearly the value added for further development of the hotel network.

Orbis relies on a team of highly experienced employees with in-depth expertise of the local environment and market opportunities in addition to our hotel teams, which have long been experts in the hospitality industry. We spare no effort to develop our talents and their careers with a view to ensure both guest satisfaction and sustainable development of our Group.

FACTORS IMPACTING THE GROUP'S OPERATIONS

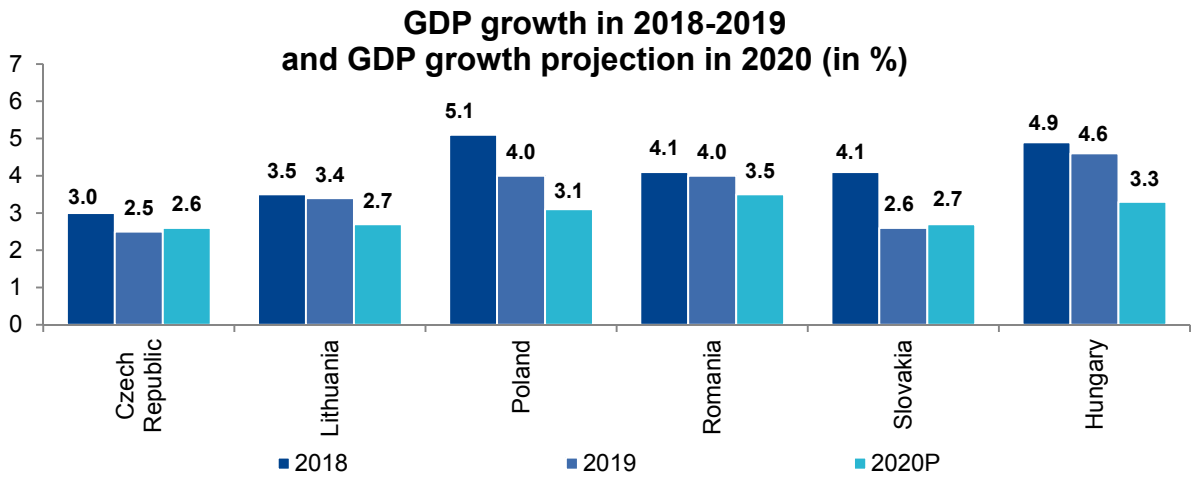
Sofitel Warszawa Victoria

2 FACTORS IMPACTING THE GROUP'S OPERATIONS

2.1 Macroeconomic Environment

Stabilised economic growth momentum

In 2019 we observed a weaker economic growth in countries where Orbis operates than in 2018, but the average growth still remains above 3.5%. The negative impact of the still underdeveloped industrial sector is offset by substantial salary & wage growths and record low unemployment rate, which boosts consumer spending. Economies of Central and Eastern European countries should remain strong, supported by a rising domestic demand that benefits from steady absorption of EU funds, favourable financing conditions and major salary & wage increases. However, negative signals coming from abroad should not be ignored. The slowdown in main export markets coupled with increasing domestic demand which strengthens imports is bound to exacerbate trade deficit in the future.



Source: International Monetary Fund (http://www.imf.org)

Manufacturing sector slowdown

After a very good year 2018, the manufacturing sector has slowed down slightly. In 2019, the PMI index which is the gauge of the economic conditions remained below 50 points in Poland and the Czech Republic (respectively 48.0 and 43.6 at the end of December 2019). The economy continues to grow robustly in Hungary where the PMI index remains at a positive level of 53.9 pts. at the end of December 2019. The economic trends in Europe also slowed down to below 50 pts. (Euroland's PMI was at the level of 46.3 at the end of December 2019).

Strong labour market

The difficult labour market, i.e. shortage of employees and the growing wage & salary dynamics is one of the main challenges for future business and growth. In most countries of the region, we are observing a significant decrease in unemployment as compared to the same period of the past year, which translates into one-digit unemployment rates. The unemployment rates in some economies at the end of the year reached their lowest ever levels (Poland - 5.2%, the Czech Republic – 2.9%, Romania – 3.0% and Hungary - 3.3%). Low unemployment and employee shortages compel employers to increase salaries significantly to attract and retain employees, which contributes to shrinking margins.

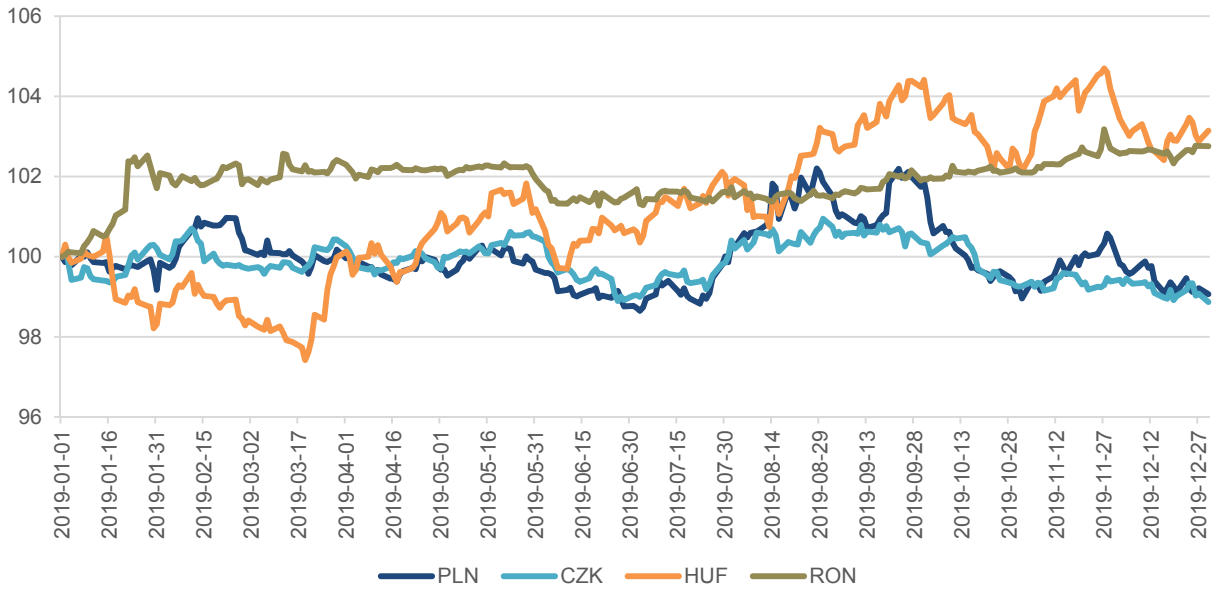
Inflation upsurge

At the end of 2019 we witnessed an inflation upsurge. In December, the inflation rate in Poland was at 3.4%, which is the top rate in 5 years. Inflation growth will be further driven by increased labour cost dynamics and relatively strong demand pressure in the coming quarters as well as high food and energy price growths. The CPI remains stable in other countries of the region. At the end of the year, inflation decreased to 0.8 in Hungary, while in the Czech Republic and Romania the CPI index was at 3.2% and 3.8% respectively.

Weakening at currencies market against the euro in recent months

At the end of 2019, most of regional currencies slightly lost in value against the euro due to growth slowdown across the whole region. In 2020, currencies of the countries where Orbis operates should remain largely stable against the euro thanks to the positive interest rates and differences in economic growth as compared to the euroland. The EUR/PLN exchange rate fluctuated around PLN 4.25, the EUR/CZK rate around CZK 25.50 and the rate of the Hungarian forint was around HUF 330. International tensions increased recently due to the attacks that took place between the US and Iran. The commodities market was first to react to this situation, including the gold and oil markets which where prices have gone up, yet currencies remained stable. The EUR exchange rate does not radically react to the continued conflict, as it has been following a downward trend for months now.

Currency rates against the euro
(rates as at January 1, 2019 = 100.0%)



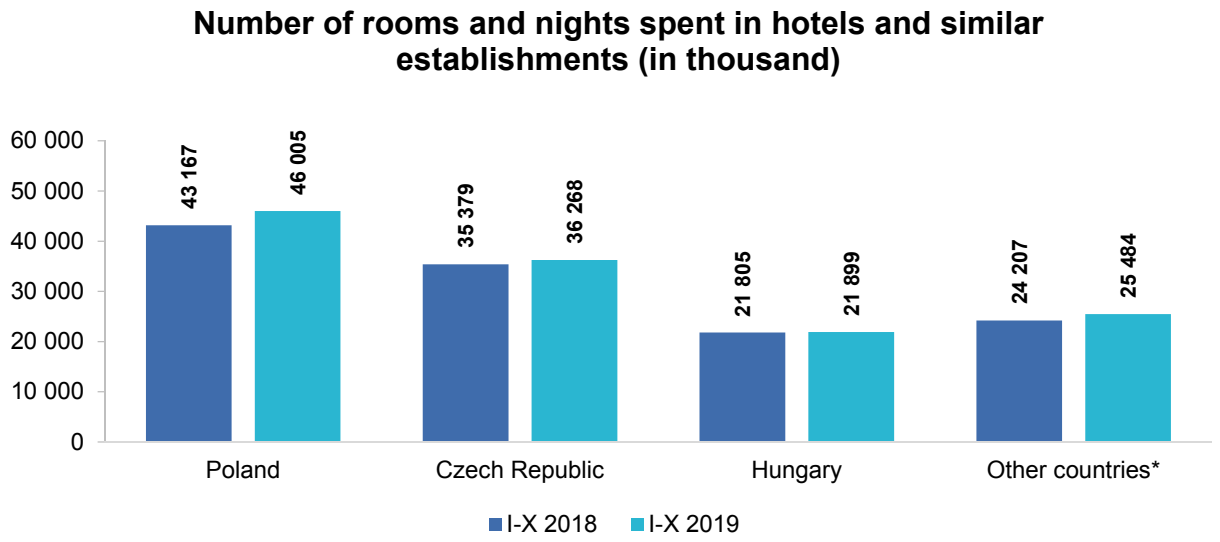
Source: Thomson Reuters

Forecasts herald growth rate deceleration

In the face of uncertain global environment, slowdown in the Euroland and growing supply constraints, the regional economy is expected to lose some of its momentum in 2020. Deceleration in labour markets will undercut consumer spending growth, which will nevertheless continue to run strong due to salary & wage increases. On the other hand, an unstable environment in the construction industry and limited inflows of EU funding will have a negative impact on further investment growths. Coupled with an unfavourable external environment and increasing restrictions on the supply side, slower pace of investments may restrain internal demand, which has been the driving force behind growth in recent years. In addition, deterioration of the economic environment of the main trading partners of the countries in the region and hard Brexit pose the main risk of the deteriorated prospects. The average economic growth in the Eastern European region is forecasted to reach +3.0% in 2020 and 2.7% in 2021.

2.2 Hotel Market – Continued Positive Trends

In 2019 we observed further growths in the hotel market, yet the momentum is no longer as strong as in the past years due to, on the one hand, a high past year's benchmark, but also due to stabilized economic situation.



** Other countries comprise Lithuania and Romania*

Source: Eurostat

In most countries where the Orbis Group operates, the growth was driven by the Average Room Rate (ARR). The Occupancy Rate was around the last year's level or slightly decreased. Among the cities where the Orbis Group's hotels are located, the highest increase in the Average Room Rate compared to the past year was reported in Bucharest (+9.9%), Budapest (+5.1%) and Wrocław (+4.5%). Bucharest also achieved the highest RevPAR increase (+9.3%). In Poland, the highest increases were achieved by Wrocław hotels (+7.3% RevPAR growth). The highest revenue decreases have been observed in Poznań and Vilnius (-8.3% and -6.0% respectively).

2.3 Risk Areas

The Orbis Group is exposed to a number of risks that may adversely impact its business, financial standing, operations as well its brands and reputation.

Acting jointly with the Supervisory Board, the Company's Management Board regularly analyses the market environment and risk factors to which Orbis S.A. is exposed. New projects and significant transactions in the pipeline are subject to a detailed analysis. In the case of change of legal regulations, the Orbis Group companies adjust their operations accordingly.

An internal control system and risk management system have been implemented in the Orbis Group. The Orbis Management Board monitors the risks arising in the rapidly evolving external environment in order to eliminate threats to the Company's and Group's business and their financial standing.

Basic risks that may, should they transpire, have a major impact on the Group's operations have been presented below. Apart from the risks listed in this Chapter, the Group is also exposed to financial risks presented in the Consolidated Financial Statements of the Orbis Group for 2019 (Note 29.2).

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

The condition 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 people 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,
- appreciation of the local currency that reduces attractiveness of the country for foreign tourists,
- reduction in 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.

Competition risk

The hotel industry is a highly competitive market. From one year to another new hotels have been opening in the 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 also compete in 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.

Risk related to cooperation with travel agents

The objective of the Orbis Group is to sell through traditional channels and the AccorHotels website. However, nowadays customers regularly use the websites of on-line travel agencies. Some of these major intermediaries develop their own loyalty programmes for their booking systems. In case of a considerable rise in the level of sales via On-line Travel Agencies (OTAs), Orbis Group's revenue may suffer substantially.

Reputational risk

Brands under which hotels of the Orbis Group operate and their reputation are among the Group's most important assets. Attracting and maintaining customers depend on the standard and quality of services and applying 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 abovementioned 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.

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 parent company has an internal compliance system and the Legal Department is in charge of its daily operation. As part of the compliance system, the compliance of Group companies with the applicable regulations is monitored above anything else. The practical application of the compliance system specifically covers analysing changes in legal regulations as well as their potential impact on the operations of the Group and taking actions to prepare the Orbis Group companies for material legislative changes. Furthermore, the compliance system involves drafting (templates of) contracts and internal documents of the Group, expressing opinions thereon as well as issuing interpretations as regards applicable legal regulations and explaining doubts concerning practical application of certain legal regulations reported or identified in the course of Group companies' operations.

2.4 The Non-Financial Report

According to Article 49b of the Accounting Act, the Orbis Group presented non-financial report for 2019 (separate and consolidated).

The preparation of the consolidated non-financial report of the Orbis Group and the separate non-financial report of Orbis S.A. is supervised by the Vice-President of the Management Board in charge of corporate affairs. The Investor Relations Manager at Orbis S.A. is responsible for the preparation of the separate and the consolidated non-financial reports.

The non-financial report of the Orbis Group have been prepared in accordance with the GRI international non-financial reporting standards (Global Reporting Initiative) and is available at the Company's website in category Investor Relations, in the Non-Financial Reports (http://www.orbis.pl/en/investor-relations/non-financial-reports) section.

2.5 Factors to Affect the Orbis Hotel Group's Operations in 2020

Economic trends

The hotel market is strongly correlated with macroeconomic trends. In 2019, the economic growth in the region of the Eastern and Central Europe is weaker than a year ago, but the average growth still remains above 3.5%. According to the projections of the International Monetary Fund, the real GDP growth in 2020 in those countries where the Orbis Group has its subsidiary hotels will be at 3.0%. The macroeconomic forecasts for the coming months are therefore satisfactory for the hospitality industry, however, growths may be not as spectacular as in the past years.

Competition increase on the hotel market

Favourable economic conditions boost investments in the hotel market, thus contributing to opening of new hotels. In recent years, hotels have developed from alternative investment assets into fully-fledged investment products. As the hotel market in Central and Eastern Europe has entered its mature market phase, a greater variety of investors can also be observed in the market. Global investors and international hotel chains are particularly active on the market. Developers who so far have focused on office space or retail markets, have also started to build hotels. The investor profile is changing as well. The share of private investors is diminishing in favour of institutional and stock exchange investors. Institutional investors are interested in implementing their long-term investment strategies, therefore, they focus on assets that generate a stable income. This in turn triggers changes in the structure of hotel operations in the region. Specifically, new hotels are increasingly reliant on long-term lease agreements as the basis for their operations.

In addition to the increasing investor diversification, a greater variety of hotel brands is present on the hotel market as well. New hotel brands are particularly visible in tourist destinations, where private investors have so far been predominant.

The supply of rooms in large cities is expanded quite intensively with private apartments for rent, short-term accommodation offered by real property rental agents and non-classified facilities, such as aparthotels and condohotels, which compete with classified hotels for tourist guests.

Challenging labor market

Low unemployment rate, lack of qualified staff in the market and the consequent problems with finding the right employees continue to pose a challenge for (not only) the hospitality industry. Hotels are not only struggling with difficulties to attract, but also to retain properly qualified staff. At the moment we still have an employee market, which is reflected in an increased staff turnover rate and wages & salaries growth. The intensification of the employee market is observed not only on the market in Poland, but also on foreign markets where the Orbis Group focuses its operations (among others in Hungary and in the Czech Republic).

Extended investment process

Problems associated with the employee market also affect the investment process. Shortage of labour force resulted in a significant increase in the wage costs in the construction industry, and, combined with rising prices of building materials and increasing prices of land, translated into an increase in the costs of construction and extension of the whole process in time. In order to remain a hotel investor with a strong market position, the essential step will be to carry out new investment projects boosting the attractiveness of the asset portfolio.

Dependence on purchasing power

A factor that has a positive impact on the hospitality industry performance is the noticeable improvement in the affluence of population in the region which translates into their purchasing power. A higher income level boosts the propensity to travel, which is becoming an integral part of lifestyle. The propensity to travel is also heartened by cultural and sporting offer of various cities. Further stable growth in the number of travellers, including business customers, will help to balance the demand and supply in the accommodation services market in the long run.

Growing customer expectations

As income levels go up, guest expectations as to the standard and variety of service offered also rise. Given the shifting consumer trends and accommodation concepts, the boundaries between traditional hotel categories are less and less obvious. Likewise, differences between hotels offering long-term and short-term stays are becoming less and less pronounced. In the past, hotels boasting the latest architectural trends, diverse food and beverage services and open space were considered luxury hotels. At present, these features are already present in various hotel categories. This poses further challenges for the hospitality industry, if it is to retain its competitive edge against the backdrop of increasing number of accommodation facilities.

Effective portfolio management and long-term strategy

Asset management and expansion of the Group's hotel portfolio is an important pillar of our strategy. The Group continues its efforts aimed at boosting its market share and focusing investments in key markets of the region. The remaining hotels belonging to the Group undergo successive modernizations with a view to adapt the hotel space to the requirements of modern tourists. At the moment the Group carries out renovations in key locations, which is expected to ensure high returns on investment in the coming periods.

In order to optimise its hotel portfolio, the Group focuses on highly profitable investments. In 12 months of 2019, the sale of the ibis budget Toruń hotel was finalised and the neighbouring real property with an unfinished hotel building was sold.

Strategic transformation of Orbis Group as the answer for hospitality industry challenges

In view of its new, balanced structure of the hotel network, the Company has analysed organizational adjustments in order to focus on relations with guests and business partners and decided to split its business model into hotel operating business and real property based business. By divestment of its light asset Orbis will be able to focus on its core business that involves hotel real property, i.e. which will be further developed through a number of investment schemes involving organic growth, acquisition of new real properties and modernization of existing buildings as well as development of new properties as part of expansion of hotel operations. Following the divestment of the asset light business, Orbis is the leading hotel owner in Poland and in the Eastern Europe (with 73 subsidiary hotels).

FINANCIAL RESULTS OF ORBIS GROUP

Mercure Kraków Stare Miasto

3 FINANCIAL RESULTS OF ORBIS GROUP

3.1 Major Events of 2019

Decision on division of business lines into a service activity (asset light) and activity related to ownership of real properties (asset heavy), disposal of the service activity and focusing on the asset heavy part of the business

On the basis of the carried out analysis, on May 17, 2019, the Management Board of Orbis S.A. decided about the division of the entire Orbis Group's business into the service ("asset light") part covering provision of services for hotels on the basis of franchise and management agreements and the real estate ("asset heavy") part involving possession of hotel real properties. Moreover, on May 29, 2019, the Management Board of Orbis S.A. took the decision to dispose of the service activity (franchise and management agreements) of Orbis and companies belonging to the Orbis Group ("asset light" business).

On June 12, 2019, Orbis signed a non-binding Head of Terms with Accor S.A., in which the parties agreed the key terms and conditions of the planned disposal, by Orbis to Accor Group's subsidiaries, of the entire asset light business and entry into long-term hotel management agreements under which Accor's subsidiaries will manage all hotels owned and leased by Orbis and its subsidiaries ("Asset Light Business"). The price to be paid by Accor for the purchase of the Asset Light Business amounts to PLN 1 218 360 thousand.

On June 24, 2019, Orbis S.A. obtained the fairness opinion prepared by Deloitte Advisory spółka z ograniczoną odpowiedzialnością sp. k., which stated that the price of PLN 1 218 360 thousand for the disposal of the Asset Light Business to Accor S.A. was within the fair market value range. The valuation of the Asset Light Business was prepared on a debt-free, cash free basis as at December 31, 2018. The fair market value refers in general to the amount at which the Asset Light Business would change hands between a willing seller and a willing buyer when neither is under compulsion and when both have reasonable knowledge of the relevant facts.

Moreover, on June 12, 2019, Orbis received a valuation report of all hotels owned and leased by Orbis and its subsidiaries ("asset heavy"). According to the report based on the discounted cash flow method, a total gross asset value of the above hotel portfolio amounts to approx. EUR 1.13 billion, considering that the valuation does not take into account overhead costs related to hotels operations which is budgeted by the Company at a total of approx. EUR 11 million a year. In addition, Orbis is also the owner of other non-hotel properties, the total value of which has been assessed at approx. EUR 50 million. The above valuations were performed by reputable independent appraisers that specialize in hotel properties.

Conclusion of an agreement for the sale of entire hotel service business (asset light business)

On September 17, 2019, Orbis S.A. with its selected subsidiaries concluded with Accor S.A. and its selected subsidiaries an agreement for the sale of the entire hotel service business carried on directly by Orbis S.A. in Poland (the so-called "Services Department") and, indirectly through its indvidual subsidiaries in Hungary, Romania, the Czech Republic and Lithuania.

On October 18, shareholders of Orbis S.A. expressed their consent for the sale of an organised part of the enterprise in the form of the Services Department.

As a result, on October 31, 2019, the entire hotel service business (so-called asset light business) was sold by Orbis S.A. and its selected subsidiaries ("Sellers") to subsidiaries of Accor S.A. ("Purchasers") for a total net amount of PLN 1 218 360 thousand, of which a net amount of PLN 579 624 thousand was due to Orbis S.A. directly. The agreed price was paid by the Purchasers on the day of the sale.

The sale transaction included in particular the following: (i) all tangible and intangible assets, liabilities belonging to, or functionally or organizationally related to, the services, including any and all rights and obligations arising under license agreements, management and franchise agreements, receivables and liabilities, employees and any other rights and obligations related to the services provided by Orbis S.A. and its subsidiaries to hotels under franchise and management agreements, and (ii) the conclusion of long-term management agreements under which Accor S.A. with its selected subsidiaries would manage all of the hotels owned or leased by Orbis S.A. and its subsidiaries.

The transaction involved, among others, a direct sale by Orbis S.A. of an organised part of the enterprise separated as the Services Department and the service business carried on through it in Poland, for the price equal to PLN 579 624 thousand. The sale of the Services Department in particular encompassed the following:

- any and all rights and obligations arising under the Master License Agreement made between Accor and Orbis S.A. on January 7, 2015 and under any additional agreements made in connection therewith;
- any and all rights and obligations arising under the Soluxury Master License Agreement made between Soluxury HMC and Orbis S.A. on January 7, 2015 and under any additional agreements made in connection therewith;
- any and all rights and obligations arising under the hotel management agreement and the franchise agreements, as well as under any other agreements functionally related to the activities of the Services Department;
- assets functionally related to the service activities of the Services Department;
- specialist software and applications functionally and organizationally related to the activities of the Services Department;
- receivables and liabilities functionally and organizationally related to the activities of the Services Department;
- employees employed in the Services Department, as well as rights and obligations under the employment contracts concluded with such employees;
- all shares in Orbis Kontrakty sp. z o.o.

The purpose of the transaction involving the sale of the Services Department and the service business is to enable Orbis S.A. and its subsidiaries to focus their strategy and operations on the real property part of their business which is being successfully developed through a range of investment programs: organic growth, acquisition of new buildings and modernization of those already held, as well as development of new facilities as part of the development of the hotel operations.

Signing of the Company's share purchase agreement by the majority shareholder of Orbis - Accor S.A. and AccorInvest Group S.A.

On December 16, 2019, the majority shareholder, Accor S.A. and AccorInvest Group S.A, signed a binding share purchase agreement in respect of 85.8% of shares in Orbis' capital stock at the price of PLN 115 per one share. The sale of Orbis' shares by Accor S.A. will be conducted in the form of a public tender offer to be launched in respect of all of the Issuer's shares also at PLN 115 per one share in Orbis' share capital. As per information received from Accor S.A., Orbis' shares purchase transaction is expected to be executed by the end of Q1 2020.

Real properties sale transactions:

Sale of non-hotel real property in Wrocław

Performing the conditional sale agreement of December 20, 2018, on February 1, 2019, Orbis S.A. transferred the ownership title to a non-hotel property located in Wrocław, including the right of perpetual usufruct of land, buildings and facilities, to a developer company against the originally agreed net price of PLN 44 000 thousand.

Execution of a contract of sale of the ibis budget Toruń hotel and the neighbouring real property with an unfinished hotel building

On February 28, 2019, Orbis S.A. and Cube Sp. z o.o. executed the final sale agreement of an organised part of the enterprise in the form of the ibis budget Toruń hotel located in Toruń for a net price of PLN 6 450 thousand. Moreover, on December 19, 2019, the final sale agreement of the the neighbouring real property with an unfinished hotel building for a net price of PLN 4 550 thousand was executed with the same buyer. Accordingly, the total net price obtained by Orbis for the sale of both properties amounted to PLN 11 000 thousand, in line with the original agreement between the parties.

Sale of a non-hotel real property in Szczecin

On March 14, 2019, Orbis S.A. executed a sale transaction of a non-hotel real property including the rights of perpetual usufruct together with an office building and 2 non-residential buildings located in Szczecin, for a net price of PLN 3 700 thousand.

Closing of the sale transaction of the former Giewont hotel in Zakopane

On April 3, 2019, in accordance with the preliminary sale and purchase agreement executed in 2012, Orbis S.A. sold the right of perpetual usufruct of land and the building of the former Giewont hotel in Zakopane. The execution of the final sale and purchase agreement was conditional upon Orbis obtaining entry into the land and mortgage registers of the title to the real properties owned by Orbis S.A. (including the right of perpetual usufruct of land plots on which the former Giewont hotel is located). This condition was fulfilled in 2019. As a result, the amount of PLN 10 928 thousand of the advance payment received in the past years and not settled until the date of transaction was recognised in the Group's income statement under the Result on sale of real property item.

Sale of a non-hotel real property in Szczecin: part of the site of the former Arkona hotel

On December 3, 2019, in performance of the conditional sale agremeent of November 15, after the City of Szczecin chose not to exercise its statutory right of pre-emption, Orbis S.A. concluded an agreement transferring the rights of perpetual usufruct of plots of land located in Szczecin, at ul. Panieńska, with the right of ownership of the unfinished builsing situated on these plots (which the purchaser allocated for housing purposes), which building was erected up to K1 floor by Orbis on these plots pursuant to the General Contractor Agremeent. The net price of the right of perpetual usufruct and the right of ownership of the unfinished building situated on residential properties was PLN 4 484 thousand. Additionally, Orbis S.A. recognised a total of PLN 37 thousand as revenue from sale of copyright in the design of the building being erected on residential properties and as participation in the costs of the construction site.

3.2 Financial Results of the Orbis Group

In 2019, the operating EBITDA of the Orbis Group on the continuing operations amounted to PLN 509.2 million, i.e. was by 12.3% higher as compared to the figures of 2018. On the other hand, profit before tax went down by 28.3% to PLN 283.4 million due to lower results from one-off events and lower result from financing activities.

Income statement – analytical approach	2019	2019 without IFRS 16 impact	2018*	change (%) 2019/2018	change (%) 2019 without IFRS 16 impact/ 2018
Net sales	1 455 296	1 455 296	1 401 004	3.9%	3.9%
Net sales „like-for-like"	*1 419 618*	*1 419 618*	*1 357 738*	*4.6%*	*4.6%*
EBITDAR	520 928	507 905	511 144	1.9%	-0.6%
Operating EBITDA	509 184	447 684	453 420	12.3%	-1.3%
EBITDA „like-for-like"	*499 111*	*437 611*	*443 325*	*12.6%*	*-1.3%*
Operating profit (EBIT) without the effects of one-off events	286 936	269 513	282 831	1.5%	-4.7%
Operating profit (EBIT)	329 193	309 374	411 427	-20.0%	-24.8%
Net result from financing activities	*(45 841)*	*(23 479)*	*(16 366)*	*180.1%*	43.5%
Profit before tax	283 352	285 895	395 061	-28.3%	-27.6%

Income statement – analytical approach	4th quarter of 2019	4th quarter of 2019 without IFRS 16 impact	4th quarter of 2018*	change (%) 2019/2018	change (%) 4th quarter of 2019 without IFRS 16 impact/ 4th quarter of 2018
Net sales	364 959	364 959	346 231	5.4%	5.4%
Net sales „like-for-like"	*357 395*	*357 395*	*345 796*	*3.4%*	*3.4%*
EBITDAR	117 135	113 928	127 289	-8.0%	-10.5%
Operating EBITDA	114 286	98 804	111 846	2.2%	-11.7%
EBITDA „like-for-like"	*112 212*	*96 730*	*111 615*	*0.5%*	*-13.3%*
Operating profit (EBIT) without the effects of one-off events	56 109	51 795	66 176	-15.2%	-21.7%
Operating profit (EBIT)	57 645	58 569	64 295	-10.3%	-8.9%
Net result from financing activities	(9 268)	(6 712)	(1 189)	679.5%	464.5%
Profit before tax	48 377	51 857	63 106	-23.3%	-17.8%

** Amounts restated in application of IFRS 5*

In 2019, the net sales of the Group totalled PLN 1 455.3 million as compared to PLN 1 401.0 million in 2018.

Taking into account the change in number of hotels in Group portfolio resulting from sale of hotels in 2018 (Sofitel Budapest Chain Bridge, Novotel Szeged, ibis Plzen, Mercure Cieszyn and ibis Styles Bielsko-Biała), **the like-for-like revenues** totalled PLN 1 419.6 million, i.e. **increased by 4.6% as compared to the data for 2018.**

The room revenue increased thanks to average room rate (ARR) growth by 4.6% and an increase in the occupancy rate (by 0.6 p.p.), producing a 5.5% increase in the RevPAR (like-for-like). This increase was reported in most markets where the Group operates. The highest RevPAR increase was reported in the Upscale (in particular Luxury) hotel segment, with the Sofitel Warszawa Victoria hotel contributing substantially to the growths thanks to earlier modernization works as well as pricing policy launched in the MICE and individual guest segment.

Room revenues also grew significantly (RevPAR increase by 6.3%) in the Midscale hotel segment, which is the Group's growth driver, particularly in the markets of Budapest, Warsaw, Wrocław and Kraków.

In addition, the Group reported a solid food&beverage revenue growth (i.e. 3.0%), which is a significant segment of hotel operations. Increase in the number of guests in the MICE segment, attractive restaurant products and increased sales of breakfasts had contributed greatly to this effect.

Operating ratios of owned hotels by main category	2019	2018	change (%)	2019	2018	change (%)
	as reported			like-for-like		
Orbis Hotel Group						
Occupancy rate (%)	73.7	73.2	0.5 p.p.	74.3	73.7	0.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	268.7	259.2	3.7%	270.4	258.4	4.6%
Revenue per Available Room (RevPAR) in PLN	198.0	189.8	4.3%	201.0	190.5	5.5%

Operating ratios of owned hotels by main category	4th quarter of 2019	4th quarter of 2018	change (%)	4th quarter of 2019	4th quarter of 2018	change (%)
	as reported			like-for-like		
Orbis Hotel Group						
Occupancy rate (%)	72.6	71.6	1.0 p.p.	72.9	71.8	1.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	263.4	255.7	3.0%	264.8	256.2	3.4%
Revenue per Available Room (RevPAR) in PLN	191.2	183.0	4.5%	193.1	183.9	5.0%

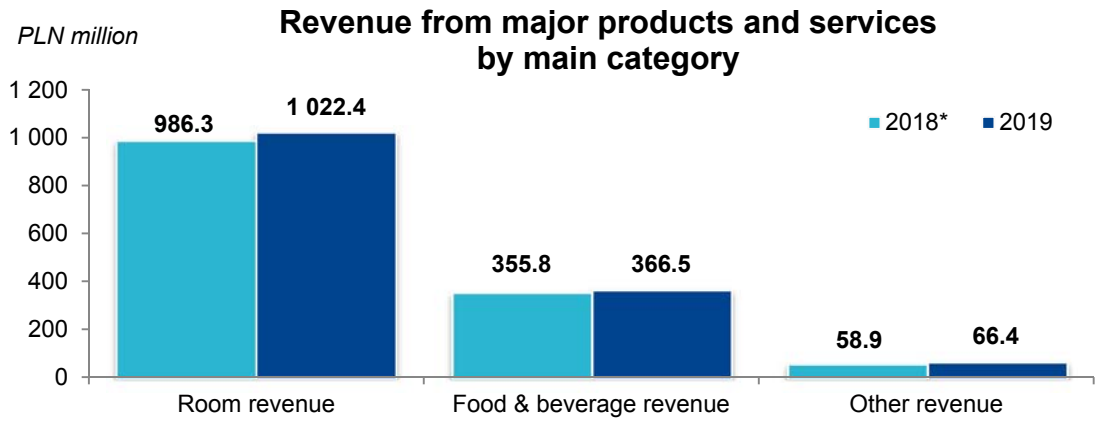
A detailed list of the Orbis Group's operational ratios for 2019 and for Q4 2019 from various angles was attached as Appendix No. 1 to this Report.

There were no significant changes in the **structure of Group's revenue** from major products and services versus 2018. During 12 months of 2019, room revenue totalled PLN 1 022.4 million, which accounted for 70.3% of all the Group's revenues. The room revenue remained at the similar level as compared to the last year.

Food and beverage revenue stood at PLN 366.5 million and accounted for 25.2% of consolidated revenues. The share of the food and beverage revenue in the Group's revenues remained at the past year's level (25.4%).

The other revenue, which is mainly derived from lease of property and car park spaces totalled PLN 66.4 million in 2019, which accounted for 4.5% of consolidated revenue (4.2% in the past year).

In 2019 and 2018, the structure of revenue from major products and services of the Orbis Group was as follows:



** Amounts restated in application of IFRS 5*

Operating expenses of Orbis Group (including rental expense and depreciation/amortisation) totalled PLN 1 167.9 million in the reporting period, i.e. grew by PLN 48.6 million (4.3%) as compared to the corresponding period of 2018. The biggest increases were reported in the costs of outsourced services (by PLN 26.7 million), including mainly travel agency commissions as well as the costs of cleaning and outsourcing services, costs of energy used (by PLN 20.3 million) and employee benefits (by PLN 6.1 million) due to salary and wage increases triggered by inflationary pressure, introduction of employee capital plans (PPK) and increase of costs related to staff turnover.

Compared to the corresponding period of 2018, costs of taxes and charges and property rental decreased to the greatest extent (by PLN 10.7 million and PLN 46.0 million, respectively) which is the result of IFRS 16 implementation (before the implementation of the new standard, taxes and charges item included fees for the perpetual usufruct of land while costs of property rental included the fees for lease of offices and hotels). The implementation of IFRS 16 also caused the increase in depreciation and amortisation and financial costs. The cost of depreciation and amortisation of right-of-use assets amounted to PLN 48.5 million in the 12 months of 2019. Financial costs from interests on lease liabilities totalled PLN 21.1 million.

Despite the costs' increase, **operating EBITDA grew by 12.3% up to PLN 509.2 million**, while **the operating profit without one-off events totalled PLN 286.9 million**, i.e. was by 1.5% higher than in the corresponding period of the past year.

In the reported period, Orbis Group generated a positive result on one-off events amounting to PLN 42.3 million. This is mainly the effect of sale of the following real properties: non-hotel property in Wrocław (PLN 41.4 million), real property in Zakopane (PLN 9.4 million), two non-hotel properties in Szczecin (PLN 5.6 million) and ibis budget hotel in Toruń with the neighbouring real property with an unfinished hotel building (PLN 1.1 million).

In addition, expenses related to revaluation of non-current assets (PLN 10.4 million) and resulting from one-off events were recognized, including mainly impairment loss on the right to use the hotel in Wrocław (PLN 5.8 million), expenses related to the split of Group companies into "asset light" and "asset heavy" (PLN 2.5 million), restructuring costs (PLN 2.3 million), costs associated with the launch of the leased MGallery Prague hotel buy-out transaction and costs of arbitration proceedings commenced in connection with this buyout (PLN 1.7 million) and costs of liquidation of tangible assets in Hungary (PLN 1.2 million).

On the other hand, high result from one-off events in the past year (PLN 128.6 million) was the result of the sale transaction of the: Sofitel Budapest Chain Bridge hotel, the Novotel Szeged hotel, the Mercure Cieszyn hotel, the ibis Styles Bielsko-Biała hotel, the ibis Plzen hotel and non-hotel real property located in Karpacz and Warsaw. Furthermore, the Group also recognized the revenue in connection with impairment reversal related to hotel in Czech Republic.

As a result of the above described changes, the Group generated an **operating profit (EBIT) of PLN 329.2 million** during 12 months of 2019 compared to PLN 411.4 million last year.

Due to IFRS 16 implementation, in the period of 12 months of 2019, the Group reported an increase in financial costs as compared to the corresponding period of the past year. The interests on lease liabilities accrued in 12 months of 2019 amounted to PLN 21.1 million. Accrued interests and debt service costs related to bond issue remained at a comparable level. Additionally, higher financial costs were also attributable to interests paid on tax liabilities (PLN 7.6 million) and negative foreign exchange on valuation of transactions in foreign currencies. On the other hand, the increase in financial income was mainly attributable to higher interest on deposits. As a result of these changes, the loss on the financial activities of the Group in 2019 amounted to PLN 45.8 million as compared to PLN 16.4 million in 2018.

Orbis Group closed 2019 with a **net profit on continuing operations of PLN 230.7 million** as compared to the profit of PLN 341.0 million in the corresponding period of 2018.

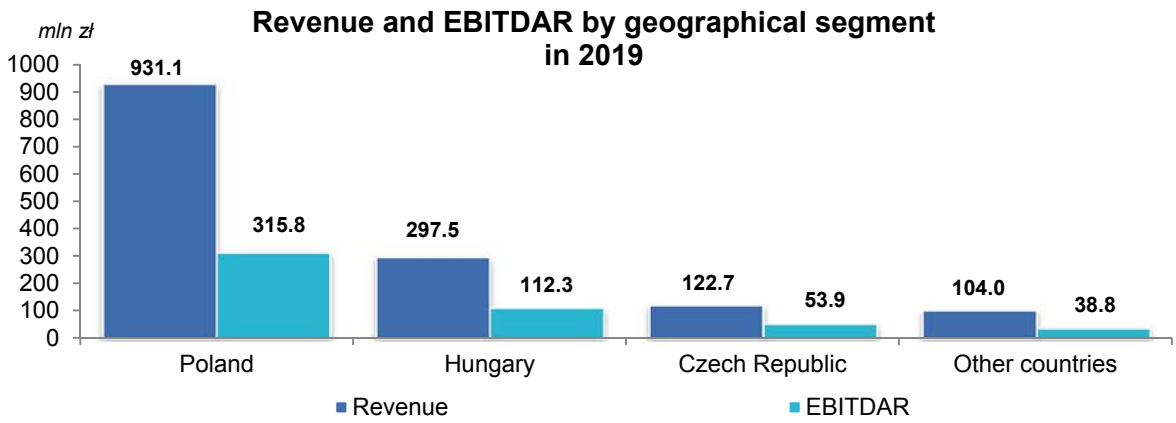
Revenues from the asset light business, i.e. revenues from management agreements, franchise agreements and direct costs related to services provided by Orbis S.A. and its subsidiaries to managed or franchised hotels as well as costs related to procuring new contracts under the asset light model were recognized under **discontinued operations** in the reporting periods. Moreover, discontinued operations also included revenues earned from Orbis Kontrakty Sp. z o.o. The result of discontinued operations does not include costs of the entity related to asset light operations (including, for example, costs of sales, distribution and revenue management) which will continue to be incurred by the Group in accordance with the management agreement executed with Accor S.A. after the discontinued operations are disposed of.

The Group's result on the sale of asset light business on October 31, 2019, in the amount of PLN 1 194.5 million was calculated as sales (PLN 1 222.7 million) plus disposed provisions and liabilities and minus sold assets (including associated goodwill) and additional costs associated with the disposal (including costs of legal services, tax consulting and costs of valuations of the asset light business). Reconciliation of the asset light business sale transaction is presented in Note 7 to the 2019 consolidated financial statements of the Orbis Group.

Following the recognition of the result on discontinued operations (profit of PLN 1 027.9 million), the Orbis Group closed the year 2019 with **a net profit of PLN 1 258.6 million.**

3.3 Financial Results Across Geographical Segments

Across geographical segments, the highest share to the Group's net sales was contributed by hotels located in Poland (64.0%) and in Hungary (20.5%). Net sales generated by hotels located in the Czech Republic and in other countries accounted for, respectively, 8.4% and 7.1% of consolidated sales.



Poland

Financial results (in PLN million) and operating ratios of owned hotels located in Poland	2019	2018*	% change
Net sales	931.1	884.2	5.3%
EBITDAR	315.8	300.0	5.3%
Operating EBITDA	315.8	292.4	8.0%
EBIT without the effects of one-off events	177.0	165.3	7.1%
Capital expenditure	131.5	194.6	-32.4%
Occupancy Rate (%)	71.9	71.4	0.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	261.2	252.2	3.6%
Revenue per Available Room (RevPAR) in PLN	187.9	180.1	4.3%
Clients: Business	60.1%	61.5%	-1.4 p.p.
Clients: Leisure	39.9%	38.5%	1.4 p.p.

** Amounts restated in application of IFRS 5*

Hotels operating in Poland generated net sales of PLN 931.1 million, which constitutes 64.0% of the consolidated sales for 2019. Polish hotels reported a 5.3% sales growth as compared to the corresponding period of the past year.

The hotels operating in Poland reported a **growth of the Average Room Rate (ARR) by 3.6% like-for-like** in 2019 (with the Occupancy Rate at the similar level), which resulted in the growth of the Revenue per Available Room (RevPAR) by 4.3%. The growth momentum was maintained, in the Up&Midscale hotel segment in the Warsaw market, especially among MICE guests. The Kraków and Tricity markets recorded significant revenue increases due to the growth in the number of individual guests in the business and tourism segments. Wrocław hotels also reported a significant revenue increase.

Hungary

Financial results (in PLN million) and operating ratios of owned hotels located in Hungary	2019	2018*	% change
Net sales	297.5	306.3	-2.9%
EBITDAR	112.3	122.8	-8.6%
Operating EBITDA	112.3	105.4	6.5%
EBIT without the effects of one-off events	66.6	78.5	-15.2%
Capital expenditure	52.2	55.1	-5.3%
Occupancy Rate (%)	77.7	77.1	0.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	273.8	263.5	3.9%
Revenue per Available Room (RevPAR) in PLN	212.8	203.3	4.7%
Clients: Business	41.0%	43.7%	-2.7 p.p.
Clients: Leisure	59.0%	56.3%	2.7 p.p.

** Amounts restated in application of IFRS 5*

Hotels in Hungary generated operating revenues of PLN 297.5 million, accounting for 20.5% of Orbis Group's consolidated revenues. From May 2018, portfolio of hotels in Hungary decreased by Sofitel Budapest Chain Bridge and Novotel Szeged. In terms of comparable perimeter, hotels operating in Hungary reported increase in sales, including an increase of the RevPAR by 9.1% (like-for-like) despite a slightly lower Occupancy Rate (decrease by 0.6 p.p.) caused by limited availability of hotel rooms due to modernization works. Those hotels in which the Group has invested significant capital expenditure and which implemented an effective pricing policy managed to achieve the best performance.

The highest growth was recorded by hotels from both MICE and individual guests (especially foreign guests) segments, with respect to whom a very pro-active pricing policy was implemented.

The Czech Republic

Financial results (in PLN million) and operating ratios of owned hotels located in the Czech Republic	2019	2018*	% change
Net sales	122.7	121.1	1.3%
EBITDAR	54.0	54.6	-1.1%
Operating EBITDA	53.9	40.3	33.7%
EBIT without the effects of one-off events	28.7	27.8	3.2%
Capital expenditure	4.2	5.6	-25.0%
Occupancy Rate (%)	77.1	75.6	1.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	307.0	289.5	6.0%
Revenue per Available Room (RevPAR) in PLN	236.7	218.9	8.1%
Clients: Business	45.3%	45.4%	-0.1 p.p.
Clients: Leisure	54.7%	54.6%	0.1 p.p.

** Amounts restated in application of IFRS 5*

In 2019, revenues generated by hotels located in the Czech Republic amounted to PLN 122.7 million (8.4% of the total revenues of the Group). The Czech hotels reported a slight increase in room revenue despite smaller hotel portfolio (ibis Plzen was sold in August 2018). The highest growth was achieved by hotels in the Czech Republic in the fourth quarter, largely as a result of pro-active pricing policy amongst guests in the tourist segment.

Other countries

Financial results (in PLN million) and operating ratios of owned hotels located in other countries	2019	2018*	% change
Net sales	104.0	89.3	16.5%
EBITDAR	38.8	33.7	15.1%
Operating EBITDA	27.2	15.3	77.8%
EBIT without the effects of one-off events	14.6	11.3	29.2%
Capital expenditure	5.9	100.6	-94.1%
Occupancy Rate (%)	75.1	75.9	-0.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	277.1	274.8	0.8%
Revenue per Available Room (RevPAR) in PLN	208.0	208.5	-0.2%
Clients: Business	54.4%	49.0%	5.4 p.p.
Clients: Leisure	45.6%	51.0%	-5.4 p.p.

** Amounts restated in application of IFRS 5*

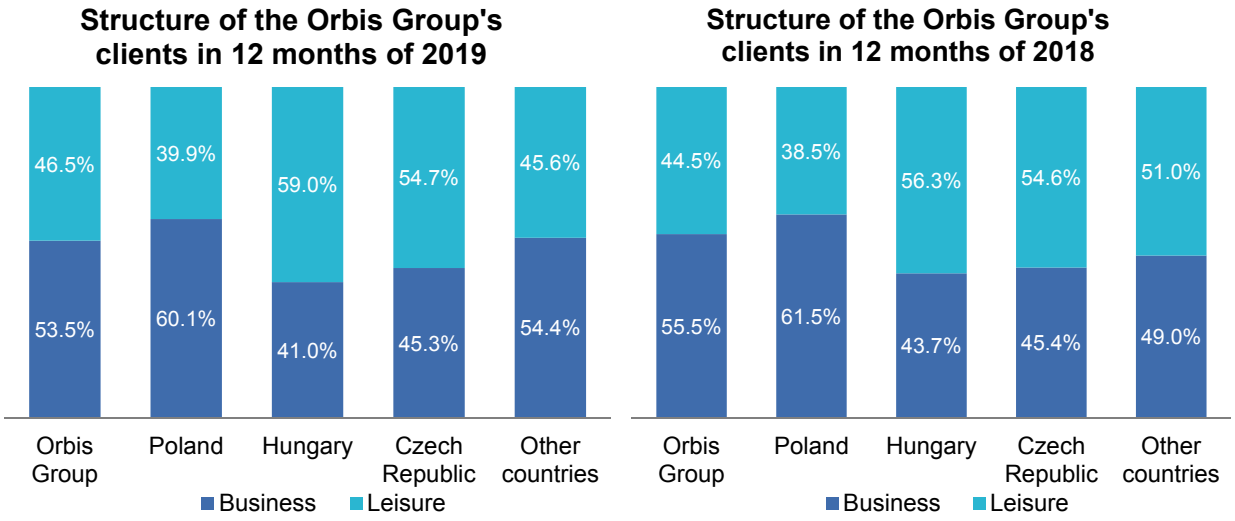
Revenues for the period of 12 months of 2019 generated in other countries, where the owned hotels of the Group are located, reached the level of PLN 104.0 million, i.e. 7.1% of the consolidated revenues. Hotels located in Lithuania, Slovakia and Romania generated sales revenues by 16.5% higher than in the corresponding period of the past year.

The Novotel hotel in Vilnius generated lower room revenues as compared to the past year due to lower Occupancy Rate and Average Room Rate. Decrease in revenues of the Novotel hotel was offset by revenues generated by ibis Vilnius Centre, which was opened in mid-August 2018 with revenues of PLN 6.5 million in the 8 months of 2019.

Slovakia is represented by two hotels located in Bratislava: Mercure and ibis. Room revenues were significantly above the last year's level due to a higher Average Room Rate in both hotels despite a lower Occupancy Rate. The increase in the Average Room Rate was fuelled by the World Ice Hockey Championships in May 2019. A positive trend was observed in the segment of business groups.

The Novotel in Bucharest generated higher room revenues due to a higher Average Room Rate despite lower Occupancy Rate. The number of business group arrivals increased during the reporting period, thanks to, among other things, the events connected with Romania's presidency in the European Union in the first half of 2019. The number of rooms sold also increased in the tourist group segment. Another subsidiary hotel, the Mercure Bucharest hotel, joined the network in July 2018 with revenues of PLN 4.1 million for 6 months of 2019.

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



3.4 Financial Results per Operating Segments

The Orbis Group distinguishes two reportable operating segments:

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

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

The following table presents figures pertaining to revenue, results as well as capital expenditure of the operating segments of the Orbis Group. The figures presented below include the results of owned and leased hotels.

More information on segments is provided in Note 4.1 to the Consolidated Financial Statements of the Orbis Group for 2019.

Operating segments – analytical approach (in PLN million)	2019	2018*	% change
Up&Midscale Hotels			
Net sales	1 091.8	1 069.8	2.1%
EBITDAR	439.6	444.2	-1.0%
Operating EBITDA	429.2	397.6	7.9%
EBIT without the effects of one-off events	270.4	273.3	-1.1%
Capital expenditure	144.3	236.2	-38.9%
Occupancy Rate (%)	73.8	72.5	1.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	311.5	299.4	4.0%
Revenue per Available Room (RevPAR) in PLN	229.9	217.1	5.9%
Economy Hotels			
Net sales	354.2	319.7	10.8%
EBITDAR	166.7	157.3	6.0%
Operating EBITDA	166.1	147.8	12.4%
EBIT without the effects of one-off events	109.5	105.9	3.4%
Capital expenditure	36.3	105.2	-65.5%
Occupancy Rate (%)	73.5	74.5	-1.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	197.1	186.9	5.5%
Revenue per Available Room (RevPAR) in PLN	144.8	139.2	4.0%

** Amounts restated in application of IFRS 5*

During 12 months of 2019, the revenues of the Up&Midscale segment accounted for 75.0% of consolidated revenues as compared to 76.4% in the past year. Decrease in the share of the Up&Midscale revenues in consolidated revenues was predominantly the result of increase in the number of economy hotels in Group's portfolio by the following hotels: the ibis Vilnius hotel (August 2018), the ibis Styles Warszawa Centrum hotel (November 2018) and the ibis Budapest Castle Hill hotel (August 2019) and the sale, in May, 2018, of the Sofitel Budapest Chain Bridge hotel from the Up&Midscale segment.

The average Revenue per Available Room ranged from PLN 144.8 in economy hotels to PLN 229.9 in hotels of the Up&Midscale segment in 12 months of 2019 and from PLN 139.2 to PLN 217.1 respectively in the corresponding period of 2018. RevPAR growth is attributable in particular to higher Average Room Rates (ARR growth rate in economy hotels by 5.5% and by 4.0% in hotels of the Up&Midscale segment). Revenue per available room in Q4 2019 was slightly below the 12-month average and amounted to PLN 142.4 in economy hotels and PLN 221.2 in 3-star hotels and hotels of higher standard.

3.5 Statement of Financial Position

Statement of financial position – analytical approach	2019	Share in total assets / equity & liabilities	2018	Share in total assets / equity & liabilities	2019/ 2018
Non-current assets	2 810 055	57.3%	2 546 642	79.1%	10.3%
Current assets	2 092 017	42.6%	663 148	20.6%	215.5%
Assets classified as held for sale	3 321	0.1%	8 690	0.3%	-61.8%
TOTAL ASSETS	**4 905 393**	**100.0%**	**3 218 480**	**100.0%**	**52.4%**
Equity	3 414 678	69.6%	2 386 786	74.2%	43.1%
Non-current liabilities	728 770	14.9%	545 411	16.9%	33.6%
Current liabilities	759 284	15.4%	286 283	8.9%	165.2%
Liabilities associated with assets classified as held for sale	2 661	0.1%	0	0%	-
TOTAL EQUITY AND LIABILITIES	**4 905 393**	**100.0%**	**3 218 480**	**100.0%**	**52.4%**

The structure of the Orbis Group balance sheet is typical for hotel companies operating hotel networks with owned hotels.

As at December 31, 2019, Orbis Group's assets totalled PLN 4 905.4 million, i.e. increased by 52.4% as compared to December 31, 2018.

The major component of the Group's assets are non-current assets, accounting for 57.3% of total assets. The share of non-current assets versus total assets decreased significantly as compared to the past year due to the increase of current assets (cash and cash equivalents) at the end of 2019. The predominant item of non-current assets are property, plant and equipment valued at PLN 2 655.1 million, accounting for 54.1% of total assets. Property, plant and equipment comprise of tangible assets (mainly buildings), tangible assets under construction and right-of-use assets. As at the end of December of 2019, tangible assets were impacted by accrued depreciation (PLN -171.8 million) and incurred capital expenditure (PLN 193.7 million, a more detailed description of capital expenditure was presented in Note 3.8), decrease due to sale (PLN -7.5 million) of mainly the ibis budget Toruń hotel and property, plant and equipment sold as part of the asset light business sale transaction, as well as liquidation of non-current assets in Hungary and Poland (PLN 1.5 million). In connection with the implementation of IFRS 16 as of January 1, 2019, the Group withdrew the rights of perpetual usufruct of land of PLN 296.6 million from the property, plant and equipment item (until then, these assets were recognized in accordance with IAS 16 "Property, Plant and Equipment") and at the same time recognized the right-of-use assets in the total amount of PLN 605.3 million under property, plant and equipment item. This value includes the rights of perpetual usufruct of land (PLN 302.7 million), land (PLN 25.1 million) and leased hotels, offices and cars (PLN 277.5 million). The main impact on the increase of right-of-use assets in 12 months of 2019 had the recognition of new agreements (PLN 11.8 million), including mainly lease of a new office in Warsaw and replacement of car fleet, increase in the value of rights due to indexation of lease payments (PLN +4.0 million) and increase of the annual fee for perpetual usufruct of real property in Kraków (PLN 1.2 million). On the other hand, the decrease in the value of right-of-use assets in the reporting period was mainly attributable to accrued depreciation (PLN -48.4 million), cutting short the lease term for the Sofitel Wrocław Old Town hotel (PLN 3.8 million), recognition of an impairment loss (PLN -5.8 million), recognition of a net investment in the lease resulting from office space sublease (PLN 3.8 million) and reclassification of the right of perpetual usufruct of land in Częstochowa to assets held for sale (PLN 2.6 million).

As a result, the value of the right-of-use assets reported under property, plant and equipment item as the end of December 2019 amounted to PLN 552.0 million.

Intangible assets (mainly goodwill) valued at PLN 98.1 million also constitute a significant item of non-current assets. Their share in the Group's assets as at the end of December 2019 equalled 2.0%. Goodwill constituting 97.5% of intangible assets decreased in 12 months of 2019 by a total of PLN 16.1 million. This change in value was primarily the result of allocation of respective goodwill to the sold net assets of the asset light business and the hotel in Toruń and goodwill impairment of economy hotels operating as at the financial statements closing date.

As regards non-current assets, the deferred income tax assets item increased significantly as compared to December 31, 2018 as a result of implementation of IFRS 16. In connection with the reclassification of the perpetual usufruct of land obtained free of charge from the statement of financial position, as at the date of application of the new standard, the provision of PLN 46.8 million for deferred income tax resulting from market valuation of these rights was dissolved.

A new item, which appeared both in non-current and current assets, is the net investment in the lease resulting from sub-lease agreement of a part of office space executed by Orbis S.A. until April 2024. The total value of the investment as at December 31, 2019, is PLN 3.8 million.

Under the current assets item, the most important sub-item are cash and cash equivalents of PLN 2 004.7 million, accounting for 40.9% of total assets and 95.8% of current assets. The increase of this item by PLN 1 466.9 million as compared to December 2018 is attributable primarily to payment received for the sale of asset light business.

Trade receivables (PLN 54.6 million) and other current receivables (PLN 24.8 million) also constituted a significant item of current assets as at December 31, 2019. Other current receivables include mainly VAT receivables (PLN 16.2 million) resulting mainly from investment purchases made at the end of 2019. The decrease in the value of other current receivables in the period of 12 months of 2019 as compared to December 31, 2018, results mainly from a lower VAT settlements (decrease by PLN 6.9 million) and lower level of receivables on account of sale of tangible assets. As at December, 2018, the Group had receivables resulting from the sale in 2016 of an organised part of the enterprise of the Mercure Mrągowo Resort & SPA hotel (PLN 2.0 million) and organised part of the enterprise of the Mercure Kasprowy hotel in Zakopane (PLN 3.9 million). Both receivables were paid in 2019 by buyers.

On the other hand, a decrease in prepaid expenses as compared to the end of 2018 is mainly the effect of a different presentation of prepayments for leased assets. The balance at the end of December 2019 does not include, contrary to past years, the fees for perpetual usufruct of land paid in advance for the full year and lease payments for hotels and offices leased by the Group. With the implementation of IFRS 16, prepayments for property lease are recognised in the measurement of lease liabilities.

As at December 31, 2019, assets classified as held for sale included the right of perpetual usufruct of land in Częstochowa constituting a right-of-use asset of PLN 2.6 million recognised in accordance with IFRS 16 *Leases* and undeveloped real property in Elbląg (PLN 0.7 million). As at the end of December 2018, under this item the Orbis Group reported a non-hotel real property located in Wrocław, including rights of perpetual usufruct of land, buildings and equipment of a total sum of PLN 8.7 million.

The Group financed its operations mainly from its own resources. As at December 31, 2019, the Group's equity totalled PLN 3 414.7 million (69.6% of equity and liabilities), while the value of cash exceeded the total financial liabilities of the Group by PLN 986.1 million (including items classified as held for sale).

As at December 31, 2019, Orbis S.A. had non-current and current interest-bearing liabilities of PLN 502.4 million (10.2% of equity and liabilities) from bond issue. The maturity dates of bonds are scheduled for 2020 and 2021.

As at December 31, 2019, the Group did not have any borrowings. The amount of unused credit lines under overdrafts of the Orbis Group as at December 31, 2019, was PLN 45.1 million, of which the credit lines unused by Orbis S.A. amounted to PLN 20.0 million and those of Katerinska Hotel s.r.o. – PLN 25.1 million (i.e. CZK 150.0 million). The remaining Group companies did not have unused credit lines under overdrafts.

As at December 31, 2019, apart from liabilities from bond issues, the largest item of the Group's current liabilities were income tax liabilities (20.3% of total balance), trade payables (13.3% of total balance) and other current liabilities (9.5%).

Other current liabilities consist mainly of taxes, social insurance and other benefits payable, accrued expenses related to employee benefits costs (including bonuses and unused holidays) and public and legal imposts (including taxes and questionable fees for perpetual usufruct of land). Lower level of other current liabilities as compared to the end of December 2018 resulted specifically from a decrease in the balance of provisions for perpetual usufruct fees disputed by the Company, in connection with the finalization in 2019 of several proceedings on perpetual usufruct fee rate updates. More information about finished proceedings is provided in the Note 28.3 to the Consolidated Financial Statements of the Orbis Group for 2019.

As regards liabilities, the most significant changes in 12 months of 2019 occurred with regards to income tax liabilities, liabilities associated with tangible assets and trade payables.

The increase in income tax liability at the end of 2019 (PLN 154.4 million) versus the end of the past year (PLN 13.6 million) is mainly attributable to the recognition of income tax on the sale of the asset light business.

The decrease in liabilities associated with tangible assets is in particular the result of lower level of investment purchases made in the last month of 2019 as compared to December 2018.

The increase in the balance of trade liabilities as compared to the end of 2018 is above all attributable to divestment of the asset light business and signing new hotel management agreements. As a result of this change, the Group companies have incurred some new types of fees to be paid to Accor Group companies, which constituted the Group's own costs before the transaction (such as, for example, costs of sales, distribution and revenue management departments). In addition, the increase in the balance of liabilities is impacted by VAT (prior to the transaction Orbis S.A. had liabilities towards foreign companies belonging to the Accor Group, after the transaction the Company receives invoices from a Polish entity).

As at December 31, 2019, advances and prepayments received for the provision of services to the client in the future were presented under the contract liabilities item. Fees received for affiliation with a hotel network (the Entrance fee), payable in accordance with executed franchise agreements, reported under contract liabilities as at the end of the past year with contract assets, were subject of the transaction of the whole service operations at October 31, 2019.

In connection with the implementation of IFRS 16 from January 1, 2019, a new category of liabilities, i.e. lease liabilities, was introduced. These liabilities reflect the current value of lease payments outstanding to be paid as at the date of the statement of financial position. The value of current and non-current liabilities (with lease liabilities held for sale) at the end of December 2019 totalled PLN 516.2 million.

As at December 31, 2019, liabilities associated with assets classified as held for sale included a lease liability under perpetual usufruct of land in Częstochowa (PLN 2.6 million).

3.6 Statement of Changes in Equity

On December 31, 2019, equity amounted to PLN 3 414.7 million against PLN 2 386.8 million at the end of 2018.

The retained earnings of the Orbis Group include a net profit of PLN 1 258.2 million for 2019 (from continuing and discontinued operations in aggregate). The implementation of IFRS 16 and the related change in the recognition and measurement of the right of perpetual usufruct of land had a significant impact on the decrease of the Group's retained earnings in the reporting period. In connection with the implementation of the new standard, the effect of revaluation to market value (adjusted for the deferred tax impact) of the right of perpetual usufruct of land received in the past free of charge from the State Treasury was withdrawn from retained earnings.

On the other hand, the foreign currency translation reserve changed from PLN 7.7 million at the end of 2018 to PLN -22.2 million at the end of December of 2019. The change resulted from translating foreign operations into the currency of presentation (PLN). Foreign currency rates applied for translation of financial statements of foreign subsidiaries are presented Note 1 of the Consolidated Financial Statements of the Orbis Group for 2019.

In 2019, retained earnings were reduced by the amount of PLN 850 million and transferred to the reserves, established for the purpose of implementation of the Programme of acquisition of Orbis own shares for the purpose of their redemption.

3.7 Statement of Cash Flows

Statement of cash flow	2019	2018	% change
Cash generated by operating activities	483 645	394 162	22.7%
Net cash used in investing activities	1 065 848	51 798	1 957.7%
Net cash generated by financing activities	(75 667)	(128 766)	41.2%
Total net cash	**1 473 826**	**317 194**	**364.6%**
Cash and cash equivalents at the end of period	**2 004 738**	**537 834**	**272.7%**

During 2019, the net cash flows of the Orbis Group amounted to PLN 1 473.8 million as compared to PLN 317.2 million in 2018.

- **Cash flows from operating activities**

  Good operating results, growth of sales and change in operating activities in connection with the divestment of the asset light business contributed to higher net cash flows from operating activities (respectively PLN 483.6 million in 2019 versus PLN 394.2 million in 2018). Additionally, the implementation of IFRS 16 had a positive impact on the level of cash flows from operating activities, as payments of lease instalments are now disclosed in cash flows from financing activities.

  Higher income tax payments are the result of higher advance payments on account of the income tax paid by Orbis S.A. as compared to the past year as well as settlement of income tax for 2018 (the CIT advance payment method was implemented by the company in 2018, hence there were no such payments in 2018) as well as the adjusted CIT payments including interest in connection with the adjustment of receivables resulting from services provided by Orbis S.A. to the subsidiary Orbis Kontrakty Sp. z o.o. during the period from 2013 to 2018.

- **Cash flows from investing activities**

  The principal reason behind positive cash flows of PLN 1 065.8 million in the period from January to December 2019 (versus PLN 51.8 million in 12 months of 2018) were net inflows from the divestment of the asset light business (PLN 1 215.5 million). Cash outflows from investing activities of PLN 226.0 million were earmarked for the construction and modernization of Orbis Group hotels were partially offset by cash inflows from the sale of non-current assets (PLN 63.6 million), including income from ibis budget hotel in Toruń sale with the neighbouring real property and non-hotel real property in Wrocław and Szczecin. Furthermore, during 12 months of 2019, the Orbis Group generated PLN 6.7 million of inflows from other investing activities of

which PLN 3.9 was the last instalment payable under the sale transaction of the Mercure Kasprowy hotel in Zakopane, PLN 2.0 million of last instalment payable under the sale transaction of the Mercure Mrągowo Resort & SPA hotel and PLN 0.7 million of prepayment received in connection with the sale of real property in Częstochowa and Elbląg. In addition, in 2019 the Group received PLN 6 million in interest on deposits (as compared to PLN 1.8 million in 2018).
On the other hand, positive cash flows in the corresponding period of 2018 were generated primarily by the Group's revenues from the sale of property, plant and equipment, including mainly the Sofitel Budapest Chain Bridge hotel (EUR 74.1 million net, i.e. approx. PLN 316.2 million), the Novotel Szeged hotel (HUF 757.6 million, i.e. approx. PLN 10.1 million), the Mercure Cieszyn and the ibis Styles Bielsko-Biała hotels (PLN 8.1 million in total), the ibis Plzen hotel (the net sum of CZK 72.0 million, i.e. approx. PLN 12.0 million) and the sale of non-hotel real properties (PLN 4.5 million in aggregate). Furthermore, cash inflows from investing activities (PLN 365.8 million) were reduced by investment expenditure of PLN 314.0 million, earmarked for the construction and modernization of Orbis Group hotels. The largest capital expenditures during 2018 were allocated for the purchase of the Mercure Unirii hotel and the ibis Vilnius hotel.

- **Cash flows from financing activities**

  The cash flows from financing activities during 12 months of 2019 were negative and equalled PLN -75.7 million. They include lease payments of a total of PLN 61.7 million and repayment of interest on bonds (PLN -14.0 million). On the other hand, in the corresponding period of 2018, the negative cash flows from financing activities were at the level of PLN -128.8 million and resulted from dividend payment to Orbis shareholders in the amount of PLN 73.7 million, the repayment of an overdraft facility plus interest by a subsidiary Accor Pannonia Hotels Zrt. in Hungary (a total of PLN -40.5 million) and payment of interest on bonds in the total amount of PLN 14.1 million.

3.8 Capital Expenditure

In 2019, capital expenditure of the Orbis Group amounted to PLN 193.7 million (PLN 349.0 million in the corresponding period of the past year).

Capital expenditure of the Group	2019	2018
Development projects	66 971	223 329
Other expenditure	126 723	125 664
Total	**193 694**	**348 993**

Expenditure incurred in 12 months of 2019 was allocated for development projects in the Group's companies. A total sum of PLN 67.0 million was appropriated for the following investment projects:

- The **ibis Styles Stare Miasto** hotel **in Szczecin**. In the fourth quarter of 2019, the building foundation works related to the construction of a new **ibis Styles Stare Miasto** hotel in the location of the former Arkona hotel in Szczecin were completed. The ground floor and half of the first floor were erected. Currently, the construction of the building's structure is continued and its completion (building shell) is scheduled for the second quarter of 2020. Works related to installations inside the building are starting. The opening of the hotel is scheduled for Q4 2020. The total planned expenditure for the whole scope of works will amount to approx. PLN 57 million.
- In 2019, work was also carried out in connection with the planned three-star hotels in Warsaw and Krakow under the new lifestyle **Tribe** brand within. As regards the construction of the hotel in the new location in the Kraków's Old Town, a tender for the interior design and architecture of the hotel was launched. The bid for the position of the General Contractor has also begun and is should be completed at the beginning of Q2 2020. The total planned expenditure for the construction of this hotel throughout the period from 2018 to 2020 will amount to approx. PLN 100 million. Yet another three-star **Tribe** hotel in Poland, planned to be opened in Warsaw, will be located in a historic building in the very heart of the city, at Bracka Street (in the former Orbis' Head Office building). The hotel will have 113 rooms and a restaurant. At the moment, architectural design and interior design works are underway. The hotel is scheduled to open in 2022. The total planned budget will amount to approx. PLN 52 million.

- The **Novotel Poznań Centrum** and **ibis Poznań Centrum** hotels**.** As part of comprehensive modernization of hotels operating in the network, in 2019, works on renovation of technical installations and back office facilities were continued in the **Novotel Poznań Centrum** hotel and the **ibis Poznań Centrum** hotel located in the same building. The works will be continued in 2020. The total investment expenditure during the period from 2016 to 2020 will total approx. PLN 59 million.
- The **Novotel Kraków City West** hotel. The last phase of the modernization of the facade was finished in the Novotel Kraków City West hotel. Modernization works in rooms were also continued and 56 rooms and bathrooms, 2 suites and 11 halls on subsequent building floors were completed. The total investment expenditure for the works during the 2016 - 2019 period exceeded PLN 29 million.
- **Novotel and ibis Wrocław Centrum**. The first 2 phases of the extension of the outdoor car park in the vicinity of the **Novotel** and **ibis Wrocław Centrum** hotels planned for 2019 was completed in Q4 2019. The third phase will be continued in 2020.
- The **ibis Styles Warszawa Centrum** hotel. The hotel welcomed its first guests on November 30, 2018. In 2019, the final settlement of investor supplies and construction and assembly works took place. Furthermore, expenditure was incurred on additional hotel equipment.
- The **Sofitel Warszawa Victoria** hotel. The modernization of 4 Opera suites and the Presidential Suite in the Sofitel Warszawa Victoria hotel has also been completed. Thus, the modernization of rooms in this hotel, carried out since 2017, has been finished. The total expenditure for the whole scope of works amounted to approx. PLN 20 million.
- The **Mercure Budapest Buda** hotel. In 2019, major renovation works were completed to transform the hotel from its current brand (Mercure) into a combo hotel (that is two hotels operating under different brands in a single building). The new hotel under the name of Castle Hill offers 250 renovated rooms operating under the Mercure brand and 150 new ibis rooms. Guests can also use modern business space, including seven fully-equipped conference rooms with a total area of over 800 square meters, a restaurant and a bar. The total project cost during the period from 2017 to 2019 equalled approx. EUR 10.0 million.
- The **Mercure Budapest Korona** hotel. The modernisation, commenced in 2018, of the **Mercure Budapeszt Korona** hotel was continued. Modernization works in 256 rooms, the Wine Stone restaurant and the public area, planned for the first phase, was completed. Modernisation of the subsequent 156 rooms and the conference area was planned for the first quarter of 2020. The total estimated expenditure during the period from 2018 to 2020 will amount to nearly EUR 10.0 million.

Other expenditures in 2019 (PLN 126.7 million) were assigned for modernization of hotels operating in the network, modernization of technical installations and IT expenditure. The most important investments aimed at upgrading the standard of hotels executed during 2019 included:

- continued modernization at the **Novotel Gdańsk Marina** hotel, where 191 modernized rooms and a breakfast room were rendered operational in reported period; in 2019 a new beach bar was opened, the hotel's surroundings, including green areas and the garden, have been rearranged and a special external lights system was installed. Modernisation works in the remaining parts of the building will be continued in 2020;
- completion of modernization of 75 rooms following their rearrangement in line with the N'room standard in the **Novotel Kraków Centrum** hotel;
- completion of modernization of 48 rooms with bathrooms and a restaurant in the **Mercure Wrocław Centrum** hotel;
- completion of modernization works in 162 rooms and Wise Café restaurant in the **Mercure Poznań Centrum** hotel;
- completion of modernization of 55 rooms and 28 bathrooms in the **Novotel Katowice Centrum** hotel;
- completion in the Q4 of the rearrangement of 23 rooms with corridors on the successive floor of the **Novotel Warszawa Centrum** hotel, where 74 rooms were modernised in 2019. Modernisation of the successive 3 floors of the building (71 rooms) will be continued in 2020;
- completion in Q4 of the modernisation of 53 rooms in the **Mercure Warszawa Grand** hotel, after finalising of rearrangement works in the lobby and the reception desk area in the first months of 2019. Works in the subsequent 53 rooms will be conducted in the first quarter of 2020;
- completion of modernization of 44 rooms, a suite and 30 bathrooms and the fitness area in the **Novotel Wrocław City** hotel, which followed an earlier modernisation of the lobby and reception area in this hotel;
- modernization of 60 rooms and bathrooms in the **Novotel Szczecin Centrum** hotel;
- modernization of 64 rooms and bathrooms in the **ibis Kraków Centrum** hotel;

- modernization of 29 rooms with bathrooms and a corridor in the **ibis Warszawa Centrum** hotel was completed in the fourth quarter and modernization of the successive 87 rooms was started;
- a model room in the **ibis Warszawa Stare Miasto** hotel was presented in the third quarter, 55 rooms in this hotel were modernized in the fourth quarter, and currently another phase, in which 61 rooms are planned to be modernized, is underway;
- modernization of 59 rooms built according to the N'room standard on two floors of the **Novotel Bucharest City Center** hotel and the restaurant area (including replacement of furniture, equipment, lights, flooring and increasing the number of guest seats). The project is planned to be completed in 2022.

Works related to modernization of the **Novotel Vilnius** hotel also started in the reporting period with a total planned expenditure of over PLN 17 million for the period from 2019 to 2020. Two model rooms were completed at the beginning of October, and purchase orders for contractors and suppliers of equipment for the planned modernization of a total of 159 rooms were prepared and partially completed in the following months of 2019.

In 2019, expenditure in the area of IT and digital services was allocated for completion of the last phase of the firewall replacement project for Poland and finalisation of work on the replacement of workstations in hotels in connection with the transition to Windows 10 before January 2020, as required by Microsoft. Work on WiFi replacement in 25 hotels aimed at improving guest satisfaction and enabling development of new mobile services has been initiated.

Other IT expenses were allocated on the preparation of the systems from January 1, 2020, for the "NIP na Paragonie" (tax number on the tax receipt) fiscal modification and modification of the systems already in use in order to adapt them to the new business needs of the company, organizational changes and the planned replacement and modernization of elements of the existing IT infrastructure in the Head Office and hotels.

3.9 Bonds Issue

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 bonds is equal to their nominal value.

Bonds bear interest per annum at a variable interest rate at WIBOR for six-month deposits (**WIBOR 6M**) plus interest rate margin of **0.97%**. Interest will be payable in 6-month interest periods. Bonds will be redeemed on June 26, 2020, at their nominal value.

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 bonds equals their nominal value.

Bonds bear interest per annum at a variable interest rate at **WIBOR 6M** plus interest rate margin of **1.05%**. The interest shall be payable in 6 monthly (six) interest periods. Bonds shall be redeemed on July 29, 2021 at their nominal value.

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

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

In 2019, Orbis paid PLN 13 950 thousand as interest on issued bonds.

3.10 Ratio Analysis of the Financial Statements

An analysis covering margin, profitability, efficiency and financing ratios has been made on the basis of the financial statements (income statement and statement of financial position). The ratios apply to continuing operations.

Financing and liquidity ratios have changed due to higher cash balance and an increase in liabilities resulting from the application of IFRS 16 "*Leases*" starting from 2019. Efficiency ratios remained at a level comparable to the past year's figures. On the other hand, due to lower profit from continuing operations and higher final balance of assets and equity and liabilities in connection with the received payment for the divestment of the asset light business the profitability ratios went down.

Selected financial ratios of the Orbis Group	2019	2018
Margin ratios		
EBITDAR margin in %	35.8	36.5
EBITDA margin in %	35.0	32.4
EBIT margin in %	22.6	29.4
Profitability ratios		
Return on Equity (ROE)*	8.2%	15.3%
Return on Assets (ROA)*	5.4%	11.1%
Return on Sales (ROS)	15.9%	24.3%
Efficiency ratios		
Receivables collection period	15	18
Payables deferral period*	28	29
Inventory turnover	2	2
Financing ratios		
Net debt (in PLN million)	-	-
Debt-to-equity**	30.4%	25.8%
Non-current assets cover ratio	121.5%	93.7%
Liquidity ratios		
Current ratio	2.76	2.35

** calculated based on opening balance (restated data)*
*** total liabilities/total equity and liabilities*

The Orbis Group meets its obligations towards counterparties, obligatory public imposts and investment obligations on a daily basis. The Group pays its liabilities using cash generated from operating income and using external sources of capital, i.e. overdrafts, cash from issue of bonds, credits facilities and loans, depending on the needs. As at December 31, 2019, the total value of unused overdrafts of the Orbis Group totalled PLN 45.1 million.

3.11 Assessment of Divergence Between Estimates and Generated Results

The EBITDA of the Orbis Group generated during 12 months of 2019 (after eliminating the impact of one-off events) stood at PLN 533.2 million (based on continuing and discontinued operations), in line with the projection disclosed in the current report no. 24/2019 of June 24, 2019, where the forecasted EBITDA was in the range of PLN 520 and 550 million.

FINANCIAL RESULTS OF ORBIS S.A.

Sofitel Grand Sopot

4 FINANCIAL RESULTS OF ORBIS S.A.

4.1 Factors Affecting Results

Description of significant events that have impact on the results of Orbis S.A. and Orbis Group is presented in Note 3. In addition to these events, the reconciliation of mutual benefits between Orbis S.A. and Orbis Kontrakty Sp. z o.o. and the related tax adjustments had a significant impact on the Company's results.

On October 14, 2019, the Management Board of Orbis S.A. took a decision to: (i) enter into the Trade Support Agreement by Orbis and its subsidiary Orbis Kontrakty Sp. z o.o. covering the period 2013 - 2018 and future cooperation, (ii) settle the claims regarding services rendered by Orbis to Orbis Kontrakty in the period 2013 - 2018, (iii) adjust the Corporate Income Tax and Value Added Tax settlements and (iv) impose an obligation upon Orbis to make an additional capital contribution to Orbis Kontrakty.

In 2013 - 2018, Orbis Kontrakty provided services to the suppliers cooperating with the Orbis Group's entities and providing their hotels with specific goods and services. Orbis Kontrakty collected remuneration from those suppliers depending on the turnover generated by, among others, purchases made by the entities from the Orbis Group.

In the course of analyses related to the sale of the Orbis asset light business, advisors of the Company indicated that the business model described above may trigger tax risks for Orbis related to, in particular, the use by Orbis Kontrakty, as part of their business, of Orbis' purchase potential (the hotel network operated by Orbis), for which Orbis Kontrakty did not pay any remuneration to Orbis.

Therefore, the Management Board of Orbis S.A. decided to: (i) conclude a trade support agreement governing business relations between Orbis and Orbis Kontrakty, which covers the period 2013 - 2018 and future cooperation, (ii) request payment of remuneration for 2013 - 2018 from Orbis Kontrakty to Orbis provided for in the trade support agreement in the total amount of PLN 72.2 million (plus VAT) and (iii) adjust Orbis tax settlements for the years 2013-2018 accordingly.

In addition, on October 18, 2019, Orbis S.A. - as the sole shareholder of Orbis Kontrakty - adopted a resolution on additional capital contribution to Orbis Kontrakty in the total amount of PLN 58.5 million. The amount of additional capital contribution was set-off against a portion of the Orbis S.A.' receivables under remuneration for services provided to Orbis Kontrakty in the period 2013 - 2018. According to the executed set-off agreement, the unredeemed part of these receivables, i.e. the sum of PLN 30.3 million, was paid by Orbis Kontrakty in November, 2019.

The above-described amount of fee payable by Orbis Kontrakty Sp. z o.o. for the years 2013 - 2018 (PLN 72.2 million) was recognized in the Orbis S.A. financial statements as a reduction of the operating expenses in the income statement for 2019. The interest on tax arrears paid in the total amount of PLN 7.6 million were disclosed under finance expenses.

4.2 Income Statement

In 2019 Orbis S.A. generated operating profit amounting to PLN 289.3 million. i.e. by 87.8% higher as compared to 2018. On the other hand, profit before tax increased as compared to the past year by 157.3% (PLN 251.7 million) to PLN 411.7 million. This is the outcome of several factors, including in particular reduction of operating expenses by the amount of the fee payable to Orbis for purchases of goods and services from nominated suppliers for the period from 2013 to 2019 in the total amount of PLN 82.8 million, higher result of one-off events (by PLN 41.1 million), in particular result on disposal of real property, as well as higher result on financing activities (by PLN 116.4 million) as compared to the past year (among others, as a result of receipt of dividend from the subsidiary Katerinska Hotel s.r.o.).

Income statement – analytical approach	2019	2018*	% change
Net sales, of which:	**934 687**	**885 101**	**5.6%**
Room revenue	639 458	611 953	4.5%
Food & beverage revenue	250 931	231 146	8.6%
Other revenue	44 298	42 002	5.5%
EBITDAR	**387 931**	**289 642**	**33.9%**
Operating EBITDA	**387 931**	**282 046**	**37.5%**
Operating profit (EBIT) without the effects on one-off events	**249 116**	**154 910**	**60.8%**
Operating profit (EBIT)	**289 324**	**154 028**	**87.8%**
Net result from financing activities	*122 402*	*5 979*	*1 947.2%*
Profit before tax	**411 726**	**160 007**	**157.3%**
Net profit from continuing operations	**359 255**	**127 275**	**182.3%**
Net profit from discontinued operations	**419 421**	**14 626**	**2 767.6%**
Net profit	**778 676**	**141 901**	**448.7%**

** Amounts restated in application of IFRS 5*

In 2018, **net sales** of Orbis S.A. increased as compared to the corresponding period of the past year and amounted to PLN 934.7 million. Growths were reported in each revenue category as compared to the past year.

Orbis hotels reported an increase of the Average Room Rate during the 12 months of 2019 versus the corresponding period of 2018 by 3.6% (2.8% like-for-like) with a slightly higher Occupancy Rate (by 0.5 p.p.) and 1.1 p.p. like-for-like). As a result of these changes, Orbis hotels reported growth of the Revenue per Available Room by 4.3% (by 4.4% like-for-like). Majority of the Company's hotels reported an improvement in room revenues, with the largest growth achieved by hotels from Warsaw, Wrocław and Krakow, including in particular Sofitel Warszawa Victoria, Novotel Warszawa Centrum, Mercure Warszawa Centrum, Novotel Wrocław Centrum, Novotel Wrocław City and Novotel Kraków West City, Mercure Kraków Stare Miasto. The increase in RevPAR was achieved thanks to the introduction of a flexible pricing strategy adjusted to the conditions of individual markets, introduction of seasonal promotional offers and attractive business packages.

Food and beverage revenues, which is the second largest category of revenues, also increased slightly (by 8.6%) as compared to 2018.

Revenue from franchise and management was classified to discontinued operations.

Other revenues, including revenues from rental of real property and parking spaces increased to PLN 44.3 million.

Operating expenses of Orbis Group (including rental expense and depreciation/amortisation) totalled PLN 685.1 million in the reporting period, i.e. decreased by PLN 6.1% as compared to the corresponding period of 2018. The share of particular types of operating expenses in the net sales revenue did not change compared to the same period last year except for the costs of materials and energy consumption. The share of the cost of energy consumption in revenues went down from 14.8% to 9% as a result of reduction of these costs by a part of remuneration payable to Orbis for purchases of goods and services from nominated suppliers for the period from 2013 to 2019 (more information is provided in Section 4.1). The biggest costs in the company were costs of employee benefits (26.1% of total revenues), outsourcing of services (20.6%) and depreciation and raw materials and energy used (14.9% and 9.0%, respectively). The increase was reported mainly in the employee benefits item due to salary and wage increases triggered by inflationary pressure, introduction of employee capital plans (PPK) and increase of costs related to staff turnover and outsourced services, including mainly travel agency commissions as well as the costs of cleaning and outsourcing services.

Compared to the corresponding period of 2018, costs of taxes and charges and property rental decreased to the greatest extent (by PLN 11.1 million) which is the result of IFRS 16 implementation in 2019 and the resultant change in the recognition of perpetual usufruct of land. The rights to perpetual usufruct of land, which until the end of 2018 were recognized under the Company's assets and depreciated, and the related fees (at their nominal value) were recognized in the income statement under taxes and fees, are since January 1, 2019, recognised as depreciation/ amortisation and interest expense. As a result of IFRS 16 implementation, the costs of property rental were also reduced during the reporting period. Fees under the Sofitel Wrocław Old Town hotel lease agreement are now recognised in the income statement as depreciation/amortisation and interest expense. The cost of depreciation of right-of-use assets in the period of 12 months of 2019 amounted to PLN 13.2 million.

As a result of the above changes, Orbis' **EBITDAR** and **operating EBITDA** reached **PLN 387.9 million**, while **the operating profit without one-off events** totalled **PLN 249.1 million**.

In 2019, Orbis S.A. generated a positive result on one-off events amounting to PLN 40.2 million as compared to negative result of PLN 0.9 million in the corresponding period of 2018. This is mainly the effect of closing, on February 1, 2019, of the sale transaction of a non-hotel property in Wrocław. The result of this transaction totalled PLN 41.4 million. Furthermore, one-off events include a profit of PLN 9.4 million on the sale of the real property in Zakopane, PLN 5.6 million on the sale of two non-hotel properties in Szczecin and a total of PLN 1.1 million on the sale of the ibis budget hotel in Toruń and a neighbouring real property with an unfinished hotel building. In addition, costs of one-off events involving the corporate split of Orbis S.A. into "asset light" and "asset heavy" (PLN 2.1 million), costs related to revaluation of non-current assets (PLN 13.0 million) and employment restructuring costs (PLN 2.1 million).

In 2018, the Company earned a profit on the sale of real property (two hotels: the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biała hotel and non-hotel real properties located in Karpacz and Warsaw at 1 Sierpnia Street) in the total amount of PLN 2.1 million, which was reduced by costs from revaluation of non-current assets, advisory costs and restructuring costs of PLN 2.9 million in total.

As a result of the above described changes, the Group in 2019 generated an **operating profit (EBIT) of PLN 289.3 million** compared to PLN 154.0 million in 2018.

In 2019, the Company reported a major change in the result on financing activity. In the period from January to December 2019, Orbis generated a positive result of PLN 122.4 million on financing activities as compared to the profit of PLN 6.0 million in the corresponding period of 2018. Financial income increased by PLN 139.2 million, mainly as a result of the dividend received from the subsidiary Katerinska Hotel s.r.o. (PLN 150.4 million) and interest on deposits which were higher by PLN 4.6 million. The increase in finance costs incurred by the Company in the period of 12 months of 2019 is primarily a consequence of implementation of IFRS 16 and calculation of interest on lease liabilities (PLN 12.3 million). Moreover, the finance costs include interest accrued on tax liabilities in the amount of PLN 7.6 million. In addition, the result on financing activity was impacted by foreign exchange differences which amounted to PLN -2.3 million in 2019 (negative foreign exchange) while in 2018 their value amounted to PLN 12.6 million and constituted positive foreign exchange.

Orbis closed 2019 with a **net profit on continuing operations of PLN 359.3 million** as compared to the profit of PLN 127.3 million in the corresponding period of 2018 (increase by 182.3%).

Revenues from management agreements, franchise agreements and direct costs related to services provided by Orbis S.A. and its related parties to managed or franchised hotels as well as costs related to procuring new contracts under the asset light model were recognized under **discontinued operations** in the reporting periods. Moreover, discontinued operations also included revenues (including income from dividend) earned from Orbis Kontrakty Sp. z o.o.

The result of Orbis S.A. on the sale of asset light business on October 31, 2019, in the amount of PLN 513.3 million was calculated as sales (PLN 579.6 million) plus disposed provisions and liabilities and minus sold assets (including associated goodwill) and additional costs associated with the disposal (including costs of legal services, tax consulting and costs of valuations of the asset light business). Reconciliation of the asset light business sale transaction is presented in Note 7 to the 2019 Separate Financial Statements of the Orbis S.A. for 2019.

Following the recognition of the result on discontinued operations (profit of PLN 419.4 million), Orbis closed 2019 with **a net profit of PLN 778.7 million.**

4.3 Statement of Financial Position

Statement of financial position – analytical approach	2019	Share in total assets / equity & liabilities	2018	Share in total assets / equity & liabilities	2019/ 2018
Non-current assets	2 270 229	60.3%	2 271 603	79.8%	0.1%
Current assets	1 492 507	39.6%	567 489	19.9%	163.0%
Assets classified as held for sale	3 321	0.1%	8 690	0.3%	-61.8%
TOTAL ASSETS	**3 766 057**	**100.0%**	**2 847 782**	**100.0%**	**32.2%**
Equity	2 699 444	71.7%	2 121 463	74.5%	27.2%
Non-current liabilities	477 447	12.7%	543 010	19.1%	-12.1%
Current liabilities	586 505	15.5%	183 309	6.4%	220.0%
Liabilities associated with assets classified as held for sale	2 661	0.1%	0	0%	-
TOTAL EQUITY AND LIABILITIES	**3 766 057**	**100.0%**	**2 847 782**	**100.0%**	**32.2%**

The structure of the Orbis' balance sheet is typical of hotel operators whose network comprises owned hotels.

As at December 31, 2019, Orbis Group's assets totalled PLN 3 766.1 million, i.e. increased by PLN 918.3 million as compared to December 31, 2018.

The major component of the Group's assets are non-current assets, accounting for 60.3% of total assets. The share of non-current assets versus total assets decreased significantly as compared to the past year due to the increase of current assets (cash and cash equivalents) at the end of 2019. The predominant item of non-current assets are property, plant and equipment valued at PLN 1 656.7 million, accounting for 44.4% of total assets. Property, plant and equipment comprise of tangible assets (mainly buildings), tangible assets under construction and right-of-use assets. As at the end of December of 2019, tangible assets were impacted by accrued depreciation (PLN -124.2 million) and incurred capital expenditure (PLN 131.4 million), decrease due to sale (PLN -7.0 million) mainly ibis budget Toruń and property, plant and equipment sold as part of the asset light business sale transaction. A more detailed description of capital expenditure was presented in Note 3.8. In addition, the change in the value of property, plant and equipment was impacted by the recognized impairment loss of PLN 3.8 million. In connection with the implementation of IFRS 16 as of January 1, 2019, the Group withdrew the rights of perpetual usufruct of land of PLN 296.6 million from the property, plant and equipment item (until then, these assets were recognized in accordance with IAS 16 "Property, Plant and Equipment") and at the same time recognized the right-of-use assets in the total amount of PLN 324.0 million under property, plant and equipment item. This value includes the rights of perpetual usufruct of land (PLN 302.7 million) and leased hotels and cars (PLN 21.4 million). The main impact on the increase of right-of-use assets during the period from January to December 2019 had the recognition of new agreements (PLN 11.5 million), including mainly lease of a new office in Warsaw and replacement of car fleet and increase of the annual fee for perpetual usufruct of real property in Kraków (PLN 1.2 million). On the other hand, the decrease in the value of right-of-use assets in the reporting period was mainly attributable to accrued depreciation (PLN -13.2 million), recognition of a net investment in the lease resulting from office space sublease (PLN -3.9 million), cutting short the lease term for the Sofitel Wrocław Old Town hotel and recognition of an impairment loss (PLN -9.5 million) and reclassification of the right of perpetual usufruct of land in Częstochowa to assets held for sale (PLN -2.6 million). As a result, the value of the right-of-use assets reported under property, plant and equipment item as the end of December 2019 amounted to PLN 304.8 million.

The second biggest item of the statement of financial position of Orbis S.A. in terms of share in the total carrying amount of assets/equity and liabilities, is investments in subsidiaries valued at PLN 467.4 million (12.4% of assets). In 2019 Orbis contributed additional payments to the share capital of Orbis Kontrakty Sp. z o.o. (in the amount of PLN 58.5 million), which were set off against a part of fees receivable by Orbis S.A. for services provided to Orbis Kontrakty during the period from 2013 to 2018. The investment in Orbis Kontrakty in the total amount of PLN 58.6 million (PLN 0.1 million shares at the acquisition price plus PLN 58.5 million of capital contributions described above) was sold as part of the asset light business.

Intangible assets (mainly goodwill) valued at PLN 93.1 million also constitute a significant item of non-current assets. Their share in the Orbis S.A. assets as at the end of December 2019 equalled 2.5%. Goodwill constituting 98.1% of intangible assets decreased in 12 months of 2019 by a total of PLN 15.9 million. This change in value was primarily the result of allocation of respective goodwill to the sold net assets of the asset light business and the hotel in Toruń and goodwill impairment of economy hotels operating as at the financial statements closing date.

The implementation of IFRS 16 also has a significant impact on deferred tax assets. In connection with the reclassification of the perpetual usufruct of land obtained free of charge from the statement of financial position, as at the date of application of the new standard, the provision of PLN 46.8 million for deferred income tax resulting from market valuation of these rights was dissolved.

A new item, which appeared both in non-current and current assets, is the net investment in the lease resulting from sub-lease agreement of a part of office space executed by Orbis S.A. until April 2024. The total value of the investment as at December 31, 2019, is PLN 3.8 million.

As regards the current assets, the items that changed most in 2019 included cash and cash equivalents, loans granted, trade receivables and other non-current receivables.

Under the current assets item, the most important sub-item are cash and cash equivalents of PLN 1 440.3 million, accounting for 38.2% of total assets. The increase of this item by PLN 1 081.2 million as compared to December 2018 is attributable primarily to payment received for the sale of asset light business, repayment of loans granted tor elated companies and dividend received from the Czech subsidiary Katerinska Hotel s.r.o.

As at the end of past year, Orbis S.A. had loans granted to subsidiaries in the total amount of PLN 179.3 million, including PLN 156.5 million in current assets. All these loans were repaid at the end of 2019. More information on borrowings is presented in note 14 to the Separate Financial Statements of Orbis S.A. for 2019.

Increase in trade receivables (by PLN 36.5 million) at the end of December 2019 as compared to December 31, 2018 (PLN 25.1 million) is primarily attributable to receivables from Accor Group companies for purchases made by Orbis hotels from nominated suppliers.

Other current receivables (PLN 11.1 million) include mainly VAT receivables accounting for 75.9% of total other current receivables. As at December, 2018, the Group had other current receivables in total amount of PLN 5.9 million resulting from the sale of property, plant and equipment, i.e. the Mercure Mrągowo Resort & SPA hotel and the Mercure Kasprowy hotel in Zakopane; taxes, social insurance and other benefits receivable totalled PLN 13.5 million (including PLN 11.3 million from VAT).

As at December 31, 2019, assets classified as held for sale included the right of perpetual usufruct of land in Częstochowa of PLN 2.6 million (constituting a right-of-use asset of PLN 2.6 million recognised in accordance with IFRS 16 *Leases)* and undeveloped real property in Elbląg (PLN 0.7 million). On the other hand, as at December 31, 2018, under this item the Orbis Group reported a non-hotel real property located in Wrocław, including rights of perpetual usufruct of land, buildings and equipment of a total sum of PLN 8.7 million.

The Group financed its operations mainly from its own resources. As at December 31, 2019, the Group's equity totalled PLN 2 699.4 million (71.7% of equity and liabilities). The external capital (except for activities held for sale) equalled PLN 1 064.0 million, of which 55.1% were current liabilities and provisions.

As at December 31, 2019, Orbis S.A. had non-current and current interest-bearing liabilities of PLN 502.4 million (13.3% of equity and liabilities) from the bond issue. The maturity dates of the bonds are scheduled for 2020 and 2021.

At the end of 2019, the value of cash and cash equivalents exceeded the value of liabilities by PLN 671.9 million (including items classified under liabilities associated with assets held for sale).

In connection with the implementation of IFRS 16, a new category of liabilities, i.e. lease liabilities, was introduced into the statement of financial position. This item reports the current values of future lease payments discounted at the lessee's marginal interest rate. The total value of these liabilities at the end of December 2019 equalled PLN 266.0 million, of which PLN 244.0 million were non-current liabilities, PLN 19.3 million were current liabilities and PLN

2.7 million was recognised under liabilities related to assets held for sale (lease of the right to perpetual usufruct to land in Częstochowa).

The prepayment related to the sale of the Giewont hotel in Zakopane, reported at the end of December 2018 as non-current deferred income, was reclassified to the result on the sale of real property in the profit and loss account in 2019 in connection with the signing, at the beginning of April 2019, of the contract of sale of the aforementioned hotel.

Fees for joining a hotel network recognised under current and non-current contract liabilities at the end of 2018, constituting an element of the asset light agreements, were sold in 2019 as part of the asset light business divestment transaction.

As at December 31, 2019, other current liabilities of the Company consisted predominantly, apart from liabilities under bond issue, of income tax liabilities (18.7%), trade liabilities (10.8%) and other current liabilities (7.4%) comprising mainly of tax and social security liabilities and accrued expenses related to employee benefits costs (including bonuses and unused holidays) and public and legal imposts (including taxes and questionable fees for perpetual usufruct of land until the end of 2018). Lower level of other current liabilities as at December 31, 2019 as compared to the end of December 2018 resulted specifically from decrease in the balance of provisions for perpetual usufruct fees disputed by the Company, in connection with the finalization in 2019 of several proceedings on perpetual usufruct fee rate updates. More information about finished proceedings is provided in the Note 29.3 to the Separate Financial Statements of Orbis S.A. for 2019.

The increase in income tax liability at the end of 2019 (PLN 109.7 million) versus the end of the past year (PLN 11.5 million) is mainly attributable to the recognition of income tax on the sale of the asset light business.

The increase in the balance of trade liabilities as compared to the end of 2018 is above all attributable to divestment of the asset light business and signing new hotel management agreements. As a result of this change, Orbis S.A. has incurred some new types of fees to be paid to Accor Group companies, which constituted the Company's own costs before the transaction (such as, for example, costs of sales, distribution and revenue management departments). In addition, the increase in the balance of liabilities is impacted by VAT (prior to the transaction Orbis S.A. had liabilities towards foreign companies belonging to the Accor Group, after the transaction the Company receives invoices from a Polish entity).

As at December 31, 2019, the contract liabilities item included advances and prepayments received for the provision of services to the client in the future which remained at the similar level as in 2018.

The balance of liabilities associated with tangible assets as at December 31, 2019 decreased as compared to the past year by PLN 28.0 million. This decrease results in particular from lower investment purchases made in the past month of 2019 as compared to December 2018.

As at December 31, 2019, liabilities associated with assets classified as held for sale included a lease liability of perpetual usufruct of land in Częstochowa (PLN 2.6 million).

4.4 Statement of Changes in Equity

As at December 31, 2019, equity amounted to PLN 2 699.4 million against PLN 2 121.5 million at the end of 2018.

The retained earnings of Orbis S.A. include a net profit of PLN 778.7 million (from continuing and discontinued operations in aggregate) for 12 months of 2019. The implementation of IFRS 16 and the related change in the recognition and measurement of the right of perpetual usufruct of land had a significant impact on the decrease of the Company's retained earnings in the reporting period. In connection with the implementation of the new standard, the effect of revaluation to market value (adjusted for the deferred tax impact) of the right of perpetual usufruct of land received in the past free of charge from the State Treasury was withdrawn from retained earnings.

In 2019, retained earnings of the Company were reduced by the amount of PLN 850.0 million and transferred to the reserves, established for the purpose of implementation of the Programme of acquisition of the Company's own shares for the purpose of their redemption.

4.5 Statement of Cash Flows

Statement of cash flow	2019	2018	% change
Cash generated by operating activities	271 772	258 334	5.2%
Net cash used in investing activities	843 855	111 984	653.5%
Net cash generated by financing activities	(34 486)	(87 813)	60.7%
Total net cash	**1 081 141**	**282 505**	**282.7%**
Cash and cash equivalents at the end of period	**1 440 349**	**359 170**	**301.0%**

During 12 months of 2019, the net cash flows of Orbis S.A. amounted to PLN 1 081.1 million (PLN 282.5 million in 2018). The following factors had contributed to the cash flows in the analysed period:

- **Cash flows from operating activities**

  Good operating results, growth of sales and change in operating activities in connection with the divestment of the asset light business contributed to higher net cash flows from operating activities in 12 months of 2019 as compared to the corresponding period of the past year (respectively PLN 271.8 million in 2019 and PLN 258.3 million in 2018). Additionally, the implementation of IFRS 16 had a positive impact on the level of cash flows from operating activities, as payments of lease instalments are now disclosed in cash flows from financing activities.
  Higher income tax payments are the result of higher advance payments on account of the income tax as compared to the past year as well as settlement of income tax for 2018 (the CIT advance payment method was implemented by the company in 2018, hence there were no such payments in 2018) as well as the adjusted CIT payments including interest in connection with the adjustment of receivables resulting from services provided by Orbis S.A. to the subsidiary Orbis Kontrakty Sp. z o.o. during the period from 2013 to 2018

- **Cash flows from investing activities**

  The principal reason behind positive cash flows of PLN 843.9 million in the period from January to December 2019 (versus PLN 112.0 million in 12 months of 2018) were, among others, inflows from the divestment of the asset light business (PLN 579.5 million), repayments of loans granted to related parties (PLN 173.3 million), dividend received from subsidiaries of Orbis Kontrakty Sp. z o.o. and Katerinska Hotel s.r.o. (PLN 164.7 million in aggregate) and interest income (PLN 10.0 million, including PLN 5.8 million of interests from deposits and PLN 4.2 million from repayments of loans granted to subsidiaries). Cash outflows from investing activities of PLN 153.9 million were partially offset by cash inflows from the sale of non-current assets (PLN 63.6 million) including income from the sale of the ibis budget hotel in Toruń with the neighbouring real property and sale of non-hotel real property in Wrocław and Szczecin. Furthermore, during 12 months of 2019, the Orbis generated PLN 6.7 million of inflows from other investing activities of which PLN 3.9 was the last instalment payable under the sale transaction of Mercure Kasprowy hotel in Zakopane, PLN 2.0 million of last instalment payable under the sale transaction of Mercure Mrągowo Resort & SPA hotel and PLN 0.7 million of prepayment received in connection with the sale of real property in Częstochowa and Elbląg.

- **Cash flows from financing activities**

  The cash flows from financing activities of Orbis S.A. during 12 months of 2019 were negative and equalled PLN -34.5 million. They include lease payments of a total of PLN 20.5 million and repayment of interest on bonds (PLN -14.0 million). On the other hand, in the corresponding period of 2018, the negative cash flows from financing activities were at the level of PLN -87.8 million and resulted from dividend payment to Orbis shareholders in the amount of PLN 73.7 million and payment of interest on bonds in the total amount of PLN 14.1 million.

4.6 Loans Granted

As at December 31, 2019, Orbis S.A. did not have any receivables under loans granted. As at December 31, 2018, Orbis S.A. had the following receivables under loans granted to its subsidiaries:

Date of agreement	Loan amount and currency (in thousands) as at December 31, 2018	Interest rate	Date of repayment of the last instalment	As at December 31, 2018
Accor Pannonia Hotels Zrt.				**131 150**
20.12.2016	EUR 30 500	EURIBOR 6M + margin 2.5%	31.12.2019	131 150
UAB Hekon				**28 810**
27.07.2017	EUR 1 000	EURIBOR 6M + margin 2.5%	31.12.2019	4 300
31.10.2017	EUR 3 000	EURIBOR 6M + margin 2.5%	31.12.2020	12 900
09.05.2018	EUR 1 000	EURIBOR 6M + margin 2.5%	31.12.2019	4 300
26.06.2018	EUR 1 700	EURIBOR 6M + margin 2.5%	31.12.2020	7 310
Accor Hotels Romania s.r.l.				**19 381**
28.06.2018	RON 21 000	ROBOR 6M + margin 2.2%	30.06.2022	19 381
TOTAL LOANS GRANTED				**179 341**
Non-current loans;				22 815
Current loans				156 526

Loans granted to Accor Pannonia Hotels Zrt.

A loan was granted to the Hungarian company in 2016 for a total of EUR 81.0 million (which by virtue of an annex to the agreement dated June 30, 2017, was divided into two loans with a value of EUR 35.0 million and EUR 46.0 million).

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

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

Loans granted to UAB Hekon

On December 31, 2018, Orbis S.A. had four loans granted to the Lithuanian subsidiary UAB Hekon. Loans were granted to finance the acquisition of a hotel building located in Vilnius, including the ownership title to the land and parking places.

Loans granted to Accor Hotels Romania s.r.l.

At the end of December 2018, the Company also had a receivable of RON 21.0 million under the loan granted on June 28, 2018, to a subsidiary Accor Hotels Romania s.r.l. The loan was granted to finance the purchase of the Mercure Unirii hotel by the Romanian company.

Pursuant to the signed agreements, interests are payable for 6-month periods, at the end of June and December of each year, and if the variable rate (EURIBOR 6M or ROBOR 6M) is lower than zero, the loan interest rate equals the interest rate margin indicated in the agreement.

In 2019, Orbis S.A. received total PLN 4 156 thousand as interest on loans granted, of which PLN 2 761 thousand from Accor Pannonia Hotels Zrt. (equivalent to EUR 647 thousand), PLN 604 thousand from UAB Hekon (equivalent to EUR 142 thousand) and PLN 791 thousand from Accor Hotels Romania s.r.l. (equivalent to RON 878 thousand).

All loans to be repaid to Orbis S.A. as at December 31, 2018, were repaid in 2019. No new loans were granted in the reporting period. The total proceeds of Orbis S.A. from repayment of loans by subsidiaries in 2019 amounted to PLN 173 270 thousand, including PLN 130 050 thousand (EUR 30.5 million) from the Hungarian company, PLN 28 563 thousand from the Lithuanian company (EUR 6.7 million) and PLN 14 657 thousand from the Romanian company (EUR 16.3 million). Moreover, the amount of RON 4.7 million was set-off against liabilities to the Romanian company.

4.7 Ratio Analysis of the Orbis S.A. Financial Statements

An analysis covering margin, profitability, efficiency and financing ratios has been made on the basis of the financial statements (income statement and statement of financial position) of Orbis S.A. The below presented analysis concerns the continuing operations.

Changes in the margin and profitability ratios are attributable to increase in Orbis S.A. revenues and results, namely EBITDAR, EBITDA and EBIT described in Section 4.2. On the other hand, change in the payables deferral period results mainly from significantly lower operating expenses incurred by Orbis S.A. in 2019. The financing and liquidity ratios also changed due to a higher balance of cash and an increase in liabilities resulting from the introduction of IFRS 16 "Leases" starting from 2019.

Selected financial ratios of Orbis S.A.	2019	2018
Margin ratios		
EBITDAR margin in %	41.5	32.7
EBITDA margin in %	41.5	31.9
EBIT margin in %	31.0	17.4
Profitability ratios		
Return on Equity (ROE)*	15.5%	6.1%
Return on Assets (ROA)*	10.7%	4.6%
Return on Sales (ROS)	38.4%	14.4%
Efficiency ratios		
Receivables collection period (in days)	12	11
Payables deferral period (in days)*	29	25
Inventory turnover (in days)	2	2
Financing ratios		
Net debt (in PLN million)	-	142.9
Debt-to-equity**	28.3%	25.5%
Non-current assets cover ratio	118.9%	93.4%
Liquidity ratios		
Current ratio	2.55	3.14

** calculated based on opening balance (restated data)*
*** total debt/total equity and liabilities*

Orbis S.A. meets its obligations towards counterparties, obligatory public imposts and investment obligations on a daily basis. The Company pays its liabilities using cash generated from operating income and using external sources of capital, i.e. overdrafts, cash from issue of bonds, credits facilities and loans, depending on the needs. As at December 31, 2019, the total value of overdrafts unused by the Company totalled PLN 20 million. At the end of 2019 Orbis S.A. reported the surplus of cash over finance liabilities.

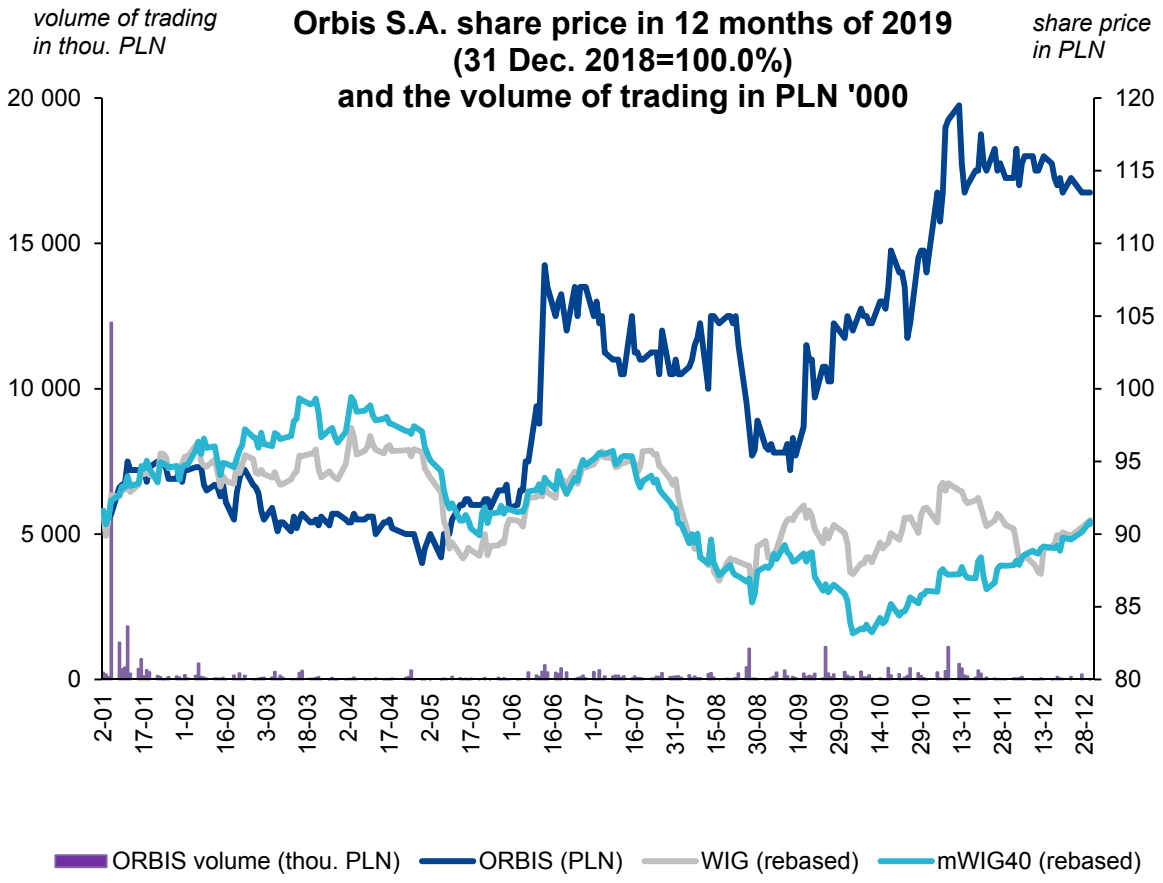
ORBIS S.A. SHARES

Mercure Gdańsk Posejdon

5 ORBIS S.A. SHARES

5.1 Share Price

From January 1, 2019, to December 31, 2019, the price of Orbis S.A. shares ranged from PLN 88.0 to PLN 119.5. Following the announcement of the outcome of the tender offer for Orbis shares on January 28, 2019, 14.2% of shares remained in free float, of which 10% were held by open-ended pension fund Nationale-Nederlanden Otwarty Fundusz Emerytalny and voluntary pension fund Nationale-Nederlanden Dobrowolny Fundusz Emerytalny managed by fund manager company Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A., which means that the share trading volume is lower. In the second quarter of 2019, we have witnessed a significant rise in the share price in response to the announced strategic changes in the Company. The average trading volume of Orbis S.A. shares in 2019 equalled PLN 0.17 million (1 800 shares). On December 30, 2019, the share price was at the level of PLN 113.5, which represents a 26% increase as compared to the end of 2018.



5.2 Shareholder Structure

As at December 31, 2019, the share capital of Orbis S.A. comprised the share capital disclosed in the amount set out in the Statutes and entered in the court register, adjusted for effects of hyperinflation, i.e.:

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

The value of Orbis S.A. share capital did not change throughout 2019 and till the date of publication of this Report.

On 26 November 2018, pursuant to Article 74 section 1 and Article 91 section 6 of the Act of July 29, 2005, on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, Accor S.A. (as the buyer) announced a tender offer for the sale of Orbis S.A. shares.

In response to the tender offer, shareholders of Orbis S.A. subscribed for the sale of Orbis S.A. shares representing in total 33.15% of the total number of Orbis S.A. shares (15 274 116 shares). Accor S.A. purchased the subscribed shares on January 23, 2019.

As at the date of publication of the financial statements, shareholders who held, directly or indirectly through subsidiaries, at least 5% of the total number of voting rights at the General Meeting of Orbis S.A. Shareholders, determined on the basis of notifications specified in Article 69 of the Act on Public Offering and the Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies, included:

Shareholder (description)	Number of shares held and voting rights at the GM (based on notifications)	% of total number of shares and voting rights at the GM
Accor S.A.	39 550 531	85.84
of which: Accor S.A. subsidiary – Accor Polska Sp. z o.o.	*2 303 849*	*4.99*
Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny manager by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.*	4 710 265	10.22

** The Orbis S.A. shareholding status by Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Voluntary Pension Fund (Dobrowolny Fundusz Emerytalny) determined based on notifications received (above) differs from the shareholding status of individual shareholders established on the basis of lists of shareholders who had the right to participate in the Extraordinary General Meeting of Shareholders held on November 12, 2019. The shareholding status by Nationale-Nederlanden OFE and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny determined in this way amounted to 4 742 221.*

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

Orbis' strategic investor is AccorHotels - a global leader in travel and lifestyle offering unique experiences in more than 5.0 thousand hotels, resorts and residences in 110 destinations. The facilities operates under 39 brands ranging from luxury to economy segments.

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

As at the date of publication of this Directors' Report, the Vice-President of the Management Board, Mr. Ireneusz Andrzej Węgłowski, held 3 000 shares in Orbis S.A. During 12 months of 2019, Mr. Ireneusz Węgłowski sold 1 250 shares. Other members of the Management Board did not hold any Company shares.

Among members of the Supervisory Board, as at the date of publication of this Directors' Report, only Mr. Krzysztof Gerula held 200 shares in Orbis S.A. The shareholding did not change since the appointment of the Supervisory Board on June 14, 2019.

Except for the shareholding by Mr. Ireneusz Węgłowski, no changes occurred in respect of the holding of Orbis S.A. shares by members of the Management Board and members of the Supervisory Board in 2019 and till the date of publication of this Directors' Report. The information concerning trading in Orbis shares was published in current reports available at the Company's website: http://www.orbis.pl/en/investor-relations/current-reports.

Information about agreements that may result in future changes in the proportion of shares held by the existing shareholders

On December 16, 2019, the majority shareholder of Orbis S.A. - Accor S.A., signed a binding share purchase agreement in respect of 85.8% of Orbis' shares with AccorInvest Group S.A. at the price of PLN 115 per one share. The sale of the Orbis' shares by Accor S.A. will be conducted in the form of a public tender offer launched in respect of all of the Issuer's shares. As per information received from Accor S.A., the Orbis' shares purchase transaction is expected to be completed by the end of Q1 2020.

As a consequence of conclusion of the aforementioned sale agreement, on December 17, 2019, AccorInvest Group S.A. incorporated in Luxembourg ("Offeror"), pursuant to Article 74 section 1 of the Act of July 29, 2005, on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies („the Act"), announced a tender offer for the sale of Orbis S.A. shares, in connection with the planned acquisition of Orbis shares carrying 100% of the total number of votes at the Company's General Meeting ("Tender Offer").

As at the date of the tender offer, AccorInvest Group S.A. did not hold any shares of Orbis S.A. As a result of the tender offer, AccorInvest intended to acquire all shares in Orbis S.A., i.e. 46 077 008 shares of the Company representing 100% of the total number of shares in Orbis S.A. share capital and carrying the same number of votes at the General Meeting of Orbis S.A. Shareholders. It intends to acquire the shares only if, at the end of the subscription period, the subscriptions cover at least 30 410 825 Company shares, which – when rounded off – corresponds to 66% of votes at the General Meeting and 66% of the Company's share capital. As per the terms of the Tender Offer, subscriptions for shares of Orbis S.A. will be accepted from February 5 to March 5, 2020. The acquisition price of Orbis S.A. shares announced in the Tender Offer is PLN 115 per share. The transaction of share acquisition on the Warsaw Stock Exchange is planned to take place on March 10, 2020, while the transaction settlement is planned to take place on March 11, 2020.

If the law so permits, the Offeror can decide to take steps aimed at withdrawal of Orbis S.A. shares from trading on the regulated market operated by the Warsaw Stock Exchange. Moreover, if as a result of the Tender Offer, the Offeror reaches at least 95% of the total number of votes at the General Meeting of Orbis S.A., the Offeror does not exclude starting a squeeze-out of the minority shareholders. If the Offeror decides to start the squeeze-out process, the process will start no later than 3 months after the date when the Offeror achieves or exceeds the threshold of 95% of the total number of votes at the General Meeting of the Company and in accordance with the requirements of Article 82 of the Act.

On January 27, 2020, acting pursuant to Article 80 of the Act, the Management Board of Orbis S.A. announced to the public the position of the Company's Management Board stating that the price suggested in the Tender Offer reflects the fair value of Orbis. The position on the Tender Offer was communicated together with the opinion obtained from IPOPEMA Securities S.A. of Warszawa (as referred to in Article 80.3 of the Act, which opinion is subject to the assumptions, limitations and qualifications specified in the Act), where IPOPEMA stated that the price corresponded to the fair value of Orbis company.

5.3 Dividends Paid

By virtue of resolution of the General Meeting of Shareholders dated June 14, 2019, it was decided to retain the total net profit in the amount of PLN 141 901 thousand generated by Orbis S.A. in 2018 as retained earnings set aside for statutory purposes.

No decision concerning distribution of the net profit for 2019 has been taken by the date of publication of the financial statements.

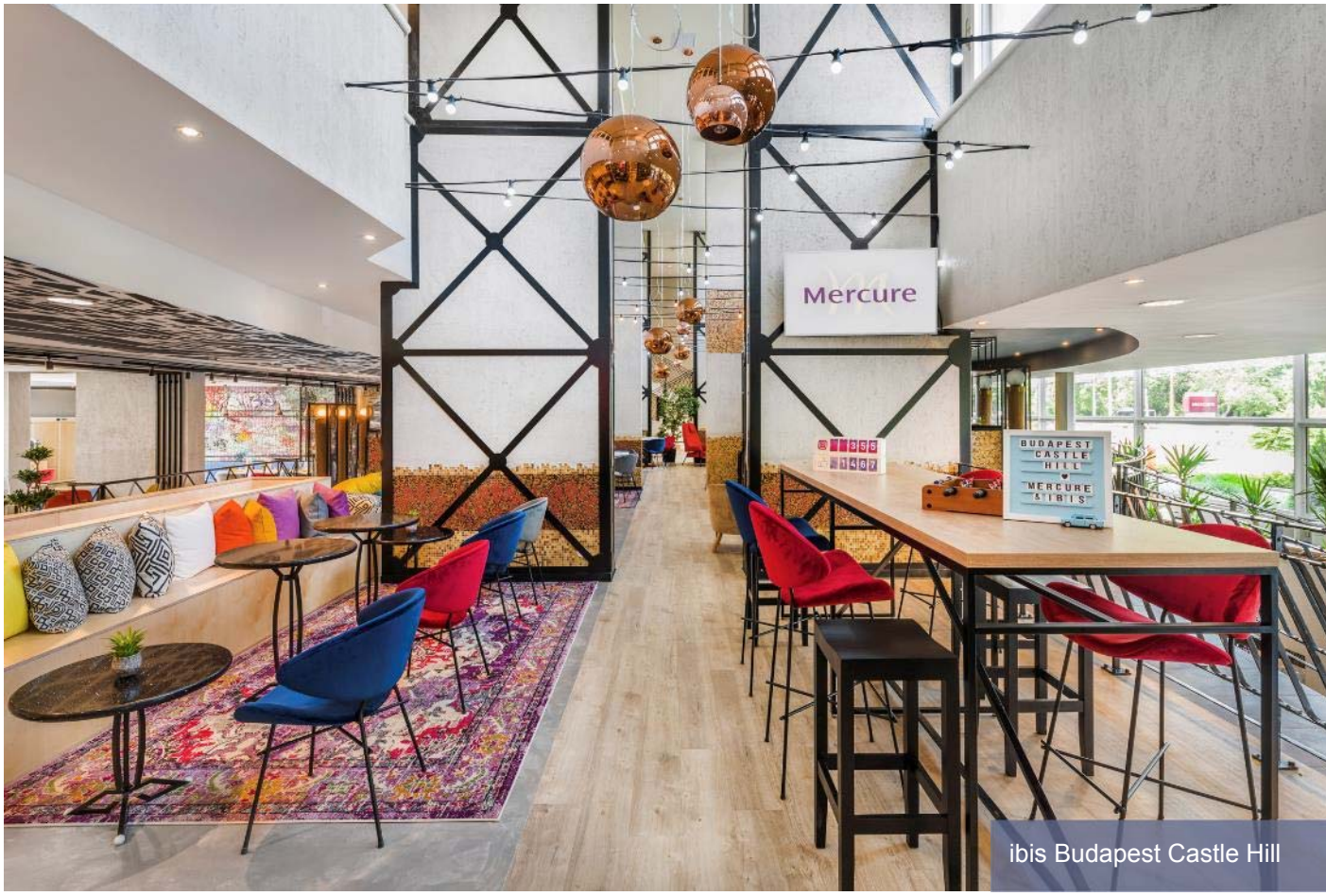
5.4 Investor Relations

Whilst fulfilling exhaustively its information disclosure obligations, Orbis S.A. pursues an open information policy. The Management Board of the Company offers comments and responds to investor inquiries during conferences organised after publication of results. Individual meetings with investors and analysts are held in the Company's headquarters. Company representatives participate in the so-called Investor's Days organised by financial institutions.

All financial data and information published by Orbis are available at the www.orbis.pl corporate website. Corporate tabs of the website are updated and expanded with new content in line with service users' requests. To facilitate communication, particularly for individual investors, a live chat is held after the publication of quarterly results. The investor service meets the requirements set for issuers by the Warsaw Stock Exchange, allows to search archived current and interim reports that the Company sends via the ESPI system, and to follow the share price. In 2019, the www.orbis.pl website was one of the three top rated websites of WSE listed companies in the Issuer's Golden Website competition organized by the Polish Association of Listed Companies (SEG).

Orbis S.A. is a supporting member of the Association of Stock Exchange Issuers, an association representing companies listed at the Warsaw Stock Exchange. The Company protects its corporate image among individual investors and the public as well as initiates and implements Corporate Social Responsibility projects.

CORPORATE GOVERNANCE DECLARATION



ibis Budapest Castle Hill

6 CORPORATE GOVERNANCE DECLARATION

6.1 Principles of Corporate Governance Applicable to Orbis S.A.

In 2019 Orbis S.A. was subject to the rules of corporate governance contained in the code of "Best Practice for GPW Listed Companies 2016" adopted by the Supervisory Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A. (GPW)) by virtue of the Resolution No. 26/1413/2015 dated October 13, 2015, effective as of January 1, 2016.

The text of the corporate governance rules under the title "Best Practice for GPW Listed Companies 2016" is available to the public at the following website: https://www.gpw.pl/pub/files/PDF/RG/DPSN2016_EN.pdf and available for review at the headquarters of the Warsaw Stock Exchange.

The Company is guided by the principles of effective and transparent information policy and communication with the market and investors when complying with its information disclosure obligations relating to application of the rules of corporate governance. First and foremost, in its current report no. 1/2016 (EBI) dated January 29, 2016, the Company informed the market about the scope of application of rules of corporate governance under the "Best Practice for GPW Listed Companies 2016" effective as of January 1, 2016. All information pertaining to the corporate governance rules adopted by the Company is available on the corporate website: http://www.orbis.pl/en/about-orbis/corporate-governance

At the same time, the Company runs its www.orbis.pl corporate website through which it implements the rules specified in Chapter 1 of the Best Practice for GPW Listed Companies 2016. The website contains information useful for investors and presentations on key events relating to the Company's operations. Furthermore, during the financial year the Management Board of Orbis S.A. organized roadshows for investors and on-line chats, during which details of financial results of the Company and the entire Orbis Group were discussed. Recorded chats are available at the Company's website under the Investor Relations/Information Materials tab.

6.2 Principles of Corporate Governance Not Applied by Orbis S.A.

In 2019 Orbis S.A. decided not to apply the following principles of corporate governance contained in the "Best Practice for GPW Listed Companies 2016", thus continuing the departure from these principles formally announced in 2016 (the report no. 1/2016 of January 29, 2016):

Disclosure Policy and Investor Communications

Detailed principles

I.Z.1.16. Information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting,

The Company does not apply the above principle.

EXPLANATION OF THE REASONS: The Company does not apply the principle no. IV.Z.2., therefore, as a result, this principle is not applied as well.

Internal Systems and Functions

Detailed principles

III.Z.6. Where the company has no separate internal audit function in its organisation, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated.

Not applicable.

EXPLANATION OF THE REASONS: The Company has a separate internal audit function.

General Meeting and Shareholder Relations

Recommendation

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

1. real-life broadcast of the general meeting,
2. real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting,
3. exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

The Company does not apply the above principle.

EXPLANATION OF THE REASONS: The Company does not apply this principle due to the technical and organizational risks that may affect a proper and smooth conduct of the general meeting, including:

- the risk of distortions during the broadcast,
- potential difficulties in establishing the identity of shareholders/plenipotentiaries outside the meeting room of the general meeting of shareholders as well as determining the voting results taking into account the votes cast over distance, particularly in the case of voting by secret ballot.

IV.R.3. Where securities issued by a company are traded in different countries (or on different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

Not applicable.

EXPLANATION OF THE REASONS: Shares of the company are not traded in different countries (or in different markets) or in different legal systems.

Detailed principles

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

The Company does not apply the above principle.

EXPLANATION OF THE REASONS: Immediately after the end of the General Meeting of Shareholders, the Company publishes the adopted resolutions in the form of a current report as well as publishes audio recordings of the General Meeting at its website, so that shareholders can follow in detail the matters discussed during General Meetings of Shareholders. Therefore, the Company does not see the need to implement this principle.

Remuneration

Detailed principles

VI.Z.1. Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

Not applicable.

EXPLANATION OF THE REASONS: No incentive schemes for members of the management board and key managers are presently deployed in the Company.

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

Not applicable.

EXPLANATION OF THE REASONS: No incentive schemes for members of the management board and key managers are presently deployed in the Company.

VI.Z.4. In this activity report, the company should report on the remuneration policy including at least the following:

1. general information about the company's remuneration system,
2. information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group,
3. information about non-financial remuneration components due to each management board member and key manager,
4. significant amendments of the remuneration policy in the last financial year or information about their absence,
5. assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

The Company does not apply the above principle.

EXPLANATION OF THE REASONS: In its annual reports the Company publishes information concerning remuneration of members of the Company's governing bodies to the extent required by the law. However, the Company does not present the information in such detail, as specified in the above principle.

6.3 Internal Control and Risk Management in the Process of Financial Statements Compilation

The process of financial statements compilation

Risk management during the process of compiling the separate and consolidated financial statements of the Orbis Group involves, in the first phase, identifying and assessment of risks and then taking relevant actions resulting in the elimination, or at least reduction, of the risks identified.

Compilation of the financial statements of Orbis S.A. and of the Orbis Group is supervised by the Finance Director (CFO) with the support of the President of the Management Board. The Financial Reporting and Consolidation Team in Orbis S.A. is in charge of compiling the separate and consolidated financial statements.

The consolidated financial statements of the Orbis Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) on the basis of the separate financial statements of the parent company Orbis S.A. and consolidation packages of subsidiary companies. The parent company keeps its books of accounts and prepares its financial statements in accordance with the IFRS. The remaining consolidated companies operating abroad (refer to Section 1.2) keep their books of accounts in accordance with local accounting standards, while the reporting packages which are the basis for the preparation of the Orbis Group's consolidated financial statements, are duly adjusted so as to ensure their compliance with IFRS standards applied by the Group. Management Boards of these companies are responsible for the preparation of subsidiary companies' consolidation packages according to IFRS. The reporting packages received from consolidated subsidiaries are then verified by the Financial Reporting and Consolidation Team.

The process of approving the financial statements has been introduced in the company. The separate financial statements of Orbis S.A. and the consolidated financial statements of the Orbis Group for quarterly, semi-annual and annual reporting periods are approved, prior to their publication, by the Management Board of Orbis S.A. Moreover, these reports are presented to the Supervisory Board of Orbis S.A. within the frame of the tasks of the Audit Committee (described in Section 6.11).

Furthermore, the process of risk management is carried out by way of verification of the financial statements by an independent licensed auditor. The annual separate financial statements of Orbis S.A. and the annual consolidated financial statements of the Orbis Group are audited by an auditors firm which publishes the audit report. The semi-annual separate and consolidated financial statements are reviewed and the review report is issued.

The information about the audit firm that audits the financial statements of the Group and the Group companies is provided in Section 7.2.

Internal control

The internal control system in place in the Orbis Group is based on functional control exercised by its management in respective hotels of the Company and in the organisational units of the Head Office. This control relies on operational procedures as well as control and supervision procedures implemented in the individual organisational units.

Risk management in respect of preparation of financial statements incorporates on-going audit of the internal control system exercised by the Internal Audit Team of the Company. The internal control system covers major processes in the Company, including those areas that affect, directly or indirectly, correctness of financial statements. Internal audits are carried out upon request of, and to the extent determined by, the Management Board and in consultation with the Audit Committee appointed from amongst the Supervisory Board members.

6.4 Shareholders of Major Blocks of Orbis S.A. Shares

The structure of Orbis S.A. shareholding has been discussed in detail in Section 5.2 of this Directors' Report on the Operations of the Orbis Group for 2019.

6.5 Special Controlling Powers of Securities' Holders

Holders of securities issued by Orbis S.A. did not have any special controlling powers related to the said securities.

6.6 Shareholder Restrictions on Exercise of Voting Rights or Securities' Transfer

No restrictions on the exercise of voting rights by shareholders and no restrictions on the transfer of the Company's securities have been introduced in Orbis S.A.

6.7 Rules of Appointment and Recalling Management Board Members and Their Powers

The Management Board

The Management Board is composed of 3 to 7 members. The joint tenure of Management Board members is three years. The Supervisory Board appoints and recalls the President of the Management Board and, having sought the opinion of the President of the Management Board, the remaining members of the Management Board. The President, any member of the Management Board as well as the entire Management Board may be recalled by the Supervisory Board prior to the expiry of their tenure. In the event of a reduction in the number of the Management Board members during their tenure to fewer than 3 members, the Supervisory Board acting upon its own initiative or upon request of one of the remaining members of the Management Board convenes a meeting of the Supervisory Board to fill the vacancy in the Management Board.

All matters related to managing the affairs of the Company which have not been reserved by law or Company's Statutes for the General Meeting of Shareholders or the Supervisory Board fall within the scope of tasks of the Company's Management Board.

The Management Board manages the affairs of the Company headed by the President of the Management Board and represents the Company. Each member of the Management Board has the right and the duty to manage the affairs of the Company. Matters that do not exceed the scope of ordinary management of the Company may be dealt with by any member of the Management Board without a prior resolution of the Management Board. Each member of the Management Board may object to a certain matter being dealt with by another member of the Management Board or the manner of dealing with such matter and may demand that a meeting of the Management Board devoted to this issue be convened. Each member of the Management Board must inform the remaining members of the Management Board about each and every matter dealt with by such member, if its value exceeds PLN 500 000. Matters exceeding the scope of ordinary management of the Company and matters objected to by any member of the Management Board require passing a resolution at a Management Board meeting. The ordinary management of the Company involves managing the overall affairs of the Company as well as such legal deeds and actions undertaken by the Management Board that should be carried out under regular circumstances in order to properly discharge the Company's duties.

Taking any actions by the Management Board that affect the Company's share capital, including issue of shares, options, as well as issue of debt instruments, including, but not limited to, bonds and convertible bonds as well as redemption of shares, requires a prior consent of the Supervisory Board.

Furthermore, the Management Board must seek a prior consent of the Supervisory Board before taking any of the following actions:

1) acquisition or sale of real property, right to perpetual usufruct or share in a real property of a net value in excess of PLN 50 000 000 (fifty million zlotys), as well as executing another transaction including sale, acquisition, credit facility and guaranty of a net value in excess of PLN 50 000 000 (fifty million zlotys); in case of transactions with a net value exceeding the amount of PLN 30 000 000 (thirty million zlotys), the material terms and conditions of the transaction must be presented to the Supervisory Board after the said transaction is executed,
2) transfer by the Company of shares or interest in the Company's subsidiaries, irrespective of the value of such shares or interest, transfer by the Company of shares or interest in other companies, where the transaction value exceeds PLN 30 000 000 (thirty million zlotys) as well as granting consent for the acquisition or transfer by a Company's subsidiary of shares or interest in other companies, where the transaction value exceeds PLN 30 000 000 (thirty million zlotys),
3) acquisition by the Company of shares or interest in other commercial companies, regardless of the value of such shares or interest,
4) executing an agreement with a licensed auditor,
5) all actions affecting the Company's share capital, including issue of shares, options, as well as issue of debt instruments, including, but not limited to, bonds and convertible bonds as well as redemption of shares,
6) approval of plans and the Company's development strategies prepared by the Management Board as well as its annual budgets, including annual capital expenditure and investment plans,
7) preparation and launching schemes relating to employee participation in the Company's profits, including plans relating to issue of options for the Company's shares as well as material amendments to collective employment agreements binding in the Company as well as major changes in social policy pursued by the Company,
8) proposals pertaining to distribution of the dividend,
9) advance payments to shareholders against the expected dividend (in accordance with rules laid down in the Code of Commerical Companies and Partnerships).

On November 12, 2019 the Extraordinary General Meeting of Orbis S.A. Shareholders adopted a resolution granting consent and authorising the Management Board of Orbis S.A. to acquire fully paid-up common bearer shares of the Company for the purpose of their redemption. The Company may repurchase no more than 13 076 923 Shares representing jointly no more than 28.38% of the Company's share capital. The repurchase price of the Shares cannot be lower than PLN 65.00 per Share and no higher than PLN 150.00 per Share. The authorisation granted to the Management Board for the repurchase of the Shares shall cover the period until November 12, 2021. The determination of the repurchase price of the Shares, the number of the repurchased shares in a given tranche and the method in which the repurchase of the Shares shall require consent of the Supervisory Board. At the same time, to finance the repurchase of shares, the Extraordinary General Meeting of Orbis S.A. Shareholders created a reserve capital of PLN 850 million.

The scope of responsibility of individual Management Board members is as follows:

Gilles Clavie, President and Chief Executive Officer:

- strategy, planning
- hotel operations
- sales, marketing, distribution
- legal department
- human resources
- internal audit and risk management

In addition, from August 19, 2019, after the resignation of the Member of the Management Board for Finance:

- accounting
- financial reporting and consolidation
- cash management and bank relations
- financial controlling.

Ireneusz Węgłowski, Vice-President for Corporate Affairs and Investor Relations:

- investor relations
- CSR
- PR and corporate communication

Dominik Sołtysik, Member of the Management Board for Property Management:

- asset management
- hotel network development
- modernization and upgrading of the hotel portfolio

Marcin Szewczykowski, Member of the Management Board for Finance (until August 19, 2019, in connection with his resignation):

- accounting
- financial reporting and consolidation
- cash management and bank relations
- financial controlling.

6.8 Principles of Modifying the Orbis S.A. statutes

The Company operates pursuant to its Statutes. The last modification of the Statutes was introduced by the Extraordinary General Meeting of Orbis S.A. Shareholders on October 18, 2019. On November 8, 2019, the District Court for the Capital City of Warsaw in Warsaw, XXII Commercial Division of the National Court Register, registered the modification of the Statutes in the register of entrepreneurs kept by the court under the number: (KRS) 0000022622. The Company announced the registration of the modification of "Orbis" S.A. Statutes by the court in the current report no. 43/2019 of November 15, 2019. The consolidated text of the Statutes was determined by the Resolution no. 10/XI/2019 of the Supervisory Board of "Orbis" S.A. dated November 21, 2019. Company announced the consolidated text of the "Orbis" S.A. Statutes in the current report no. 44/2019 of November 21, 2019.

Modifications to the Statutes are introduced by the General Meeting of Shareholders upon the request of the Management Board submitted together with a written opinion of the Supervisory Board or upon shareholder request approved by the Management Board and the Supervisory Board. A resolution adopted by the General Meeting of Shareholders by a simple majority of votes cast is required to amend the Statutes.

Furthermore, pursuant to §30 of the Company's Statutes and subject to the applicable law, the Company's core business may be altered without the obligation on the part of the Company to buy back its shares.

Orbis S.A. Statutes and by-laws specifying rules of procedure the Company governing bodies are available at the Company's website: http://www.orbis.pl/en/about-orbis/corporate-governance/statute-prospectus-bye-laws.

6.9 Description of the General Meeting of Shareholders, its Basic Powers, Shareholder Rights and Their Exercise

Operations of the General Meeting of Shareholders and shareholders' powers are regulated by law, in particular by the Code of Commercial Companies and Partnerships as well as the Company's Statutes and the By-Laws of the General Meeting of Orbis S.A. Shareholders. These documents (the Company's internal regulations) are published at the Company's corporate website: http://www.orbis.pl/en/about-orbis/corporate-governance/statute-prospectus-bye-laws.

The General Meeting may be annual or extraordinary. The Annual General Meeting of Shareholders is convened by the Management Board of the Company within 6 months following the end of each financial year. The Extraordinary General Meeting of Shareholders is convened by the Management Board of the Company at the initiative of the Management Board, upon a written request of the Supervisory Board, members of the Supervisory Board elected by the employees or shareholders representing at least 1/20th of the share capital. The Extraordinary General Meeting of Shareholders should be convened within 2 weeks from the date of filing such a request.

The Supervisory Board has the right to convene the Annual General Meeting of Shareholders if the Company's Management Board failed to convene the Annual General Meeting within the prescribed time limit and to convene Extraordinary General Meeting if the Supervisory Board deems it desirable to hold the Meeting. Furthermore, the Supervisory Board and members of the Supervisory Board appointed by the Company's employees have the right to convene the General Meeting, if the Management Board failed to convene the General Meeting within 2 weeks from the date of filing such a request.

Shareholders representing at least half of the Company's share capital or at least half of the total votes in the Company may convene the Extraordinary General Meeting of Shareholders. The shareholders appoint the Chairperson of the Meeting.

The General Meeting of Shareholders may adopt resolutions only on matters included in its agenda. The Supervisory Board, members of the Supervisory Board elected by employees of the Company or shareholders representing at least 1/20th of the Company's share capital may request that certain matters be placed on the agenda of the forthcoming General Meeting of Shareholders. During the General Meeting each shareholder may propose draft resolutions concerning matters on the agenda of the Meeting.

A General Meeting of Shareholders is valid if the number of shares represented thereat is equivalent to at least 25% of the Company's share capital. Resolutions of the General Meeting of Shareholders are adopted by a simple majority of votes cast in favour of a resolution, unless the Statutes provide otherwise and unless mandatory provisions of the Polish Partnerships and Companies' Code require other majority. A resolution is deemed adopted if the number of votes cast in favour of a resolution is greater than the number of votes cast against it. Abstaining votes are not taken into account. Each share carries one vote at the General Meeting of Shareholders.

Only holders of the Company's shares as at 16 (sixteen) days prior to the date of the General Meeting (date of participation registration) may participate in the General Meeting of Shareholders.

A shareholder who is a natural person may participate in the General Meeting of Shareholders and exercise his voting rights either personally or through a proxy. A shareholder who is a corporate body or an organizational unit without a legal personality may participate in the General Meeting of Shareholders and exercise voting rights either through a person authorized to make statements of intention on its behalf or through a proxy.

The proxy to participate in the General Meeting and to exercise the right to vote must be given in writing or in an electronic form. In order to give a proxy in an electronic form via means of electronic communication, the appointing shareholder sends a notice in an electronic form concerning appointment of a proxy to the following mail address: zawiadomienie.ksh@orbis.pl.

Voting is open. Secret ballot is ordered on elections and on motions for recalling members of the company's governing bodies and liquidators, or motions concerning their answerability and personal matters. Furthermore, secret ballot is ordered upon request of even a single shareholder present or represented at the General Meeting. Resolutions concerning alteration of the Company's core business are always passed in open voting by roll call.

A General Meeting of Shareholders is opened by the Chairman of the Supervisory Board or a person appointed by the Chairman of the Supervisory Board. Thereafter the Chairperson of the General Meeting is elected from amongst persons authorized to vote.

The powers of the General Meeting of Shareholders include:

1) examination and approval of the Directors' report on the Company's activities and financial statements for the past financial year,
2) adopting a resolution concerning distribution of profits or coverage of losses,
3) granting a vote of approval to members of the Company's governing bodies in respect of performance of their duties,
4) alteration of the Company's core business,
5) amending the Company's Statutes,
6) increase or reduction of the share capital,
7) merger, division or transformation of the Company,
8) winding-up and liquidation of the Company,
9) issue of bonds, either convertible or with a priority warrant,
10) all decisions concerning claims for redress of damages inflicted by founding the Company, management or supervision over its affairs.

Apart from the abovementioned matters, also matters specified in the Code of Commercial Companies and Partnerships require a resolution of the General Meeting of Shareholders.

The powers listed in points 2, 4, 5, 6, 7, and 9 above are exercised by the General Meeting of Shareholders upon request of the Company's Management Board submitted along with a written opinion of the Supervisory Board. A request filed by shareholders on these matters should also include an opinion of the Company's Management Board and the Supervisory Board.

Furthermore, pursuant to §29.2 of the Company's Statutes, acquisition or transfer of real property, right to perpetual usufruct or share in a real property does not require a resolution of the General Meeting of Shareholders, except for transfer of such assets where the net transaction value exceeds PLN 200 000 000 (two hundred million zlotys).

Immediately after the closing of the General Meeting of Shareholders, the Company publishes the adopted resolutions in a current report as well as publishes on its website an audio record of the Meeting, so that shareholders can have access to issues raised during General Meetings of Shareholders.

If representatives of mass media are interested in participating in the General Meeting, Orbis S.A. admits their presence during the General Meeting upon a prior request being made via e-mail.

6.10 Composition of the Management Board and the Supervisory Board, Their Changes and Committees

The Management Board

In 2019, Orbis S.A. Management Board was composed of the following Members:

- Gilles Clavie – President of the Management Board, Chief Executive Officer,
- Ireneusz Węgłowski – Vice-President of the Management Board,
- Dominik Sołtysik - Member of the Management Board,
- Marcin Szewczykowski – Member of the Management Board, Finance Director (CFO) till August 19, 2019. On August 19, 2019, Mr. Marcin Szewczykowski submitted a resignation from the function of the Member of the Management Board of the Company with an immediate effect.

The Supervisory Board

On June 14, 2019, the Annual General Meeting of Orbis S.A. Shareholders appointed Members of the Supervisory Board of the 11th tenure. From January 1, 2019, till December 31, 2019, Orbis S.A. Supervisory Board was composed of the following Members:

- Franck Gervais – Chairman,
- Pierre Boisselier – Vice-Chairman,
- Krzysztof Gerula – Independent Member (appointed member of the Supervisory Board effective as of June 14, 2019),
- Christian Karaoglanian – Member,
- Krzysztof Kostro – Member (appointed member of the Supervisory Board effective as of June 14, 2019),
- Jean-Jacques Morin – Member,
- Piotr Nowjalis – Independent Member (appointed member of the Supervisory Board effective as of June 14, 2019),
- Laurent Picheral – Member ,
- Andrzej Procajło – Member,
- Jarosław Szymański – Member,
- Artur Gabor – Independent Member (member of the Supervisory Board till June 14, 2019),
- Jacek Kseń – Independent Member (member of the Supervisory Board till June 14, 2019),
- Andrzej Przytuła – Member (member of the Supervisory Board till June 14, 2019).

Supervisory Board Committees

From January 1 till December 31, 2019, Supervisory Board Committees were composed of the following members:

Audit Committee:

- Jean-Jacques Morin,
- Jacek Kseń - Chairman (till June 14, 2019),
- Artur Gabor (till June 14, 2019),
- Krzysztof Gerula (from June 14, 2019),
- Piotr Nowjalis (Member of the Audit Committee from June 14, 2019, Chairman of the Audit Committee from July 29, 2019).

Remuneration Committee:

- Jacek Kseń (till June 14, 2019),
- Laurent Picheral (till June 14, 2019),
- Franck Gervais (from June 14, 2019),
- Krzysztof Gerula (from June 14, 2019).

Corporate Social Responsibility Committee:

- Artur Gabor (till June 14, 2019),
- Andrzej Przytuła (till June 14, 2019),
- Krzysztof Kostro (from June 14, 2019),
- Piotr Nowjalis (from June 14, 2019),
- Laurent Picheral,
- Andrzej Procajło,
- Jarosław Szymański.

Information concerning remuneration of Members of the Management Board and the Supervisory Board is provided in Note 32.1 to the Consolidated Financial Statements of the Orbis Group for 2019.

6.11 Description of Operations of the Management Board, the Supervisory Board and the Committees

The Management Board

The Company's Management Board operates on the basis of the Code of Commercial Companies and Partnerships, the Company's Statutes and the By-Laws of the Management Board. The Management Board manages the affairs of the Company headed by the President of the Management Board and represents the Company. The Management Board is responsible for taking all decisions which have not been reserved for other governing bodies by virtue of the Code of Commercial Companies and Partnerships or the Company's Statutes. The following persons have signatory powers to represent the Company: the President of the Management Board acting jointly with a member of the Management Board, two members of the Management Board acting jointly, or member of the Management Board acting jointly with a holder of the power of attorney to represent the Company ("*Prokurent*"). Furthermore, persons acting under powers of attorney granted by the Management Board are also authorized to make declarations of intent, sign contracts and incur obligations on behalf of the Company.

Meetings of the Management Board are held at least once a month. Meetings of the Management Board are convened by the President of the Management Board upon his own initiative or upon request of three members of the Management Board. Meetings of the Management Board may be also convened upon initiative of the Supervisory Board or its Chairman.

The presence of at least half of the Management Board members is required for the Management Board's resolutions to be valid (in case of odd number of Management Board members, the number is rounded down to a whole number plus one member of the Management Board).

Resolutions of the Management Board are adopted by a simple majority of votes cast in favour of the resolution. The abstaining votes are not taken into account for the purpose of calculating the majority. If the number of votes cast in favour of a resolution is greater than the number of votes cast against the resolution, such resolution is deemed to have been adopted. In case of an equal division of votes for and against adopting a resolution, the President of the Management Board has a casting vote.

The Management Board of Orbis S.A. has adopted its By-Laws that specify detailed rules of procedure of the Management Board. The By-Laws have been approved by the Supervisory Board and are published on the Company's website: http://www.orbis.pl/en/about-orbis/corporate-governance/statute-prospectus-bye-laws.

The Supervisory Board

The Supervisory Board is the governing body of the Company entrusted with the task of permanent supervision over the Company's operations to the extent set forth in the provisions of the Code of Commercial Companies and Partnerships and in the Company's Statutes. The Supervisory Board also gives opinions upon request of the Company's Management Board. The Supervisory Board consists of 10 members. With the exception of the three members elected by the Company's employees, members of the Supervisory Board are elected by the General Meeting of Shareholders. The Supervisory Board elects and recalls the Chairman and the Vice-Chairman of the Supervisory Board from amongst its members as well as the Secretary, if required.

The Supervisory Board holds meetings at least once a quarter. Meetings of the Supervisory Board are convened by the Chairman of the Board upon his own initiative or by the Vice-Chairman in the case of a permanent obstacle on the part of the Chairman. The Chairman of the Supervisory Board convenes a meeting of the Supervisory Board also upon a written request of the Management Board or a member of the Supervisory Board within two weeks from the date of receipt of such a request.

The Supervisory Board adopts resolutions by a simple majority of votes cast in favour of the resolution. If the number of votes cast in favour of a resolution is greater than the number of votes cast against the resolution, such resolution is deemed to have been adopted. The abstaining votes are not taken into account for the purpose of calculating the majority. In case of an equal division of votes for and against adopting a resolution, the Chairman of the Supervisory Board has a casting vote. Resolutions of the Supervisory Board are valid if cast in the presence of at least half of the Supervisory Board members. A secret ballot may be ordered on any matter at the request of at least one member of the Supervisory Board.

Apart from matters reserved under the Statutes, the basic duties of the Supervisory Board include:

1) evaluation of the Company's financial statements, including the statement of financial positions, the profit and loss account, the additional notes and the cash flow statement,
2) evaluation of the Company's Directors' Report and motions of the Management Board concerning distribution of profits or coverage of losses,
3) filing a written report to the General Meeting outlining the results of activities referred to in points 1 and 2 above,
4) suspending, for material reasons, the performance of duties by a member of the Management Board or the entire Management Board,
5) delegating a member or members of the Supervisory Board to temporarily perform the duties of a Management Board member, if such a Management Board member or the entire Management Board has been suspended or in those cases when the Management Board is incapable of action for other reasons,
6) approval of the By-Laws of the Company's Management Board,
7) determining the consolidated text of the amended Company's Statutes as well as introducing other amendments of editorial nature as specified in a resolution of the General Meeting,
8) selection of a licensed auditor to audit the Company's financial statements,
9) examination and approval of the quarterly reports concerning the Company's operations,
10) approval of the Company's development plans and strategies prepared by the Management Board as well as its annual budget (including annual capital expenditure and investment plans),
11) approval of plans relating to employee participation in the Company's profits, including plans relating to issue of options for the Company's shares as well as proposed material amendments to the collective employment agreement binding in the Company as well as major changes in social policy pursued by the Company,
12) giving opinions on motions put forward by the Management Board to the General Meeting as well as giving opinions and adopting resolutions on other matters brought forward by the Company's Management Board.

The organisation and operation of the Supervisory Board is laid down in the Supervisory Board By-Laws adopted by the Supervisory Board and published on the Orbis S.A. corporate website: http://www.orbis.pl/en/about-orbis/corporate-governance/statute-prospectus-bye-laws.

Supervisory Board Committees

Supervisory Board Committees perform consultative and advisory functions for the Supervisory Board. The following committees established by the Supervisory Board operate in Orbis S.A.:

- **Audit Committee -** its tasks comprise, among others: monitoring the process of financial reporting in Orbis S.A., preparing draft evaluations and reports of the Supervisory Board connected with the closing of a financial year, monitoring efficiency of internal control systems, internal audit and risk management in the Company, participation in the process of selecting the entity licensed to audit financial statements and monitoring the independence of the entity licensed to audit financial statements. As regards the operation and powers of the Audit Committee, the Company complies with the requirements set forth in the Act on Statutory Auditors, Audit Firms and Public Supervision of May 11, 2017 (official journal "Dz.U." 2019.1421 i.e. of 2019.07.30). Specifically, the composition of the Audit Committee provides for the independent members majority requirement (the function of the Audit Committee Chairman was also taken by an independent Member). At the same time, the Company applies the By-Laws of the Audit Committee of the Orbis S.A. Supervisory Board adopted in 2017 by the Supervisory Board of Orbis S.A. and the "Policy and procedure of appointment of a licenced audit firm to audit the financial statements of "Orbis" S.A." and the "Policy on provision of additional services by the Audit Firm, an entity affiliated with the Audit Firm or a firm belonging to

the Audit Firm's group of companies" adopted by the Audit Committee. The above-mentioned regulations provide for the necessary powers of the Audit Committee to properly perform it functions laid down in the abovementioned Act, including in particular the Audit Committee's participation in the process of selecting the entity licenced to audit the financial statements as well as the possibility of controlling and overseeing the activities the said entity in the area of auditing the financial statements and providing additional services, if such services will be provided (more information about the Audit Committee is available under Section 6.12).

- **Remuneration Committee** - the Committee is tasked with preparing recommendations for the Supervisory Board as regards the annual bonus and remuneration policy for members of the Management Board.
- **Corporate Social Responsibility Committee** – the CSR Committee was established to ensure supervision and evaluation of proper pursuance of the strategy and actions implemented by the Company in the area of corporate governance, human rights, practices related to employment, natural environment, protection of consumer rights and the Company's involvement in the local communities.

6.12 Information on the Audit Committee

The information on the Audit Committee required under *§ 70 section 6 point) of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state is provided below*:

a) Independence of members

In 2019, the following members of the Orbis S.A. Audit Committee were independent members who meet the conditions of independence specified in Article 129 section 3 of the Act of May 11, 2017, on statutory auditors, audit firms and public supervision (official journal "Dz.U." 2019.1421 i.e. of 2019.07.30) ('The Act on Auditors"):

- Chairman of the Audit Committee – Mr. Jacek Kseń (until June 14, 2019);
- Member of the Audit Committee – Mr. Artur Gabor (until June 14, 2019),
- Mr. Krzysztof Gerula (from June 14, 2019),
- Mr. Piotr Nowjalis (Member of the Audit Committee from June 14, 2019, Chairman of the Audit Committee from July 29, 2019).

b) Persons with expertise and skills in the area of accounting or auditing financial statements, with an indication of how this expertise and skills were acquired

The members of the Audit Committee mentioned below have acquired their expertise and skills in the area of accounting or auditing financial statements in the course of their education and professional experience described below:

- Mr. Jacek Kseń (member of the Audit Committee till June 14, 2019)

Mr. Kseń is a graduate of the Faculty of Foreign Trade of the Poznań University of Economics. In 1977, Mr. Kseń received his Ph.D. for a thesis on international financial markets from the Warsaw School of Planning and Statistics in Warsaw (currently the Warsaw School of Economics (SGH)). Mr. Kseń was a member of Supervisory Boards in the following companies: Orbis S.A. (until June 14, 2019), Sygnity S.A., Amrest, Caspar Asset Management S.A. and the brokerage house Dom Maklerski NWAI. Mr. Kseń was a sole business owner of Jacek Kseń Consulting company as well as operations advisor and partner in Advent International. Mr. Kseń gained his experience as a member of Supervisory Boards as the Chairman of the Supervisory Board of the brokerage house Dom Maklerski BZWBK S.A. (1996 - 2007), Member of the Supervisory Board of Commercial Union PTE BPH CU WBK (2001-2007), Chairman of the Supervisory Board of BZWBK Asset Management and TFI Arka (2007-2009), Member of the Supervisory Board of MCI Management (2007-2008), Chairman of the Supervisory Board of PLL LOT (2008-2009), Deputy Chairman of the Supervisory Board of PBG (2007-2010), Member of the Scientific Council of the Institute for Western Affairs in Poznań (2007-2010), Chairman of the Supervisory Board of WSIP (2010-2011) and Deputy Chairman of the Supervisory Board of Polimex-Mostostal (2010-2012). Mr. Kseń is also an active social activist and the Dean of the Partners' Club of the Poznań University of Economics.
During the years 1975-2007, Mr. Kseń held the function of a foreign currency market operator in the Bank Handlowy in Warsaw, Vice-Director of the Foreign Currency Department and Attorney-in-Fact for the Bank Polska Kasa Opieki S.A. in Paris, Vice-Director of the Bank, supervising transactions on international financial markets for Lyonnaise de Banque in Paris, Member of top management in charge of the foreign currency cash market in Caisse National de Credit Agricole in Paris, and the President of the Management Board in Wielkopolski Bank Kredytowy S.A. and Bank Zachodni WBK S.A.

- Mr. Artur Gabor (member of the Audit Committee till June 14, 2019)

Mr. Gabor is a graduate of the Faculty of Economics of the University College London and the Faculty of Law at the University of Warsaw. Mr. Gabor provided investment & economic advisory services as a Partner in Gabor&Gabor. During the years from 1986 to 1987, Mr. Gabor worked as an assistant at the Polish Academy of Sciences, Institute of Economic Sciences. From 1987 to 1990, Mr. Gabor was the Head of the Market Development Department at Paged S.A., and from 1990 to 1994 he was a Partner in the Warsaw Consulting Group (Warszawska Grupa Konsultingowa). Mr. Gabor was the Managing Director, Poland, at Credit Lyonnais Investment Banking Group (1994-1998), Director of Mergers and Acquisitions for Central Europe and Russia at General Electric Capital (1998-2004) and Director of the Financial Sector at IBM Poland (2005-2006). From 2003 to 2004, Mr Gabor was a member of the Management Board, and since 2005 he has been a member of the Standing Advisory Committee of the American Chamber of Commerce. Moreover, since 2006 Mr. Gabor has been a member of the Member of the Corps of Independent Members of Supervisory Boards at the Polish Institute of Directors. From 2001 to 2004, he was Deputy Chairman of the Supervisory Board of GE Capital Bank S.A. and member of the Supervisory Board of GE Bank Mieszkaniowy S.A. In 2004 - 2005 he was the Chairman of the Supervisory Board of Getin Bank S.A. and a member of the Supervisory Board of Getin Holding S.A. During the period from 2004 to 2008, Mr. Gabor was Deputy Chairman of the Supervisory Board of Energomontaż Północ S.A. and in the years from 2006 to 2007, a member of the Supervisory Board of Polmos Lublin S.A. From 2007 to 2011, Mr.Gabor was the Deputy Chairman of the Supervisory Board of Energopol Katowice S.A., from 2011 to 2013, a member of the Supervisory Board of Fleet Holdings S.A., and from 2012 to 2013, a Deputy Chairman of the Supervisory Board of For-Net S.A. Since 2007 until June 14, 2019, Mr. Gabor has been a member of the Supervisory Board of Orbis S.A., and since 2008 he has been the Chairman of the Supervisory Board of the Lew S.A. Group. Since 2009 Mr. Gabor has been the Vice Chairman, and since December 19, 2013, he has been the Chairman of the Supervisory Board of Sfinks S.A. Since 1 February 2015, Mr. Gabor has been an independent member of the Supervisory Board of Idea Bank, as well as an independent member of the Supervisory Board of Prime Car Management S.A. During the period from 2010 to 2017, Mr. Gabor was a Member of the Supervisory Board of PKN ORLEN.

- Mr. Jean-Jacques Morin

Mr. Morin holds an MBA degree from Arizona State University (Thunderbird). He is a French CPA.

Jean-Jacques started his career with Deloitte in Audit and Management Consulting based in France and Canada.

He was the CFO of Alstom, where he had spent 10 years, notably as Sector CFO for Transport and Power Service. He then spent 13 years in the semiconductor industry, notably with Motorola in France, Switzerland, Germany and USA.

Mr. Morin was appointed Group Chief Financial Officer of AccorHotels in November 2015.

- Mr. Krzysztof Gerula (member of the Audit Committee from June 14, 2019)

Mr. Gerula is a graduate of Economics Academy in Kraków, Faculty of Production and Trade Turnover (at present: Kraków University of Economics).

Mr. Krzysztof Gerula obtained the diploma of the Ministry of Treasury entitling him to be appointed as member of Supervisory Boards of companies with Treasury shareholding and completed a number of training courses on internal audit at the E&Y Business Academy and on the operation of Audit Committees and Supervisory Boards organised by PwC, BDO, Gessel and the Association of Stock Exchange Issuers (SEG).

During the period from 2008 to 2010, Mr. Gerula was the Internal Auditor of UFTAA (United Federation of Travel Agent' Association – Monaco).

Mr. Gerula is a member of the Polish branch of IIA (Institut of Internal Auditors) from 2009.

During the period from 1991 to 2017, Mr. Gerula held many corporate positions:

- Member of Supervisory Boards in the following companies: Polcard S.A., PBP Orbis sp. z o.o. Naftobudowa S.A., Pekaes S.A., Protektor S.A., Polaqua S.A., GTC S.A., ACE S.A., Robyg S.A.,
- Member of the Management Board of SEG – Association of Stock Exchange Issuers.

- Mr. Piotr Nowjalis (member of the Audit Committee from June 14, 2019)

Mr. Nowjalis is a graduate of the Koźmiński University (Executive MBA, 2014), the University of Gdańsk, Faculty of Economics (1997) and at the Faculty of Law and Administration (1998).

Mr. Nowjalis has many years of experience in managerial positions involving financial management in privately-held and publicly-traded companies. His scope of responsibility was linked to strategic management, M&A transactions, shaping capital structure, securing financing on domestic and international financial markets, conducting IPOs and SPOs on the Warsaw Stock Exchange, financial risk management, corporate supervision, investor relations, budgeting, controlling, accounting and financial reporting.

During the period from 2003 to 2017, Mr. Nowjalis held the position of financial director and member of the management board responsible for finance in the following public companies listed on the WSE:

- from 2008 to 2017: in CCC SA with its registered address in Polkowice (CFO and Vice President of the Management Board),
- from 2003 to 2008: in AB SA with its registered address in Wrocław (CFO and Member of the Management Board).

Earlier, Mr. Nowjalis served in the capacity of Economic Director at M&S Pomorska Fabryka Okien sp. z o.o. with its registered address in Słupsk (2002-2003), CFO - Executive Director at KGHM Polska Miedź S.A. (1999-2002), specialist in LOTOS SA (1998-1999) and Polish Ocean Lines (1997).

He has also sat on the supervisory boards of public companies: TIM S.A. (2010-2016), Rotopino.pl S.A. (2011-2013), Vantage Development S.A. (2011-2015), LIBET S.A. (2017), CCC S.A. (2017-2019).

Currently he holds the position of a member of the Supervisory Board at the following public companies listed at the Warsaw Stock Exchange:

- Dino Polska S.A. – Independent Member of the Supervisory Board and Chairman of the Audit Committee;
- Synektik S.A. – Independent Member of the Supervisory Board, Chairman of the Audit Committee, Member of the Nomination and Remuneration Committee;
- Novaturas AB – Independent Member of the Supervisory Board, Chairman of the Audit Committee, Member of the Nomination and Remuneration Committee.

Piotr Nowjalis also holds the position of a Member of the Supervisory Board of Spokey Sp. z o.o. with its registered address in Katowice, and from January 2019 serves in the capacity of Independent Non-Executive Director of Eurotorg Holding Plc with its registered address in Limassol, Cyprus, owner of the largest retailer in Belarus.

Piotr Nowjalis is one of the founding members of the Association of the Independent Supervisory Board Members (in the process of registration in court).

c) Persons with expertise and skills in the industry in which the issuer operates, with an indication of how this expertise and skills were acquired

- Mr. Jacek Kseń (member of the Audit Committee till June 14, 2019)

Mr. Jacek Kseń was a member of the Supervisory Board of Orbis S.A. for over 10 years, therefore, Mr. Kseń acquired in-depth expertise in the hospitality industry and the specific nature of business pursued by Orbis S.A.

- Mr. Artur Gabor (member of the Audit Committee till June 14, 2019)

Mr. Artur Gabor was a member of the Supervisory Board of Orbis S.A. for over 10 years, therefore, Mr. Gabor acquired in-depth expertise in the hospitality industry and the specific nature of business pursued by Orbis S.A. In addition, Mr. Artur Gabor was a member of the Supervisory Board of Sfinks S.A., which operates in the catering business (catering business is a major part of the hotel business).

- Mr. Jean-Jacques Morin

Mr. Jean-Jacques Morin has been the Chief Financial Officer of the AccorHotels Group since November 2015. The AccorHotels Group is the world's leading hospitality group offering accommodation in more than 4100 hotels, resorts and residences across 95 countries. Accor SA shares are listed on the Euronext Paris and on the OTC market in the United States.

- Mr. Krzysztof Gerula (member of the Audit Committee from June 14, 2019)

During the period from 1972 to 2008 Mr. Gerula was employed at Orbis at the following positions: Vice-President of the Orbis SA Management Board (1991-2008), Deputy Director of the State-Owned Enterprise Orbis (1984-1991),

Director of the Orbis Tourist Information Center for France and Spain in Paris (1978-1984), Commerce Director in the Polish Travel Office "Orbis" (1972-78) and in the "Almatur" Travel and Tourism Office (1966-72)

Mr. Krzysztof Gerula held a number of positions in Polish and international tourist organizations, namely the Vice-President of UFTAA - United Federation of Travel Agents' Association (1989-97), Vice-President of the Polish Chamber of Tourism (PIT) (1989-97), member of the Board of Directors of the Baltic Tourism Conference (1991-95), representative of the Polish Chamber of Tourism in ECTAA Brussels (1991-1994), representative of the Polish Hotels Association in HOTREC Brussels (1997-2002), Chairman of the Board of the Polish Tourism Organisation (POT) (2003-2006).

d) Information on the provision, by the audit firm that audits the financial statements, of authorised non-audit services and whether, in connection thereto, an assessment of the independence of the audit firm has been made and whether approval has been granted for the provision of these services

Companies of the KPMG Group did not provide any permitted non-audit services other than those provided to the Hungarian subsidiary. In the case of Accor Pannonia Hotels Zrt., in 2019 companies belonging to the KPMG Group continued to provide non-audit services commenced in the previous year. These services were approved by the Audit Committee.

e) Main assumptions of the policy for the selection of the audit firm to carry out the audit and the policy on the permitted non-audit service provided by the audit firm carrying out the audit, by entities affiliated with the audit firm and by a member of the audit firm's network

The Policy and Procedure for appointment of the firm authorised to audit financial statements of Orbis S.A., developed and adopted by the Audit Committee in 2017, was applied in Orbis S.A. in 2019. The Policy and Procedure sets out guidelines and principles for the Audit Committee to be followed at the stage of preparing recommendations and the Supervisory Board while selecting the entity authorised to audit financial statements of Orbis S.A. These guidelines and principles take into account the requirements of the Act on Statutory Auditors and the nature, type and scope (including the territorial scope) of the business pursued by Orbis S.A. and companies belonging to the Orbis Group, including the following elements:

- the price quoted by the authorised audit firm;
- the capacity to provide a full range of services as specified by Orbis S.A. (audits of separate financial statements, audits of consolidated financial statements, reviews, etc.);
- experience of the audit firm in auditing financial statements of companies with a similar business profile;
- experience of the audit firm in auditing reports of public interest entities (PIE) within the meaning of the Act;
- professional qualifications and experience of persons directly involved in the audit in the Orbis Group;
- number of persons available for audits in companies belonging to the Orbis S.A. Group;
- availability of qualified specialists in the fields covered under the financial statements, such as measurement of actuarial provisions, valuation of financial instruments, tax aspects analysis;
- guaranteeing that the audit is conducted in accordance with the International Standards on Auditing and Assurance and compliance with the International Standard on Quality Control 1;
- capacity for conducting the audit on the dates set by Orbis S.A.;
- good reputation in financial markets and compliance with ethical principles by the authorised audit firm;
- possibility of cooperating with auditors of the majority shareholder, Accor S.A., and meeting the reporting deadlines of Accor S.A.;
- confirmed independence of the authorised audit firm in relation to the Orbis Group and the Accor Group;
- the possibility for companies operating in the international network of the given auditor firm to audit companies belonging to the Orbis Group and operating beyond the territory of the Republic of Poland

The Policy and Procedure for appointment of the firm authorised to audit financial statements of Orbis S.A. also lays down a detailed procedure for selecting the audit firm to audit financial statements with the cooperation of the Management Board, the Audit Committee and the Supervisory Board. The purpose of the Procedure is to efficiently and effectively collect audit firms' offers, which are then analysed by the Audit Committee, in order to submit a proper

recommendation to the Supervisory Board for the selection of the authorised audit entities, including at least two audit firms, together with a reasoned preference of the Audit Committee for one of these entities. The final decision on the selection of the audit firm is made by the Supervisory Board, however, if the Supervisory Board decides to select an entity other than the one recommended by the Audit Committee, the Supervisory Board should provide the reasons for diverging from the recommendation of the Audit Committee.
In addition, the "Policy for the provision of additional services by the Audit Firm, an entity affiliated with the Audit Firm or a member of its network", developed and adopted by the Audit Committee in 2017, was applied in Orbis S.A. in 2019. In accordance with the basic principles of this Policy, neither the statutory auditor or the audit firm auditing financial statements of Orbis S.A. or an entity affiliated with the audit firm nor any member of the statutory auditor or audit firm's network should provide any prohibited non-audit or non-revision services, either directly or indirectly, to the audited entity, its parent undertaking or entities controlled by it within the European Union. The only exception are the services specified under Article 136 section 2 of the Act on Statutory Auditors, which can be provided only to the extent unrelated with the tax policy of Orbis S.A., following an assessment of threats and safeguards of independence conducted by the Audit Committee and the Audit Committee's consent. In justified cases, the Audit Committee issues guidelines on the provision of these additional services. Furthermore, if a statutory auditor or audit firm provides the permitted services referred to above, these entities must comply with Articles 69-73 of the Act on Statutory Auditors that lay down solutions aimed at ensuring the independence and objectivity of the statutory auditor and audit firm.

f) Recommendations concerning the selection of the audit firm to carry out the audit

In 2019, Orbis S.A. did not take any action to give recommendations or to select an audit firm to conduct the audit. The current auditing firm, KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k., was appointed by Orbis S.A. in 2018. The selection of the new entity authorised to audit financial statements was conducted on the basis of the Policy and Procedure for appointment of the firm authorised to audit financial statements of Orbis S.A. applicable in Orbis S.A., which in particular sets out the requirements and criteria for the selection of the auditor under the Act on Statutory Auditors and the nature, type and scope (including the territorial scope) of the business pursued by Orbis S.A. and companies belonging to the Orbis Group (described above in the section outlining the basic assumptions of the auditor appointment policy). The procedure in question involved primarily the analysis, carried out by the Audit Committee, of the collected offers in terms of the requirements under the Act on Statutory Auditors as well as the criteria and guidelines set out in the above-mentioned Policy. Following an analysis and comparison of offers, the Audit Committee recommended two audit companies to the Supervisory Board, pointing to the offer of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. as the preferred auditor. Following an analysis of the recommendation, the Supervisory Board selected the entity preferred by the Audit Committee.

To recapitulate, Orbis S.A. confirms that the Audit Committee's recommendation on the appointment of an audit firm to carry out the audit was formed following a selection procedure meeting all the applicable criteria.

g) Number of meetings held by the Audit Committee or meetings of the Supervisory Board or other supervisory or controlling body devoted to the Audit Committee's duties

In 2019, the Audit Committee of Orbis S.A. held 5 meetings.

6.13 Diversity Policy

Diversity and its aspects have been extensively described in the „Ethics and Corporate Social Responsibility Charter". They are regulated in detail in the "Orbis Diversity Policy" adopted by Orbis S.A. and its subsidiaries. The Diversity Policy sets out the Company's commitment to eliminate all forms of discrimination due to ethnic, social or cultural origin, gender, age, physical features or disability, religious beliefs, sexual orientation, family status, being a trade union activist or other partialities made illegal by law. Its aim is to provide equal opportunities to employees with the same professional qualifications, in particular to men and women in all areas of work and at all phases of their professional career, beginning from recruitment through training, remuneration, geographic mobility, to career development. This policy also ensures inclusion of diversity in training programs (for example each training for executives and managers in the Accor Academy includes a module dedicated to diversity, and all of our employees can participate in the e-learning training dedicated to diversity, available in the Orbis S.A. intranet). The policy also sets out an obligation to inform our employees and other persons with whom we collaborate about actions undertaken by the Company to promote diversity, we provide guidance on how these measures can be implemented in practice. We require our suppliers, subcontractors or service providers to sign the "Orbis Group Procurement Policy" and to apply the non-discrimination rules set out therein. We respect the diversity of our guests and do our best to embrace it by adapting our products and services to guest expectations. We give much attention to women. Our hotels enrich their product targeted at women offering a range of services designed to cater for their needs. We have various offers for them beginning from specially arranged rooms with facilities and ending with food and beverage offers. From time to time we examine the commitment of our employees and measure the impact of actions taken in favour of diversity.

The Company declares no tolerance for any form of psychological harassment, violation of personal dignity or sexual abuse. Orbis S.A. requires all its managers to notify any such incidents to the HR director who will take the necessary measures to stop psychological harassment, violation of personal dignity or sexual abuse, of which it is informed.

At the recruitment phase, selection of candidates based of non-professional criteria (such as religion, age, gender, political views, ethnic origin, trade union membership, etc.) is prohibited. Selection of candidates for a given position is as a rule based on a uniform methodology and employee recruitment is based exclusively on the Company's needs and each candidate's qualifications, according to the criteria of professional competence and personal merits, with no regard for other factors.

In managing diversity we see the need to fight stereotypes that underlie discrimination. The environment, past experience and subconscious expectations can influence the perception of other people.

Therefore, on the one hand it is important to address issues related with respect for persons, their diversity and differences, both in communications as well as during various types of trainings. It is important to build awareness and recognition for issues related to acceptance of diversity and tolerance. Since 2012, Orbis S.A. has been the signatory of Poland's Diversity Charter. Orbis S.A. was amongst the first signatories of the abovementioned Charter and was a partner of the conference, at which the said Charter was launched in Poland. It embodies a company's obligation to create a corporate atmosphere and organizational culture that ensures respect for diversity, introduction of institutional, internal solutions to promote equal treatment, to develop and implement a policy of equal treatment and diversity management in the workplace, and to launch anti-discrimination and ant-mobbing monitoring, to conduct dialogue with employees on the diversity management policy and annual reporting on the actions taken and their practical results.

Non-financial data on the diversity policy relating to the management and supervisory bodies is presented in the non-financial report for 2019.

RiiSE

RiiSE - a new network that was created after the transformation from the Women at AccorHotels Generation (WAAG) network in 2018, open to both women and men employed in the structures of the Accor group. Activities of the group are based in particular on sharing knowledge through a mentoring program, combating all forms of discrimination and exclusion, and promoting female talents in managerial positions. In addition to mentoring and promoting diversity, RiiSE aims to combat stereotypes, sexism and sexual abuse - through awareness-raising communication campaigns, conferences and workshops.

6.14 Information on Sponsorship, Charity or Other Similar Activities of Orbis S.A.

Implementing the recommendation no. I.R.2. contained in the "Code of Best Practice for GPW Listed Companies 2016", the Company presents information on its sponsorship, charity or other similar activities.

In cooperation with non-governmental organisations and social institutions in the countries of Eastern Europe. Orbis S.A. carries out programs aimed at preventing child and youth abuse, fighting social exclusion and supporting the position of women in the professional environment as well as education and professionalization in the hospitality industry. Furthermore, it supports the reforestation program of areas threatened by illegal logging in Transylvania (Romania) and the "Kosztela" program contributing to the protection and development of traditional orchards in Poland.

The abovementioned social and environmental programs are implemented from current assets of Orbis S.A., with the support of Orbis S.A. employees and thanks to involvement of hotel guests.

The most important social and environmental projects of Orbis S.A. in 2019 include:

- The "Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism" – a prevention program raising awareness of negative social phenomena, carried out together with the Empowering Children Foundation in Poland and the ECPAT Association in Poland, Hungary, Lithuania, Romania and Bulgaria;
- After the transformation in 2018, the WAAG network was transformed into RiiSE - a new network open to both women and men employed in the structures of the Accor Group. The activities of this group are based in particular on sharing knowledge through a mentoring program, combating all forms of discrimination and exclusion, and promoting female talents in managerial positions. In addition to mentoring and promoting diversity, RiiSE aims to combat stereotypes, sexism and sexual abuse - through awareness-raising communication campaigns, conferences and workshops. In 2019, RiiSE implemented an internal communication campaign widespread in the Orbis region, aimed at breaking down stereotypes about the professional career of women and men. In addition, meetings and training sessions were organized within the network, both in hotels and the company's offices in the region, of which the two largest were held in Budapest and Bucharest;
- The "Plant for the Planet" program aimed at transferring 50% of the savings generated due to optimization of towel use in hotels of the Orbis Group and AccorHotels for the creation and development of traditional fruit orchards in Poland and reforestation program in the Transylvania region in Romania. The program is implemented thanks to involvement of hotel guests and in co-operation with the Pur Projet SARL, the AgriNatura Foundation in Poland and the Mihai Eminescu Trust Foundation in Romania;
- "Gdańsk Business Run 2019" - Tri-City hotels belonging to the Orbis Group have been involved for the fourth time in organizing the Gdańsk charity edition of the Poland Business Run. On this occasion, hotels prepared meals for participants and funded special prizes for the winners. The race was also attended by 5 five-person relay teams from Tri-City hotels from the Accor brands family. Business Run is an initiative aimed not only at supporting people with movement disabilities, but also at promoting an active lifestyle and cooperation between the local community and business. Hotel employees in Poland participated and supported regional races as part of "Poland Business Run 2019";
- Involvement of hotel employees in saving bees - over 2 million bees are looked after by hotels of the Orbis Group in Poland and Hungary. Orbis Group hotels are co-owners of nearly 40 hives. Honey produced by bees in hotels is served to guests at breakfast;
- „Zaczytani.org" - on the initiative of our employees, the Orbis Group participated in 2019 in the action 'Zaczytani.org'. The campaign promotes reading and social education by running the Great Book Collection and opening libraries in hospital departments, in medical and social facilities, in places where the book gains extraordinary power. As part of the Children's Day celebrations, the hotels were involved in the campaign and for 10 months 10 500 books were collected in 40 Novotel, Mercure and ibis hotels, which went to children in medical facilities;
- WOŚP 2019 - in 2019, the Orbis Group hotels supported the Great Orchestra of Christmas Charity (WOŚP), all volunteers could use the free refreshments in our hotels during the 27th Great Orchestra of Christmas Charity Finals;

- Orbis and Accor Group actively support the Hungarian Red Cross, every year employees take part in the Vivicitta and Spar Marthon charity marathons, as well as provide funds and necessary assistance to the children of the Suhanj! Foundation, which deals with the rehabilitation of people with disabilities through sport;
- Solidarity Week 2019 - the initiative was held in Warsaw, Krakow, Tri-City and Poznań, as well as in Hungary, Romania and the Czech Republic. As part of a joint and several action, the hotel teams organized events to help selected foundations and associations. This year's edition of the initiative was a great success, and thanks to the activities, help reached 1000 children and 100 animals in shelters. The idea behind the events organized during Solidarity Week is to help the most needy in the winter;
- "Chamber of Commerce of the Polish Hotel Industry" (IGHP) - support for the local self-governing organization of the hotel and restaurant industry in Poland in contacts with government administration at the local, regional, national and EU level;
- Furthermore, in 2019 the Company was the co-organizer and/or sponsor of selected industry conferences (the hospitality and tourism sectors) in the countries in which it operates.

Sponsorship and charitable activity of Orbis S.A. is implemented in line with the priorities of the Company's corporate and marketing communication based on the "Ethics and Corporate Social Responsibility Charter" in the countries where the Company operates.

The Supervisory Board of Orbis S.A. considers the Company's sponsorships and charity activities as reasonable, socially useful and contributing in an important and positive way to the development and awareness of the society as regards the impact of the hospitality and tourism industry on environmental and social issues. In the opinion of the Supervisory Board, this attitude builds a positive image and inspires trust in the Company as an institution that focuses not only on maximizing profits, but at the same time deploying the principles of corporate social responsibility.

ADDITIONAL INFORMATION

Mercure Budapest City Center

7 ADDITIONAL INFORMATION

7.1 Human Resources

During the period of 12 months of 2019, the average employment in the Orbis Group stood at 3 793 full-time equivalents, having decreased by 4.6% as compared to the same period of last year.

Average employment (in full-time equivalents)	2019	2018	% change
Poland	2 476	2 550	-2.9%
Hungary	774	857	-9.7%
Czech Republic	200	225	-11.1%
Other countries	343	342	0.3%
Total	**3 793**	**3 974**	**-4.6%**

Decline in employment level in Poland is mainly attributable to the divestment of the asset light business in October 2019. Change in the employment level in Hungary was caused by the sale of the Sofitel Budapest Chain Bridge hotel and the Novotel Szeged hotel in May 2018, and in the Czech Republic, by the sale of the ibis Plzen hotel in August 2018.

In 2019, more than 6 568 man-days of training for 1 827 persons (more than 7 938 participants) were conducted, both in a traditional form as well as via e-learning method.

The leading themes included Leadership training focused on improvement of competencies and skills at all levels of hotels and Head Office organisational structure. We started the leadership training cycles also in Budapest and Prague. In Poland, we also run trainings on "Change Management" and "Distributed Team Management" for the management. In connection with office relocation, "Activity-Based Work" workshops were organized to prepare employees for working in open space were organised.

As part of the development programs, a Junior Fast Truck program was carried out for deputy heads of departments with the potential to take on new development challenges.

Hotel employees participated in many sales and service training courses, including the Heartist workshops for all employees to consolidate a modern and creative approach to guest service and team cooperation, training for reception and hotel sales, such as "Up-selling and Cross-selling in the Reception and Reservation", "Effective Sales Techniques", "Skilful Influencing" and "Sales Campus for Hotels".

In 2019 we started trainings in the field of Digital Distribution Performance to expand information about increasing hotel revenues with the use of web channels, both direct and indirect. We have also continued the "Conscious Self-Creation Workshops for Receptionists" in response to the business need for mobile Fols, i.e. abandonment of the traditional reception counters in favour of direct contact with customers.

Another important training within the framework of the responsible business strategy (CSR) implemented for yet another year in a row is the "Protection of Children and Young People from Sexual Exploitation in Tourism" training attended by hotel employees, above all Reception staff.

The food & beverage activities included "Suggestive Selling in a Restaurant", "Contemporary Culinary Techniques", "Winestone: Products and Rituals". Cooks had the opportunity to participate in a series of trainings on topics such as: "Early Spring Vegetables in the Cuisine", "Desserts in International Cuisine", "Pâtés, Terinas and Baked Foods", "Oriental Cuisine".

A series of Revenue Management (RM) training courses was conducted last year, including the Introduction to RM, RM in Excel and Revenue Management & Pricing.

Language classes for hotel and head office staff is an important element of the trainings.

In addition, a large series of training courses to implement the new loyalty program in hotels were conducted in 2019.

7.2 Entity Authorised to Audit the Financial Statements

On February 7, 2018, the Supervisory Board of Orbis S.A. decided to appoint KPMG Audyt Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw as the entity authorised to audit its financial statements and to entrust KPMG Audyt with the task of review of semi-annual separate and consolidated financial statements and audit of the financial statements of Orbis S.A. and consolidated financial statements of the Orbis Group in 2018-2019. Orbis S.A. has not employed the appointed entity authorised to audit financial statements in the past. The agreement with KPMG Audyt Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (registered as authorised entity under the registration number 3546 on the list kept by the National Council of Statutory Auditors) was executed on March 30, 2018.

Contractual fee under the agreement with the entity authorised to audit the financial statements	Audit firm	2019	2018
Orbis S.A.			
Audit of the annual financial statements and other assurance services, including review of the financial statements:			
	KPMG	986	869
Orbis S.A. subtotal		**986**	**869**
Subsidiaries			
Audit of the annual financial statements and other assurance services, including review of the financial statements:			
	KPMG	699	669
	Deloitte	0	13
	PKF Slovensko s.r.o.	43	51
	Revision-Rzeszów Józef Król Sp. z o.o. sp. K.	0	8
Tax advice and other services:	KPMG	50	165
Subsidiaries subtotal		**792**	**906**
Total		**1 778**	**1 775**

7.3 Legal Claims

Information about proceedings pending before court, arbitration or public administration authorities is provided in the additional notes to the Consolidated Financial Statements of the Orbis Group for 2019 (Note 29.3).

7.4 Related party transactions

The Group executes transactions with related parties at arm's length. Information about transactions with related parties is provided in the additional notes to the Consolidated Financial Statements of the Orbis Group for 2019 (Note 32.2).

7.5 Contingent Assets and Liabilities

Information on contingent assets and liabilities, including issued or received sureties and guarantees, is provided in the additional notes to the Consolidated Financial Statements of the Orbis Group for 2019 (Note 29).

7.6 Events after the End of the Reporting Period

Resignation of Members of the Supervisory Board

On February 3, 2020, the Management Board of Orbis S.A. was informed about resignation from membership in the Supervisory Board of Orbis S.A. by the following five persons:
1. Mr Franck Gervais – Chairman of Orbis S.A. Supervisory Board,
2. Mr Pierre Boisselier – Vice-Chairman of Orbis S.A. Supervisory Board,
3. Mr Christian Karaoglanian – Member of Orbis S.A. Supervisory Board,
4. Mr Jean-Jacques Morin - Member of Orbis S.A. Supervisory Board,
5. Mr Laurent Picheral - Member of Orbis S.A. Supervisory Board.

The resignations were submitted with effect as at the moment of the settlement of the transaction comprising the acquisition by AccorInvest Group S.A. of the shares of Orbis S.A. in a tender offer for the acquisition of the shares in Orbis S.A. announced by AccorInvest Group S.A. on 17 December 2019, i.e. the resignations in point will become effective as of the moment of the registration in the securities account of AccorInvest Group S.A. of the shares in Orbis purchased in the Tender Offer.

Convening of an Extraordinary General Meeting of Shareholders

On February 5, 2020, the Management Board of Orbis S.A. decided to convene an Extraordinary General Meeting on March 5, 2020.The Extraordinary General Meeting was convened following receipt by Orbis S.A. on February 4, 2020, of a request for convocation of the Extraordinary General Meeting from Accor S.A., the Company's Shareholder, in order to appoint new members of the Company's Supervisory Board due to the aforementioned resignation of five Supervisory Board members.

APPENDIX 1: OPERATING RATIOS OF THE ORBIS GROUP

Owned Hotels[1]

Operating ratios of owned hotels by main category	2019	2018	change (%)	2019	2018	change (%)
	as reported			like-for-like		
Orbis Hotel Group						
Occupancy Rate (%)	73.7	73.2	0.5 p.p.	74.3	73.7	0.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	268.7	259.2	3.7%	270.4	258.4	4.6%
Revenue per Available Room (RevPAR) in PLN	198.0	189.8	4.3%	201.0	190.5	5.5%
Economy Hotels						
Occupancy Rate (%)	73.5	74.5	-1.0 p.p.	75.3	75.4	-0.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	197.1	186.9	5.5%	195.8	189.1	3.5%
Revenue per Available Room (RevPAR) in PLN	144.8	139.2	4.0%	147.3	142.5	3.4%
Up&Midscale Hotels (3-star and more)						
Occupancy Rate (%)	73.8	72.5	1.3 p.p.	73.8	72.8	1.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	311.5	299.4	4.0%	311.7	296.5	5.1%
Revenue per Available Room (RevPAR) in PLN	229.9	217.1	5.9%	230.1	215.9	6.6%

Operating ratios of owned hotels by main category	4th quarter of 2019	4th quarter of 2018	change (%)	4th quarter of 2019	4th quarter of 2018	change (%)
	as reported			like-for-like		
Orbis Hotel Group						
Occupancy Rate (%)	72.6	71.6	1.0 p.p.	72.9	71.8	1.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	263.4	255.7	3.0%	264.8	256.2	3.4%
Revenue per Available Room (RevPAR) in PLN	191.2	183.0	4.5%	193.1	183.9	5.0%
Economy Hotels						
Occupancy Rate (%)	72.6	73.4	-0.8 p.p.	73.6	74.0	-0.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	196.0	187.6	4.5%	194.5	188.5	3.2%
Revenue per Available Room (RevPAR) in PLN	142.4	137.8	3.3%	143.1	139.5	2.6%
Up&Midscale Hotels (3-star and more)						
Occupancy Rate (%)	72.6	70.6	2.0 p.p.	72.6	70.6	2.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	304.9	294.8	3.4%	304.9	294.8	3.4%
Revenue per Available Room (RevPAR) in PLN	221.2	208.0	6.3%	221.2	208.0	6.3%

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

Operating ratios of owned hotels by geographical segment	2019	2018	change (%)	2019	2018	change (%)
	as reported			like-for-like		
Poland						
Occupancy Rate (%)	71.9	71.4	0.5 p.p.	72.9	71.8	1.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	261.2	252.2	3.6%	261.7	254.5	2.8%
Revenue per Available Room (RevPAR) in PLN	187.9	180.1	4.3%	190.8	182.7	4.4%
Hungary						
Occupancy Rate (%)	77.7	77.1	0.6 p.p.	77.5	78.1	-0.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	273.8	263.5	3.9%	275.4	250.4	10.0%
Revenue per Available Room (RevPAR) in PLN	212.8	203.3	4.7%	213.4	195.6	9.1%
Czech Republic						
Occupancy Rate (%)	77.1	75.6	1.5 p.p.	77.1	76.7	0.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	307.0	289.5	6.0%	307.0	296.0	3.7%
Revenue per Available Room (RevPAR) in PLN	236.7	218.9	8.1%	236.7	227.1	4.2%
Other countries						
Occupancy Rate (%)	75.1	75.9	-0.8 p.p.	75.7	75.9	-0.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	277.1	274.8	0.8%	293.8	274.8	6.9%
Revenue per Available Room (RevPAR) in PLN	208.0	208.5	-0.2%	222.5	208.5	6.7%

Operating ratios of owned hotels by geographical segment	4th quarter of 2019	4th quarter of 2018	change (%)	4th quarter of 2019	4th quarter of 2018	change (%)
	as reported			like-for-like		
Poland						
Occupancy Rate (%)	68.9	69.7	-0.8 p.p.	69.4	70.0	-0.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	257.8	250.8	2.8%	258.4	251.7	2.7%
Revenue per Available Room (RevPAR) in PLN	177.6	174.9	1.5%	179.4	176.2	1.8%
Hungary						
Occupancy Rate (%)	81.8	76.2	5.6 p.p.	81.8	76.2	5.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	258.9	248.3	4.3%	263.3	248.3	6.0%
Revenue per Available Room (RevPAR) in PLN	211.8	189.2	11.9%	215.3	189.2	13.8%
Czech Republic						
Occupancy Rate (%)	80.2	76.1	4.1 p.p.	80.2	76.1	4.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	307.8	297.8	3.4%	307.8	297.8	3.4%
Revenue per Available Room (RevPAR) in PLN	247.0	226.7	9.0%	247.0	226.7	9.0%
Other countries						
Occupancy Rate (%)	73.3	71.0	2.3 p.p.	73.3	71.0	2.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	270.2	269.9	0.1%	270.2	269.9	0.1%
Revenue per Available Room (RevPAR) in PLN	198.0	191.6	3.3%	198.0	191.6	3.3%

APPENDIX 2: GLOSSARY OF TERMS

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

CAPEX – Capital Expenditure

CSR – Corporate Social Responsibility

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

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

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

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

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

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

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

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

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

RiiSE - a new network open to both women and men employed in the structures of the Accor Group, established by way of transformation of the Women at AccorHotels Generation (WAAG) in 2018

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

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Date	Name and surname	Position/Function	Signature
Feb. 19, 2020	Gilles Stephane Clavie	President of the Management Board	*Signed with a qualified electronic signature*
Feb. 19, 2020	Ireneusz Andrzej Węgłowski	Vice-President of the Management Board	*Signed with a qualified electronic signature*
Feb. 19, 2020	Dominik Sołtysik	Member of the Management Board	*Signed with a qualified electronic signature*