Orbis Group

DIRECTORS' REPORT ON THE OPERATIONS FOR THE FIRST HALF OF 2016

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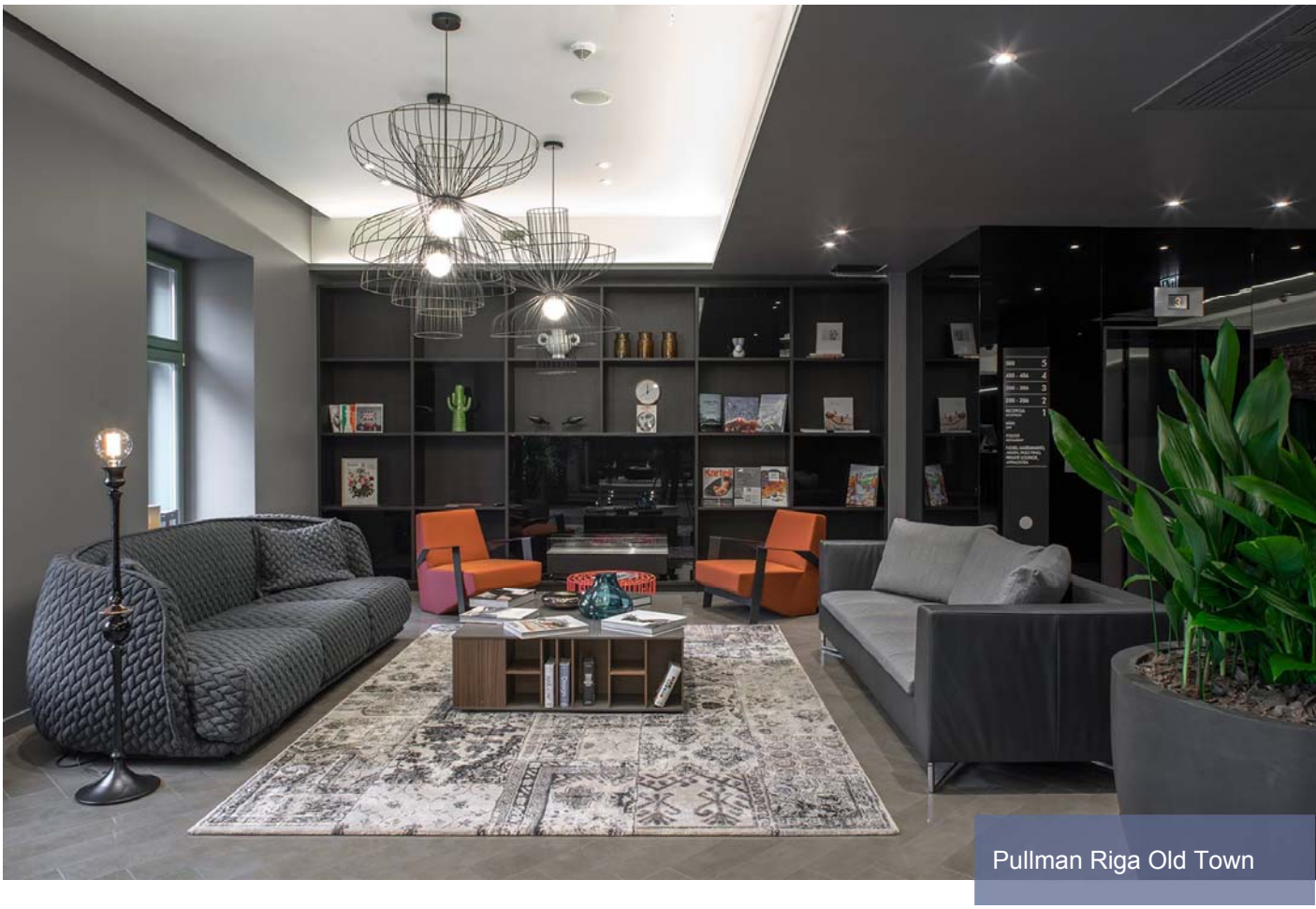
ORBIS GROUP AT A GLANCE



Pullman Riga Old Town

1 ORBIS GROUP AT A GLANCE

"Our ambition is to strengthen our position as the leading, best performing and valued hospitality Group in Eastern Europe"

We create shareholder value shaped by three imperatives: product improvement, further expansion of the hotel network and deploying development projects. These three strategic objectives define all of our thinking – from investment to talent management.

Our objectives comprise product improvement, further expansion and deploying development projects…

We focus on strengthening our portfolio of brands to put us in a position to cater for customers' needs and changing behaviour patterns and life styles more effectively. We execute the network development strategy both through franchise and management contracts as well as own projects. We want to create an efficient, modern and dynamic organisation delivering solid growth in profitability.

We leverage innovation to increase our operational excellence. In the era of digitalisation and globalisation hotel guests all around the world appreciate digital conveniences as much as the location of the hotels, service standard or room ambience. We focus on the food & beverage business - one of strategic priorities in the development of the Orbis Group.

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

We represent strong brands that are recognisable around the world: Sofitel, Pullman, MGallery, Novotel, Mercure, ibis, ibis Styles and ibis budget.

Upscale and luxury hotels

Midscale hotels

Economy hotels

Our markets

Orbis is the largest hotel operator in Eastern Europe, operating in 9 countries with a potential to expand into further 7 countries of the region. We are the sole licensor of Accor brands in 16 countries including Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

95 hotels in Central & Eastern Europe

10 hotels in South East Europe

9 hotels in the Baltic States

1/3 of our sales is generated outside Poland

Highlights of the first half of 2016

PLN 639.9 m (+8.2%)
net sales

PLN 84.9 m (+24.1%)
profit before tax

10.2% *RevPAR growth*

Financial performance is discussed on pp. 27-34 of the Report.

Our brands

Authentic luxury hotels with a French soul

In the Orbis Group: 4 hotels, 1 thousand 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.

Connecting performance with enjoyment

In the Orbis Group: 2 hotels, 360 rooms

International upscale brand. High quality designer hotels. Located in major cities and most attractive tourist destinations. Offer a wide array of non-standard services, innovative technologies and a new approach to meetings with the Co-Meeting offer.

Luxury boutique hotels, inspired and generous

In the Orbis Group: 2 hotels, 250 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: 21 hotels, 4.9 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: 31 hotels, 5.3 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.

Well-being at the best price

In the Orbis Group: 33 hotels, 5,0 thousand rooms

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 (770 hotels in the Accor Group are ISO 9001-certified) and the environment (417 hotels in the Accor Group with ISO 14001 certification).

Comfort, unique design, all inclusive

In the Orbis Group: 11 hotels, 1.3 thousand rooms

International non-standardised brand. Majority of hotels operated under a franchise agreement. 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.

Essential comfort at a budget price

In the Orbis Group: 9 hotels, 1.2 thousand rooms

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.

After the Group outstanding performance in 2015, our results continued to grow at a remarkable pace in 1H 2016. Orbis can boast double digit RevPAR growth +10.2% comparing to 1H 2105 thanks to operating indicators increase (+1.9 p.p. occupancy rate and +6.9% average room rate) in the EE region. Financial **PERFORMANCE** was record high with +8.2% increase of revenue up to PLN 639,9 million and operating EBITDA reaching PLN 164.3 m with +14.8% growth comparing to 1H 2015. I am proud of Orbis' Teams, who have been effectively bringing Company's strategy into life. Thanks to their commitment, common spirit of conquest and favorable economic situation we have been succeeding.

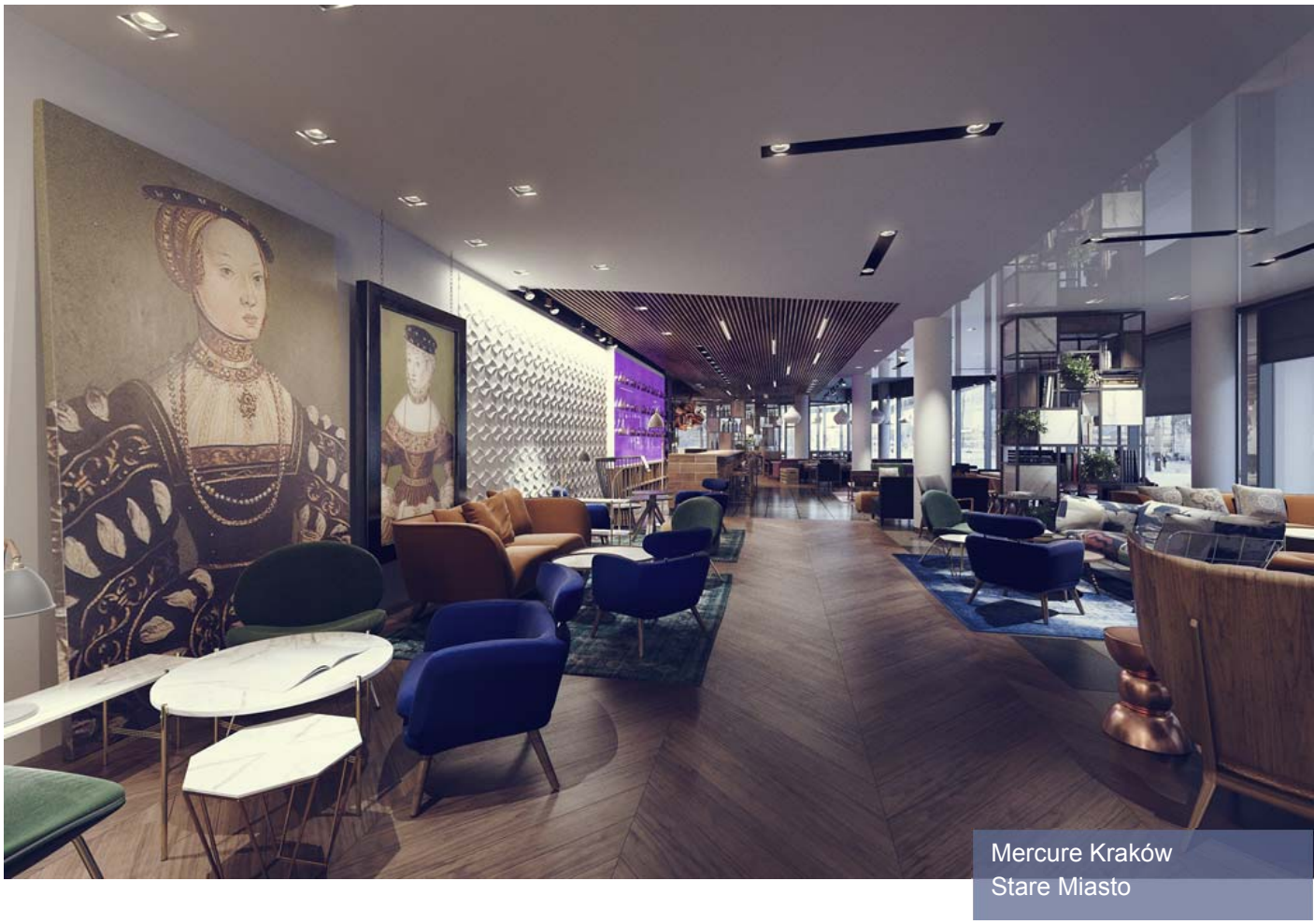
Entering new markets in the region in January 2015 made Orbis much more agile and opened up new possibilities to further build company's value for shareholders. In order to operate an optimal hotel **PORTFOLIO** we effectively allocate our capital through asset management. In 1H the buy-back transaction of two leased hotels in Budapest was successfully carried out and we do not exclude further potential transactions, which would allow us a more efficient hotel management. At the same time, sale and franchise back transactions of non-strategic hotels illustrate our approach to an active restructuring of our hotel group. That enable Orbis to reallocate cash to more profitable investments in new hotels, located in key destinations, and finance product improvement of existing portfolio. In 1H 2016 we strengthened our leading market position by 6 new franchise hotels openings, which brought almost 650 new guestrooms. On top of that 6 new franchise or management contracts have been signed which would result in new hotels soon. Looking for sustainable growth, our development pipeline is strong and secured with 23 hotels to open during the next 2 years.

All portfolio investments go hand in hand with the **PEOPLE** centricity as hospitality is a relationship between a guest and a host. This is why we undertook various short and long-term projects in order to support the guest passion of our teams, to make the talents grow, to inspire people to generate new ideas. We have been changing the culture of the company by bringing into life Group values, a necessary new leadership model, the digital plan, as we strongly believe that-guests satisfaction is first of all relating to staff well-being and then commitment.

I express my satisfaction looking at the first half of 2016 Orbis performance. Our optimism is already reflected in our 2016 operating EBITDA forecast of PLN 360-370 million. Looking into the future, we are on target with our objectives and still have ambitious goals to achieve, in terms of further chain development and Group's efficiency.

I have great expectations to strengthen our leader position in the region.

EXTERNAL ENVIRONMENT

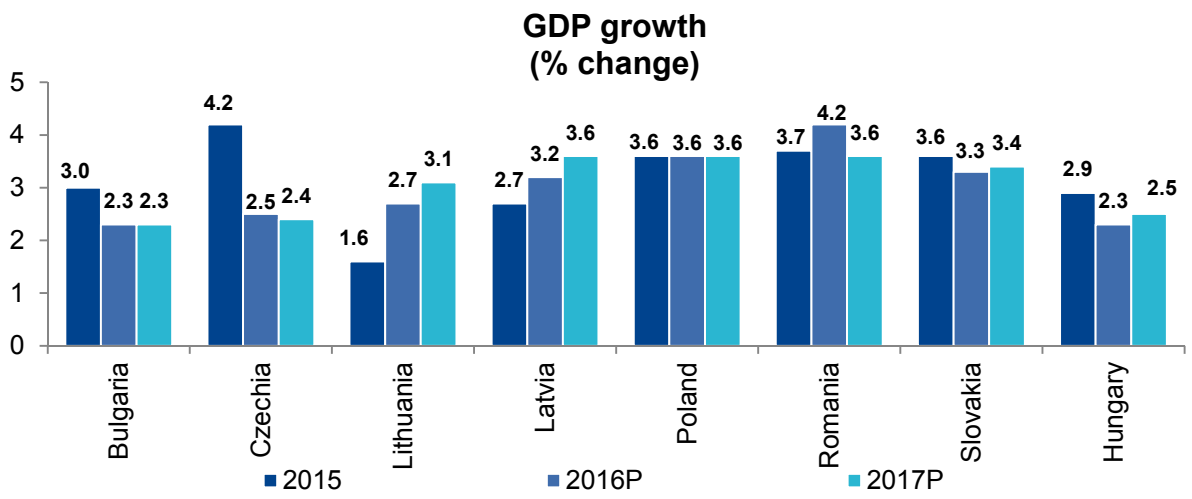


Mercure Kraków
Stare Miasto

3 EXTERNAL ENVIRONMENT

Continued upturn in the atmosphere of anxiety on global markets

In the first half of 2016, the economy continued to grow in the region of the Central and Eastern Europe despite a rising risk of political uncertainty. Increase of real salaries and wages was reflected in the growth of consumer demand; private investment remained low. Easing of fiscal policy and maintaining an accommodative bias of the monetary policy in the countries of the region should contribute to continued economic growth. In a short-term perspective, strong domestic demand should support further economic growth amongst countries with low or negative inflation. It is anticipated that countries of Central and Eastern Europe will report an average growth of 3.1% in 2016. Uncertainty as to the world economic trends is the risk factor for further growth of economic activities.



Source: International Monetary Fund, World Economic Outlook, April 2016 (2016 – 2017 projection)

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

The level of the PMI index confirms a continuing good trend in the region. In Poland, the PMI index equalled 51.8 at the end of June, which confirms forecasts of further economic upturn fuelled by the growths in the Euroland and the low fx rate of the Polish zloty against major currencies.

In Czechia and Hungary as well the PMI index remained above 50 pts. in the first half of 2016, which shows an increase in industrial sector turnover.

Further improvement in the labour market

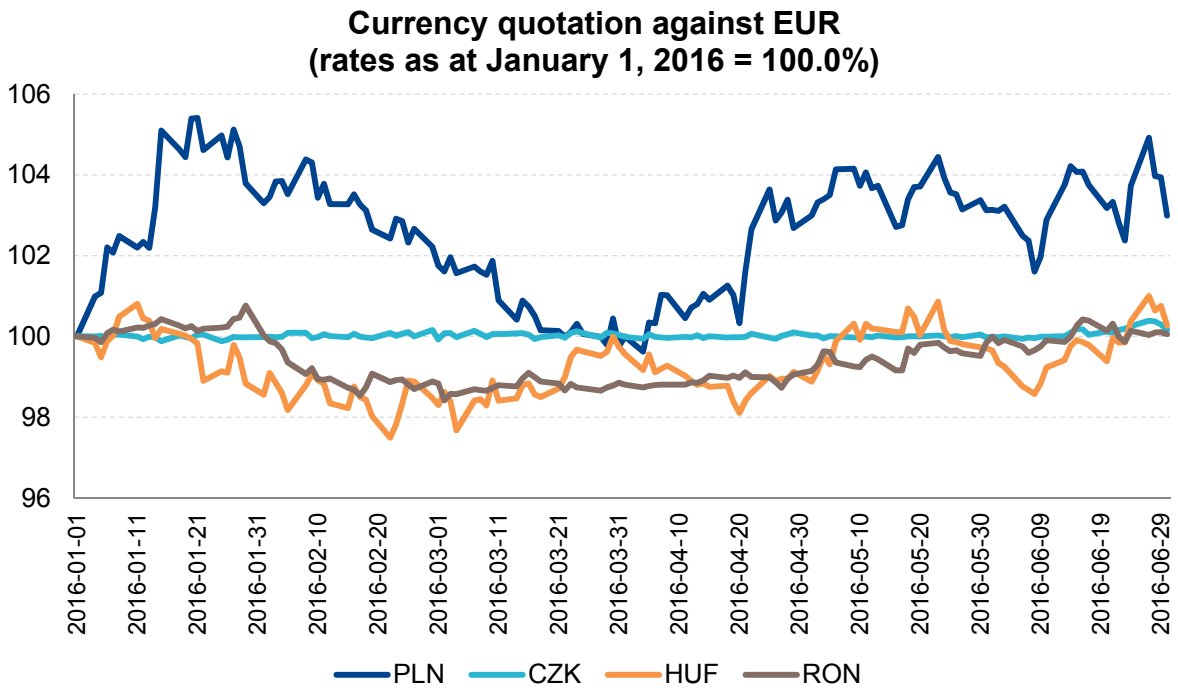
The conditions in the labour market continue to improve. Majority of countries in the region reported a steep decline in the unemployment rate in the first quarter as compared to the corresponding period in the past year, which translates into single-digit unemployment rates in most countries in the EE region. On the Polish market, growth of salaries and wages is anticipated as the result of a low unemployment rate (8.8% at the end of June 2016) and a large number of employment offers.

Deflation in the region

In the majority of countries in the region, deflation was primarily the result of a decline in prices of energy commodities on world markets, which translated into a decline in energy prices. The deflation which has been prevailing in Poland for a long time (it is now the 24th month of the inflation rate lingering below zero) does not as yet have a negative impact on decisions of business operators. Inflation expectations remain low. The largest drop in prices in the recent months in the region was observed in Bulgaria and Romania.

High volatility of the Polish currency, a stable situation in the region

A weak beginning of the year caused by, among others, borrowings in foreign currencies and government fiscal plans, and the consequent wave of risk aversion pushed the EUR/PLN fx rate above 4.40 in February, and in the end the Polish zloty did not perform as well as other currencies in our region. In March, however, the Polish zloty strengthened against major currencies and was the strongest this year against the euro, the US dollar and the pound. In addition, pushed up by domestic macro data releases that indicated a continued economic growth, the EUR/PLN fx rate fell temporarily below 4.23 – the lowest rate since November 2015. In the second quarter of 2016, due to political turmoil and the Brexit vote, the zloty depreciated against the major currencies and the EUR/PLN fx rate was at around 4.40 at the end of June. Volatility of other currencies in the region was low in the first half of the year.



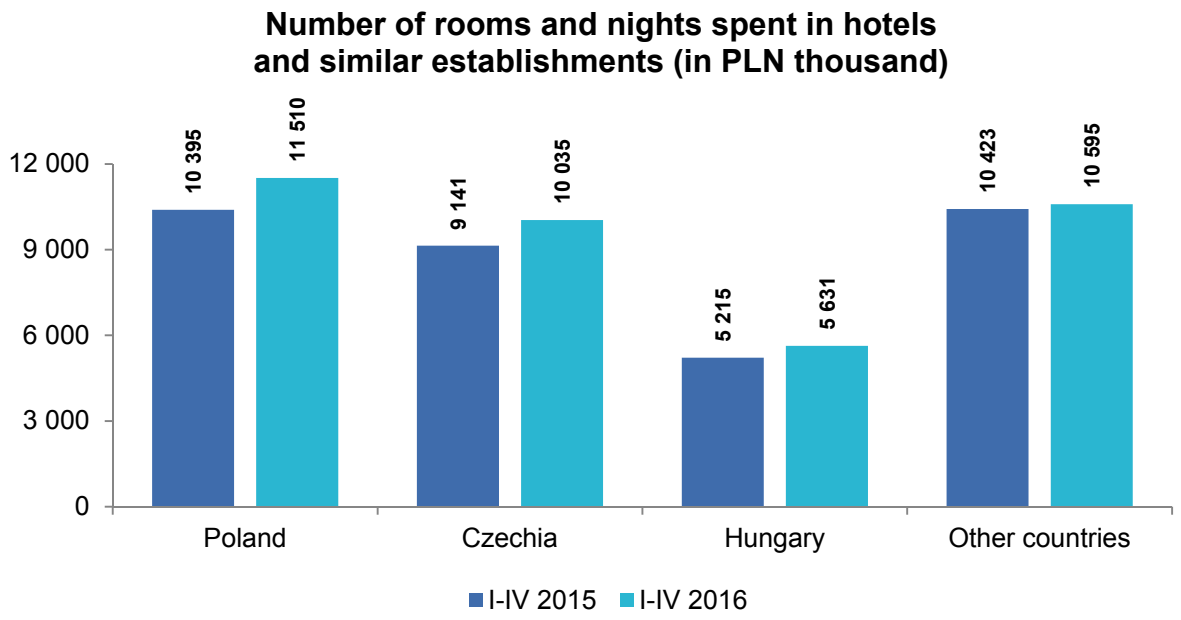
Source: Thomson Reuters

Forecasts point to stabilization of the momentum and structure of economic upturn

The growth in price competitiveness in countries of the Central and Eastern Europe and the expected further progressive improvement of economic trends in the Euroland should keep up the relatively high exports growth dynamics. Household consumption will be increasingly supported by salaries and wages' growth and higher credit availability. On the Polish market, the government "500+" child benefit programme launched in April may give an additional impulse to consumption growth. It is estimated that this programme may boost consumer demand by PLN 8.5 billion in 2016, pushing consumption growth up to almost 5 % y/y (from approx. 3 %).

Hotel market – positive trends

In the first six months of 2016, operating ratios of hotels in major cities of the Central and Eastern Europe improved. Both the occupancy rate and average room rate rose in the majority of capitals in the countries where the Orbis Group operates.



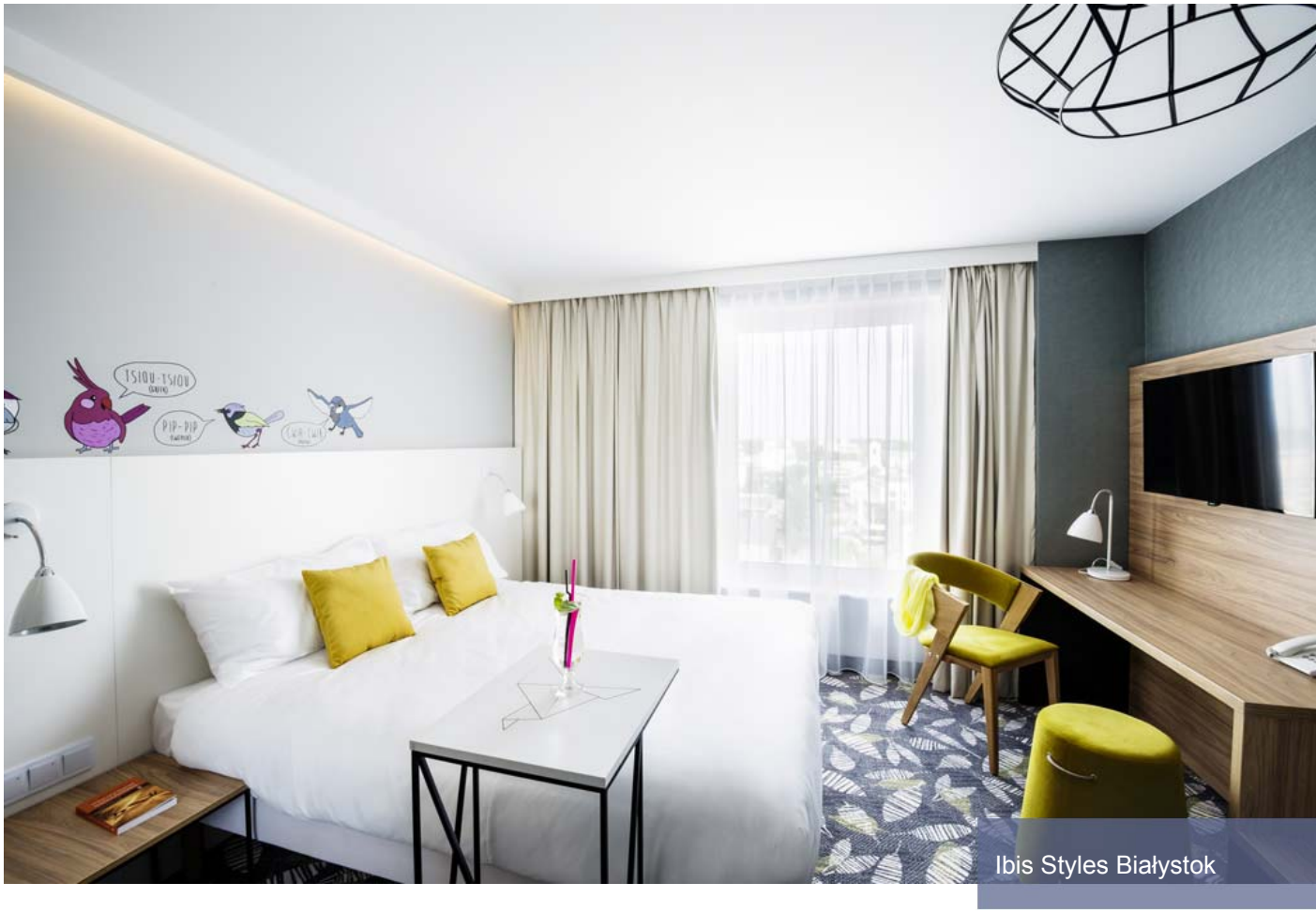
Source: Eurostat

Among those cities where Orbis Group hotels are located, the highest increase in the occupancy rate as compared to the past year has been reported in Wrocław (+7.3 p.p.). It is the result of the growing popularity of this city, both as an attractive business destination as well as a tourist destination (Wrocław is the European Capital of Culture 2016). A significant occupancy rate growth was also reported in the Tri-City market (+6.2 p.p. compared to the first half of 2015). This positive performance of Tri-City hotels is attributable primarily to the perception of this urban agglomeration as an attractive tourism destination by foreigners (above all by residents of Scandinavia due to lower price level and by residents of the Kaliningrad Region). Moreover, Tri-City has been experiencing a few years of recovery in the office space market and an intensive development of business service sector centres. Likewise, hotels located in Bucharest and Bratislava also reported significant increase in occupancy rates (above 4 p.p.) In Budapest, the occupancy rate dropped slightly (-0.8 p.p.). The highest occupancy rates in the first half of 2016 have been reported by hotels in Warsaw, Kraków and Bucharest (above 70%).

In the first half of 2016, the average prices in the region rose as well. Their highest upsurge was reported in Wrocław (+ 11.5%) and Budapest (+ 8.5%) as compared to the corresponding period in 2015.

Figures for the first six months of 2016 reveal continuous significant differences in revenue per available room (RevPAR) in the hotel market of the Central and Eastern Europe. The largest RevPAR increase of 24.5% has been reported in Wrocław (due to the relatively high average room rate and room occupancy). Amongst the cities of Eastern Europe where the Group operates, a high rate of revenue per available room has been reported by hotels in Bucharest, Sophia and Vilnius.

PRESENTATION OF THE ORBIS GROUP

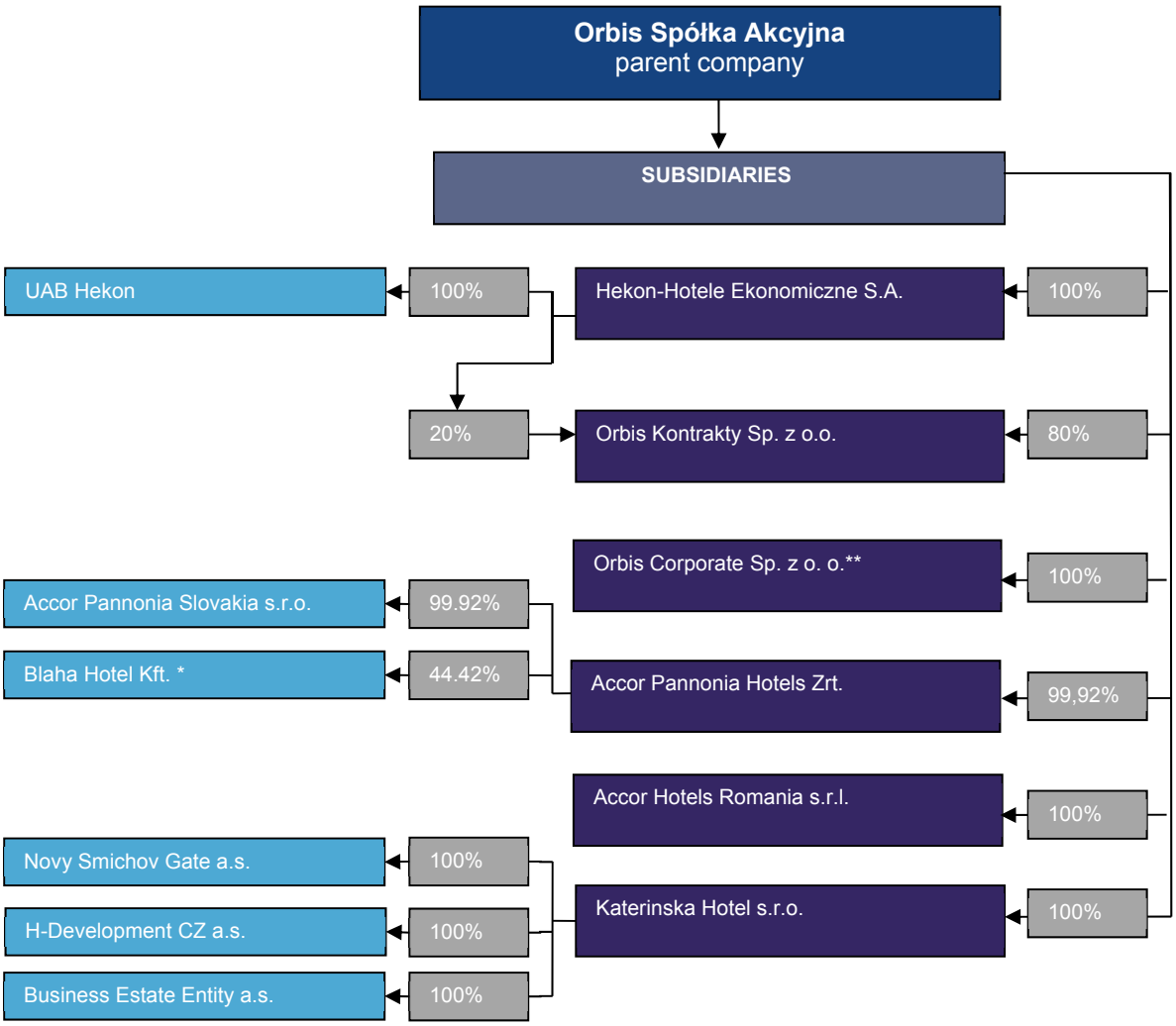


Ibis Styles Białystok

4 PRESENTATION OF THE ORBIS GROUP

4.1 Structure of the Orbis Group

On June 30, 2016, the structure of the Orbis Group was as follows:



** An associate accounted for in the consolidated financial statements using the equity method*

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

4.2 Companies of the Orbis Group

Operations in Poland

Two companies of the Orbis Group pursue hotel business in Poland, namely:

- Orbis S.A.
- Hekon-Hotele Ekonomiczne S.A.

On April 7, 2016, a decision was made to merge Orbis S.A. (the "Merging Company") with its subsidiary Hekon-Hotele Ekonomiczne S.A. (the "Merged Company"). The objective of the planned merger is to streamline the organisational structure of the Orbis Group. The merger will allow optimizing and centralizing tasks and functions, and in consequence improving the management process over the Group's operations.

The operations of both the merging Companies will be continued within the range of businesses so far pursued. The merger shall take place by way of transferring all the assets of Hekon-Hotele Ekonomiczne S.A. to Orbis S.A. pursuant to Article 492 § 1 point 1) of the Code of Commercial Companies and Partnerships. Detailed information concerning the merger is available in current reports no. 14/2016, 16/2016, 17/2016, 21/2016 and 23/2016.

Moreover, the company Orbis Kontrakty Sp. z o.o. operates on the Polish market, dealing with organisation of purchasing for the Group's hotels.

As at June 30, 2016, the Group had 68 hotel establishments with 11 710 rooms on the Polish market. Cities with the largest number of hotels included:

- Warsaw – 12,
- Wrocław – 8,
- Kraków – 6.

Operations in Hungary

Two hotel operators of the Orbis Group operate in Hungary:

- Accor Pannonia Hotels Zrt.
- Blaha Hotel Szállodaüzemeltető Kft.

As at June 30, 2016, these companies operated 17 hotels with 3 270 rooms, including 14 hotels in Budapest.

Operations in Czechia

In Czechia, the Orbis Group has four subsidiaries:

- Katerinska Hotels s.r.o.
- Nový Smíchov Gate a.s.
- H-DEVELOPMENT CZ a.s.
- Business Estate Entity a.s.

The first of these companies is a hotel operator, the other three are involved in real property rental and servicing.

As at June 30, 2016, the Group had 8 hotels with 1 355 rooms on the Czech market. Five hotels operate in Prague.

Operations in other countries

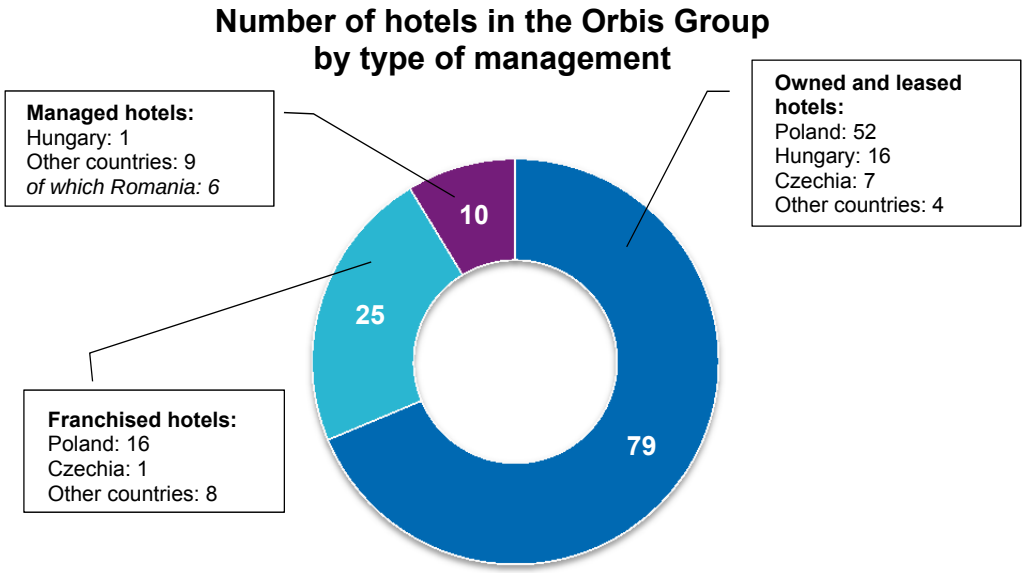
In other countries, the following subsidiaries are engaged in hotel business:

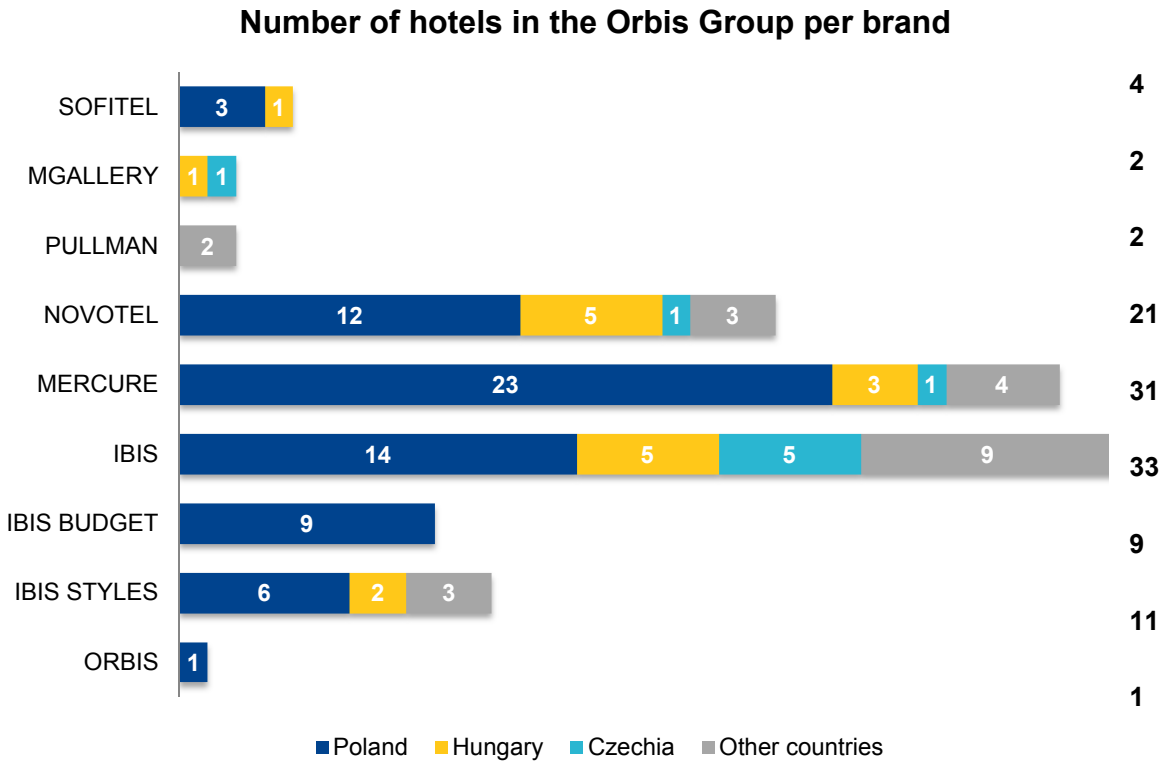
- Accor Hotels Romania s.r.l. with its corporate seat in Bucharest,
- Accor Pannonia Slovakia s.r.o. with its corporate seat in Bratislava,
- UAB Hekon with its corporate seat in Vilnius.

As at June 30, 2016, the network of Orbis hotels located in other countries of the region comprised:

- Romania: seven hotels offering 1 335 rooms in total. Five of them, including a Pullman hotel, operated in Bucharest.
- Lithuania: five hotels, including two in Vilnius, with a total of 567 rooms.
- Latvia: four hotels in Riga, with 499 rooms in aggregate.
- Bulgaria: two hotels in Sofia, with 262 rooms.
- Slovakia: two hotels located in Bratislava, with a total of 295 rooms.
- Macedonia: one hotel in Skopje, with 110 rooms.

Hotels' operating ratios by geographical segments are presented on pp 20 and 25.
Main factors affecting performance in respective countries are described in Section 6.2 of the Report.





4.3 Directions of the Orbis Group's development

A diversified portfolio of brands, from economy to luxury, boosts our growth on the attractive Eastern European market. The dynamic development of the Orbis Group results directly from the pursuance of key objectives of the Group's strategy. The strategy is founded on three basic pillars:

- Focus on advancement of operating performance:
  - Growing RevPAR
  - Maximised EBITDAR
- Allocation of capital to the most promising markets and brands.
- Responding to our guests' needs and building our success on talented employees. We are a CSR trendsetter in the hospitality industry.

Only full achievement of each of the above goals, coupled with a dynamic expansion in the region, determines the Group's ability to generate higher and higher value for Shareholders.

Hotel acquisitions in Eastern Europe: a new era in the Group's development

The year 2015 was a breakthrough period in the Group's history. Orbis executed an agreement for the purchase of a network of 38 operating hotels in Eastern Europe and concluded the Master License Agreement with its strategic partner AccorHotels and companies from its group, which has given the Orbis Group the right to pursue hotel business under the AccorHotels brands until 2035, in the following 16 countries: Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Hungary, Lithuania, Latvia, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia. This right has been given to Orbis on an exclusivity basis, for a minimum term of 10 years.

This transaction fitted perfectly into the Group's strategy, contributing to a considerable intensification of its development in the region. Orbis markedly expanded the scope of its business activity: from nearly 70 hotels as at the end of 2014, located predominantly in Poland and partly in the Baltic countries, to over 100 hotels in the Eastern European region following the acquisition.

Entry into new markets offers a great opportunity to grow more dynamically in future and is a strategic step towards further development. Thanks to this transaction Orbis will have an opportunity to expand its operations in 16 countries, strengthening its position of the largest hotel network in Eastern Europe.

Direction: optimisation of capital employed

In line with the adopted strategy, the Orbis Group expands by both entering into franchise and management agreements and by deploying own development projects in business hubs and capital cities of the Eastern Europe. Presently, the Orbis network comprises more than 100 hotels that operate in 9 countries of Eastern Europe. As the sole licensor of all AccorHotels brands in 16 countries of the region, Orbis has a great potential to expand further, including markets in 7 countries where AccorHotels brands are not present yet.

As envisaged in its development plans, Orbis monitors potential projects in terms of maximising return on investment, focusing on key geographical locations, mainly in city centres. Furthermore, the Group analyses hotel lease agreements and contemplates potential buy-back transactions. At the same time, the Group considers transactions of sale of assets of least significance for the Group with an aim to accelerate the development based on highly profitable investments in own hotels.

The expansion of the hotel network through own projects and optimisation of the structure of assets, also in terms of type of ownership, creates a need to secure proper sources of financing. The Orbis Group endeavours to maintain debt at a safe level.

Direction: operational excellence

The cornerstone to the Orbis Group's success is its striving for operational excellence by putting in place a business management model based on innovative, effective and practical solutions. Thanks to its ability to understand customers' expectations as regards services provided by the hotels, Orbis focuses its efforts on perfecting major areas of its business, all while putting guests' needs in the focus of its attention.

Whilst striving for operational excellence, the Orbis Group not only modernises its hotel portfolio but also implements state-of-the-art solutions in all areas of its operations. Operating on numerous markets, the Orbis Group achieves synergy in terms of:

- Implementing state-of-the-art technologies and solutions like: e-check-in and e-check-out, virtual concierge and electronic check-in and check-out (Welcome project),
- Promoting loyalty programmes, such as Le Club AccorHotels, the programme with over 780 000 members in Eastern Europe (Le Club AccorHotels is a 100% Internet-based programme with all the benefits available on-line; each member may manage his/her preferences, check bookings, select rewards and take advantage of personalised offers at preferential prices),
- Implementing best practices and solutions in the area of Revenue Management, common order management system, reporting system and internal control system,
- Promoting the latest F&B concepts (Orbis has innovated the Winestone and NOVO^2 restaurant networks, concepts based on dynamically evolving trends in interior design and menu).

Direction: CSR leader in the region

As the leader of the hospitality sector in Eastern Europe, Orbis aspires to be a trendsetter in sustainable development and ethics in the hotel market in this region.

Managing diversity of employees who act as the Group's Ambassadors on a daily basis, streamlining consumption of energy and water, green investments, taking major social initiatives in Poland such as protection of children against abuse and effective, long-term assistance for young people at risk of social exclusion are just a few examples proving that "sustainable development" and "ethics" are not groundless declarations of Orbis.

Planet 21 is a key programme implemented in the Orbis Group hotels, while the Ethics & CSR Charter offers guidelines and principles concerning the development of desired attitudes stemming from ethical values applicable in the Group. The objective of the Charter is to set out principles of cooperation both within the Group and in its relations with key stakeholders.

Presently, sustainable development and observance of principles of ethics in pursued business determine the development of companies, and the non-financial perspective is gaining on significance. Orbis' stakeholders - starting from employees, through shareholders, and ending with business partners, analysts and customers - expect transparency and reliability that Orbis wishes to deliver.

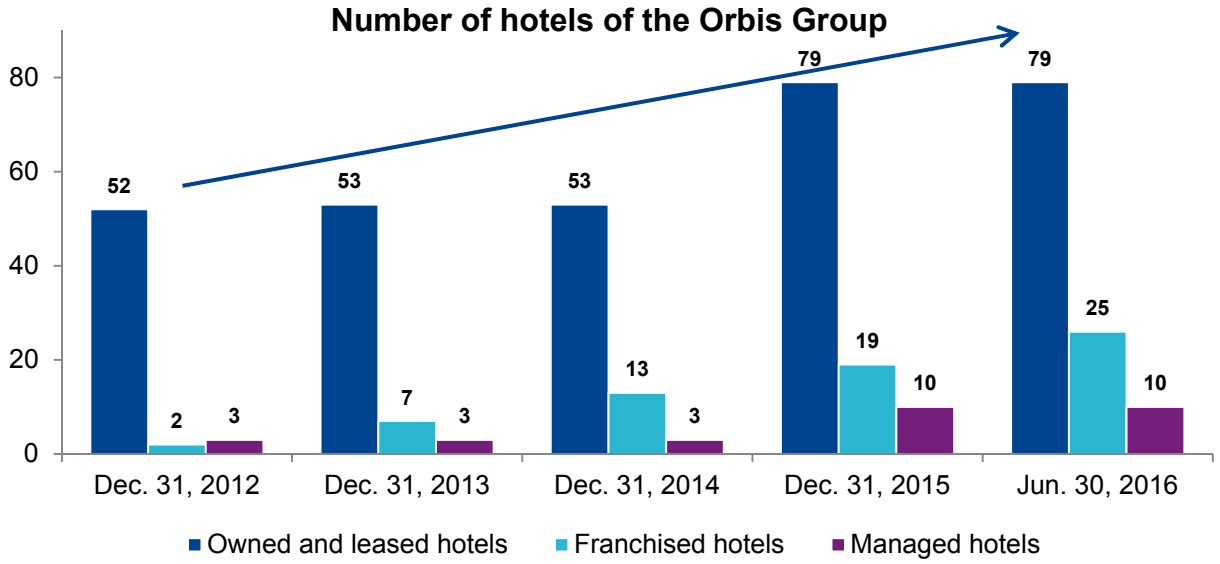
OPERATING ACTIVITIES

Novotel Katowice Centrum

5 OPERATING ACTIVITIES

5.1 Hotel portfolio of the Orbis Group

The Orbis Group is the largest hotel operator in Poland and in the Central & Eastern Europe. As at the end of June 2016, the Group's network comprised a total of 114 hotels with nearly 19.4 thousand rooms. The majority of these hotels (68 establishments) operate in Poland.



Hotel portfolio	Jun. 30, 2016	Dec. 31, 2015	Jun. 30, 2015	Jun. 30, 2016 / Dec. 31, 2015	Jun. 30, 2016 / Jun. 30, 2015
Number of hotels, of which:	**114**	**108**	**106**	**5.6%**	**7.5%**
Owned and leased hotels	79	79	81	0.0%	-2.5%
Managed hotels	10	10	10	0.0%	0.0%
Franchised hotels	25	19	15	31.6%	66.7%
Number of rooms, of which rooms in:	**19 403**	**18 824**	**18 587**	**3.1%**	**4.4%**
Owned and leased hotels	15 092	15 298	15 462	-1.3%	-2.4%
Managed hotels	1 571	1 570	1 570	0.1%	0.1%
Franchised hotels	2 740	1 956	1 555	40.1%	76.2%

5.2 Operating ratios

5.2.1 Owned hotels[1]

In the first half of 2016 the Revenue per Available Room (RevPAR) in owned hotels stood at PLN 156.1, i.e. was by 10.2% higher compared to the as "like-for-like" figures for the first half of 2015. The average Revenue per Available Room ranged from PLN 115.3 in economy hotels to PLN 178.5 in Up & Midscale hotels during 6 months of 2016 and, respectively, from PLN 108.9 to PLN 159.6 during the corresponding period of the past year ("like-for-like" figures). Growth of RevPAR is above all attributable to a higher Average Room Rate, and in the case of Up&Midscale hotels, also an increased occupancy rate as compared to the first half of 2015.

"Like-for-like" RevPAR figures of owned hotels differed also across geographical segments. During the first half of 2016, RevPAR was the highest in hotels operating in other countries (Lithuania, Romania and Slovakia) and stood at PLN 210.4. The revenue per available room in Czechia equalled PLN 169.0 and was 9.2% higher than in the corresponding period of the past year. In Hungary, the RevPAR has gone up as well. The revenue per available room rose by 11.0% from PLN 145.3 in the first half of 2015 up to PLN 161.3 in the first half of 2016. Hotels of the Orbis Group located in Poland achieved a RevPAR of PLN 148.9, which represents an increase of 9.6% as compared to "like- for-like' figures for the first half of 2015.

Increase of foreign currency average exchange rates in the first half of 2016 also had a positive impact upon the level of the reported RevPAR of hotels located abroad as compared to the first half of 2015 (please refer to Section 1 of the Condensed Interim Consolidated Financial Statements for the First Half of 2016).

Operating ratios of owned hotels by main category	1st half of 2016	1st half of 2015	change (%)	1st half of 2016	1st half of 2015	change (%)
	As reported			Like-for-like		
Orbis Group						
Occupancy rate (%)	67.6	65.5	2.1 p.p.	67.6	65.7	1.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	230.8	215.0	7.3%	230.8	215.9	6.9%
Revenue per Available Room (RevPAR) in PLN	156.1	140.7	10.9%	156.1	141.7	10.2%
Economy Hotels						
Occupancy rate (%)	69.0	69.8	-0.8 p.p.	69.8	69.8	0.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	164.4	156.0	5.4%	165.2	156.0	5.9%
Revenue per Available Room (RevPAR) in PLN	113.4	108.9	4.1%	115.3	108.9	5.9%
Up & Midscale Hotels (3 stars and more)						
Occupancy rate (%)	66.9	63.6	3.3 p.p.	67.4	64.4	3.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	264.1	242.7	8.8%	264.9	247.9	6.9%
Revenue per Available Room (RevPAR) in PLN	176.8	154.4	14.5%	178.5	159.6	11.8%

[1] Figures include the results of owned hotels and leased hotels of the following companies: Orbis S.A., Hekon – Hotele Ekonomiczne S.A., UAB Hekon, Katerinska Hotel s.r.o., Accor Pannonia Hotels Zrt., Accor Pannonia Slovakia, Accor Hotels Romania S.R.L.

Operating ratios of owned hotels by main category	2nd quarter of 2016	2nd quarter of 2015	change (%)	2nd quarter of 2016	2nd quarter of 2015	change (%)
	As reported			Like-for-like		
Orbis Group						
Occupancy rate (%)	79.5	77.3	2.2 p.p.	79.5	77.6	1.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	249.4	227.1	9.8%	249.4	228.7	9.1%
Revenue per Available Room (RevPAR) in PLN	198.3	175.5	13.0%	198.3	177.4	11.8%
Economy Hotels						
Occupancy rate (%)	80.2	81.2	-1.0 p.p.	81.8	81.2	0.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	179.2	169.8	5.5%	180.5	169.8	6.3%
Revenue per Available Room (RevPAR) in PLN	143.8	138.0	4.2%	147.6	138.0	7.0%
Up & Midscale Hotels (3 stars and more)						
Occupancy rate (%)	79.2	75.6	3.6 p.p.	79.2	76.3	2.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	286.2	253.5	12.9%	286.2	260.5	9.9%
Revenue per Available Room (RevPAR) in PLN	226.6	191.7	18.2%	226.6	198.9	13.9%

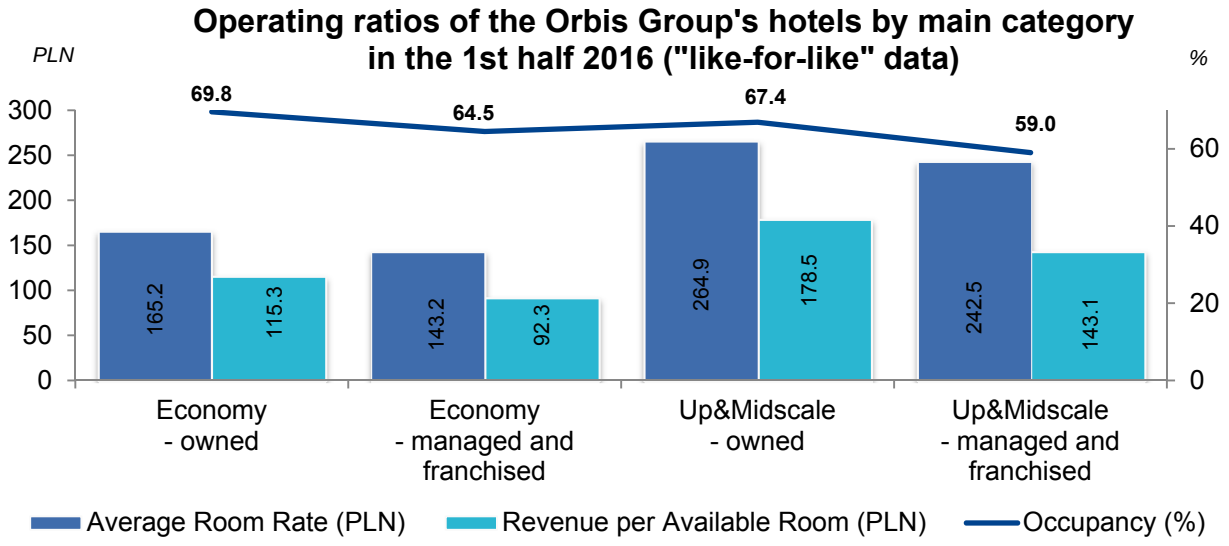
Operating ratios of owned hotels by geographical segment	1st half of 2016	1st half of 2015	change (%)	1st half of 2016	1st half of 2015	change (%)
	As reported			Like-for-like		
Poland						
Occupancy rate (%)	67.4	64.6	2.8 p.p.	67.4	64.9	2.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	220.8	208.2	6.1%	220.8	209.5	5.4%
Revenue per Available Room (RevPAR) in PLN	148.9	134.4	10.8%	148.9	135.9	9.6%
Hungary						
Occupancy rate (%)	64.9	64.4	0.5 p.p.	64.9	64.4	0.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	248.5	225.7	10.1%	248.5	225.7	10.1%
Revenue per Available Room (RevPAR) in PLN	161.3	145.3	11.0%	161.3	145.3	11.0%
Czechia						
Occupancy rate (%)	68.9	69.3	-0.4 p.p.	68.9	69.3	-0.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	245.4	223.3	9.9%	245.4	223.3	9.9%
Revenue per Available Room (RevPAR) in PLN	169.0	154.7	9.2%	169.0	154.7	9.2%
Other countries						
Occupancy rate (%)	79.8	76.0	3.8 p.p.	79.8	76.0	3.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	263.5	244.4	7.8%	263.5	244.4	7.8%
Revenue per Available Room (RevPAR) in PLN	210.4	185.7	13.3%	210.4	185.7	13.3%

Operating ratios of owned hotels by geographical segment	2nd quarter of 2016	2nd quarter of 2015	change (%)	2nd quarter of 2016	2nd quarter of 2015	change (%)
	As reported			Like-for-like		
Poland						
Occupancy rate (%)	78.3	74.3	4.0 p.p.	78.3	74.6	3.7 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	236.8	219.2	8.0%	236.8	221.4	7.0%
Revenue per Available Room (RevPAR) in PLN	185.5	162.9	13.9%	185.5	165.1	12.4%
Hungary						
Occupancy rate (%)	80.9	82.1	-1.2 p.p.	80.9	82.1	-1.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	267.8	232.3	15.3%	267.8	232.3	15.3%
Revenue per Available Room (RevPAR) in PLN	216.8	190.8	13.6%	216.8	190.8	13.6%
Czechia						
Occupancy rate (%)	80.2	84.4	-4.2 p.p.	80.2	84.4	-4.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	281.6	258.7	8.9%	281.6	258.7	8.9%
Revenue per Available Room (RevPAR) in PLN	226.0	218.3	3.5%	226.0	218.3	3.5%
Other countries						
Occupancy rate (%)	88.5	86.6	1.9 p.p.	88.5	86.6	1.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	276.9	248.0	11.7%	276.9	248.0	11.7%
Revenue per Available Room (RevPAR) in PLN	245.2	214.7	14.2%	245.2	214.7	14.2%

The following factors contributed to the growth in Revenue per Available Room reported in the first half of 2016:

- **Increase in the occupancy rate.**
  In hotels owned by the Group, the Occupancy Rate equalled 67.6% in the first half of 2016 and went up by 1.9 p.p. as compared with the corresponding period in 2015 (like-for-like). When broken down to geographical segments, the highest room occupancy was reported in hotels operating in Lithuania, Romania and Slovakia (79.8%). The highest increase of the room Occupancy Rate of 3.8 p.p. was also reported in hotels operating in other countries. In the first half of 2016, the occupancy in the Group's hotels located in Poland equalled 67.4%, i.e. it rose by 2.5 p.p. as compared to the corresponding figures for the first half of 2015. Slightly lower occupancy was reported in hotels in Hungary (64.9%). On the other hand, hotels located in Czechia reported occupancy of 68.9% in the first half of 2016, which represents a slight decrease of the Occupancy Rate (-0.4 p.p.) as compared to the corresponding figures for the first half of 2015. In terms of business segments, the Occupancy Rate in economy hotels was higher (at 69.8%) than in hotels with 3 or more stars (67.4%). In Up&Midscale hotels the average Occupancy Rate rose by 3.0 p.p. during the first six months, while in economy hotels the average Occupancy Rate remained at the same level as during the semi-annual period of 2015.

- **Increase in the Average Room Rate (ARR)**
  In the first half of 2016 the ARR stood at PLN 230.8, i.e. went up by 6.9% in comparison to like-for-like data for the first half of 2015. The average rate paid by clients for a room in hotels located in Poland was PLN 220.8 per room, i.e. on average 5.4% more as compared to the first half of 2015. The Average Room Rate in hotels operating in other countries equalled PLN 263.5, which means a growth by 7.8%. Hotels in Hungary and in Czechia reached the ARR growth dynamics of, respectively, 10.1% and 9.9%. Hotel guests in Hungary paid on average PLN 248.5 per roomnight, while in Czechia totalled PLN 245.4. In the first half of 2016, the Average Room Rate rose in selected business segments. In the economy hotels segment the Average Room Rate equalled PLN 165.2, which is a 5.9% growth as compared to the first half of 2015. On the other hand, the Average Room Rate in the Up&Midscale hotels was at PLN 264.9 (growth by 6.9% versus H1 2015).



5.2.2 Managed and franchised hotels

As at the end of June 2016, the Orbis Group network comprised a total of 35 hotels operating on the basis of franchise or management agreements. At the end of June 2015, the Group's portfolio comprised in aggregate 25 managed or franchised hotels.

In the first half of 2016, the Revenue per Available Room in managed or franchised hotels stood at PLN 117.5 i.e. was by 17.4% higher compared to like-for-like figures for the first half of 2015. Revenue per Available Room ranged from PLN 92.3 in economy hotels to PLN 143.1 in Up & Midscale hotels.

The Average RevPAR generated by managed or franchised hotels differed substantially across geographical segments. Hotels operating in Hungary reported the highest RevPAR of PLN 198.7 (like-for-like figures). The lowest RevPAR was reported in hotels operating in Czechia (PLN 75.7). Hotels located in other countries slightly outdid the Group's Average RevPAR (PLN 129.7). On the other hand, Polish hotels of the Orbis Group generated Revenue per Available Room at the level of PLN 95.3, i.e. by 12.2% higher than in the corresponding period of past year.

Operating ratios of managed and franchised hotels by main category	1st half of 2016	1st half of 2015	change (%)	1st half of 2016	1st half of 2015	change (%)
	As reported			Like-for-like		
Orbis Group						
Occupancy rate (%)	59.0	54.7	4.3 p.p.	61.7	54.8	6.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	184.6	182.6	1.1%	190.3	182.7	4.2%
Revenue per Available Room (RevPAR) in PLN	108.9	100.0	8.9%	117.5	100.1	17.4%
Economy Hotels						
Occupancy rate (%)	60.1	56.0	4.1 p.p.	64.5	56.0	8.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	142.3	137.1	3.8%	143.2	137.1	4.4%
Revenue per Available Room (RevPAR) in PLN	85.6	76.7	11.6%	92.3	76.7	20.3%
Up & Midscale Hotels (3 stars and more)						
Occupancy rate (%)	57.8	53.5	4.3 p.p.	59.0	53.7	5.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	230.3	230.5	-0.1%	242.5	231.0	5.0%
Revenue per Available Room (RevPAR) in PLN	133.2	123.3	8.0%	143.1	124.0	15.4%

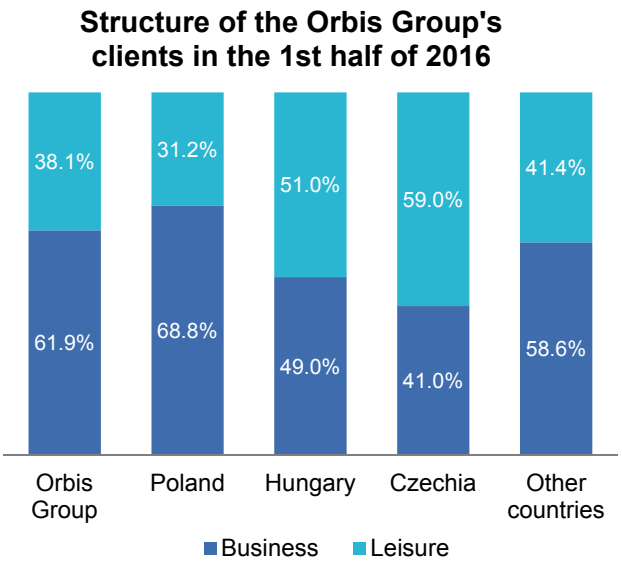
Operating ratios of managed and franchised hotels by main category	2nd quarter of 2016	2nd quarter of 2015	change (%)	2nd quarter of 2016	2nd quarter of 2015	change (%)
	As reported			Like-for-like		
Orbis Group						
Occupancy rate (%)	64.6	60.4	4.2 p.p.	67.2	60.4	6.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	185.4	183.0	1.3%	193.0	183.0	5.5%
Revenue per Available Room (RevPAR) in PLN	119.7	110.5	8.3%	129.7	110.5	17.4%
Economy Hotels						
Occupancy rate (%)	68.0	64.9	3.1 p.p.	73.1	64.9	8.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	149.1	143.7	3.8%	151.6	143.7	5.5%
Revenue per Available Room (RevPAR) in PLN	101.4	93.4	8.6%	110.8	93.4	18.6%
Up & Midscale Hotels (3 stars and more)						
Occupancy rate (%)	61.0	55.6	5.4 p.p.	61.1	55.6	5.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	227.2	230.7	-1.5%	244.0	230.8	5.7%
Revenue per Available Room (RevPAR) in PLN	138.6	128.3	8.0%	149.1	128.3	16.2%

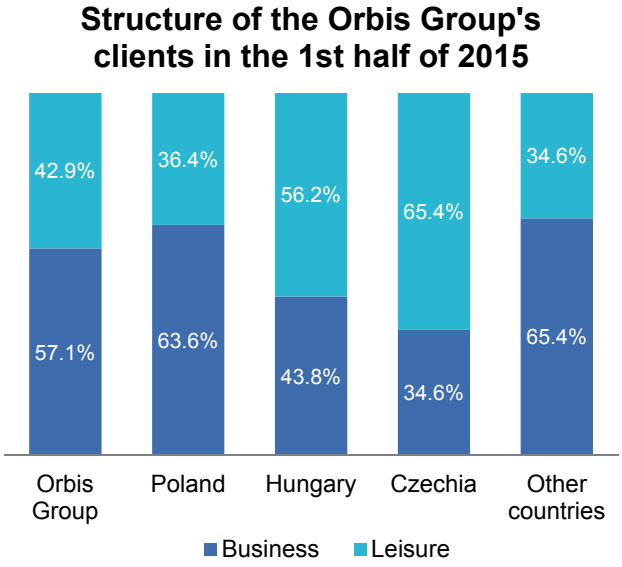
Operating ratios of managed and franchised hotels by geographical segment	1st half of 2016	1st half of 2015	change (%)	1st half of 2016	1st half of 2015	change (%)
	As reported			Like-for-like		
Poland						
Occupancy rate (%)	47.5	43.5	4.0 p.p.	47.1	43.5	3.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	191.1	195.3	-2.2%	202.2	195.3	3.5%
Revenue per Available Room (RevPAR) in PLN	90.7	84.9	6.8%	95.3	84.9	12.2%
Hungary						
Occupancy rate (%)	70.4	64.3	6.1 p.p.	70.4	69.4	1.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	282.3	239.2	18.0%	282.3	248.4	13.6%
Revenue per Available Room (RevPAR) in PLN	198.7	153.7	29.3%	198.7	172.5	15.2%
Czechia						
Occupancy rate (%)	50.9	50.9	0.0 p.p.	50.9	50.9	0.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	148.7	147.0	1.2%	148.7	147.0	1.2%
Revenue per Available Room (RevPAR) in PLN	75.7	74.9	1.1%	75.7	74.9	1.1%
Other countries						
Occupancy rate (%)	67.1	61.4	5.7 p.p.	70.9	61.4	9.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	178.6	175.4	1.8%	182.8	175.4	4.2%
Revenue per Available Room (RevPAR) in PLN	119.8	107.6	11.3%	129.7	107.6	20.5%

Operating ratios of managed and franchised hotels by geographical segment	2nd quarter of 2016	2nd quarter of 2015	change (%)	2nd quarter of 2016	2nd quarter of 2015	change (%)
	As reported			Like-for-like		
Poland						
Occupancy rate (%)	48.8	41.6	7.2 p.p.	46.5	41.6	4.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	179.2	182.0	-1.5%	191.3	182.0	5.1%
Revenue per Available Room (RevPAR) in PLN	87.4	75.6	15.6%	89.0	75.6	17.7%
Hungary						
Occupancy rate (%)	84.9	81.2	3.7 p.p.	84.9	81.2	3.7 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	318.6	276.9	15.1%	318.6	277.5	14.8%
Revenue per Available Room (RevPAR) in PLN	270.4	224.8	20.3%	270.4	225.2	20.1%
Czechia						
Occupancy rate (%)	63.1	65.2	-2.1 p.p.	63.1	65.2	-2.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	155.4	147.7	5.2%	155.4	147.7	5.2%
Revenue per Available Room (RevPAR) in PLN	98.0	96.3	1.8%	98.0	96.3	1.8%
Other countries						
Occupancy rate (%)	75.9	70.6%	5.3 p.p.	78.9	70.6	8.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	183.9	180.3	2.0%	189.2	180.3	4.9%
Revenue per Available Room (RevPAR) in PLN	139.5	127.3	9.6%	149.4	127.3	17.4%

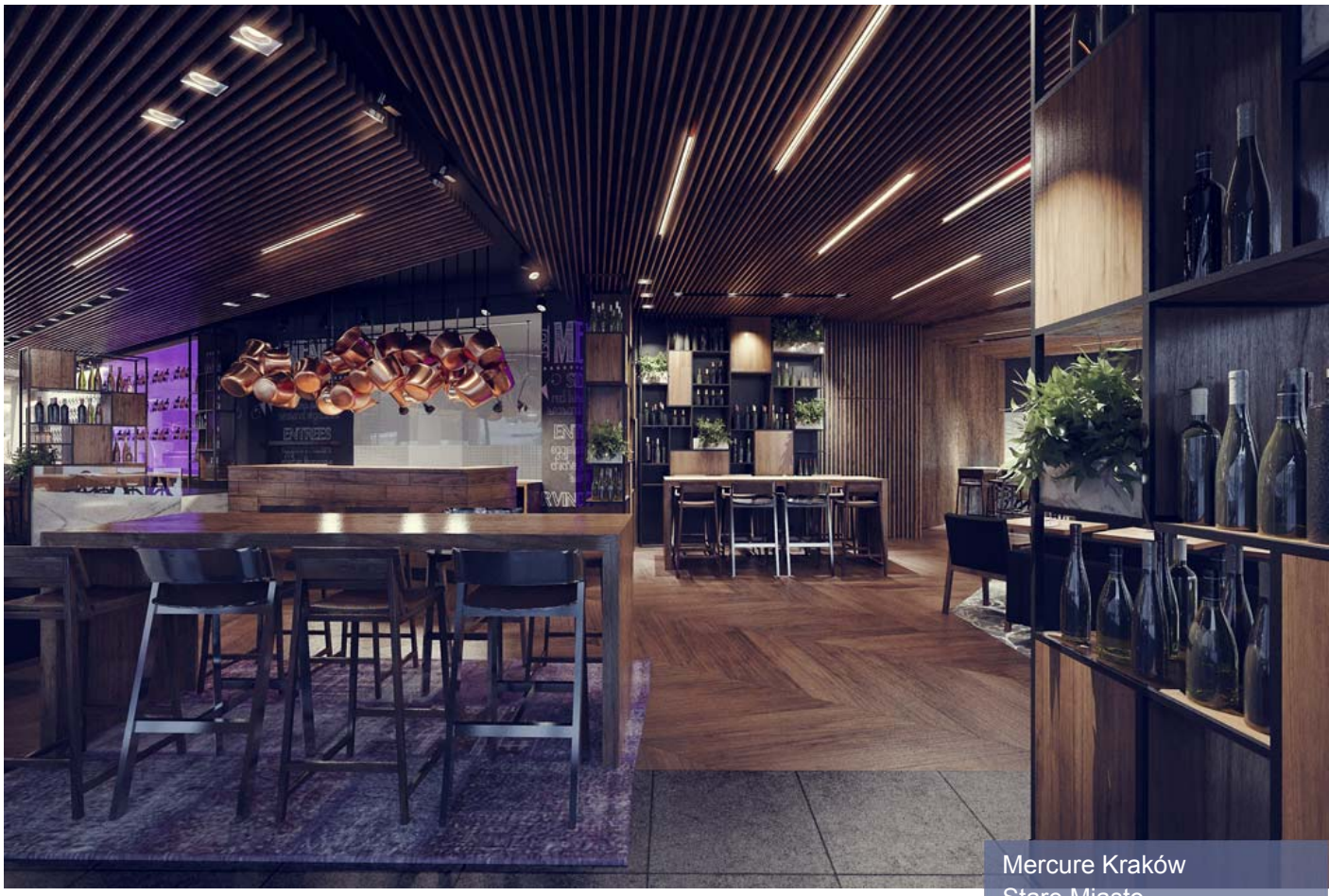
5.3 Clients

In the first half of 2016, business clients accounted for almost 62% of customers of the Orbis Group hotels. They formed the dominant group in the Group's hotels in Poland and in other countries (68.8% and 58.6% of all customers respectively). Conversely, in Czechia and Hungary it was tourists who formed the most numerous group of hotel customers, respectively accounting for 59.0% and 51.0% of all customers.





FINANCIAL RESULTS



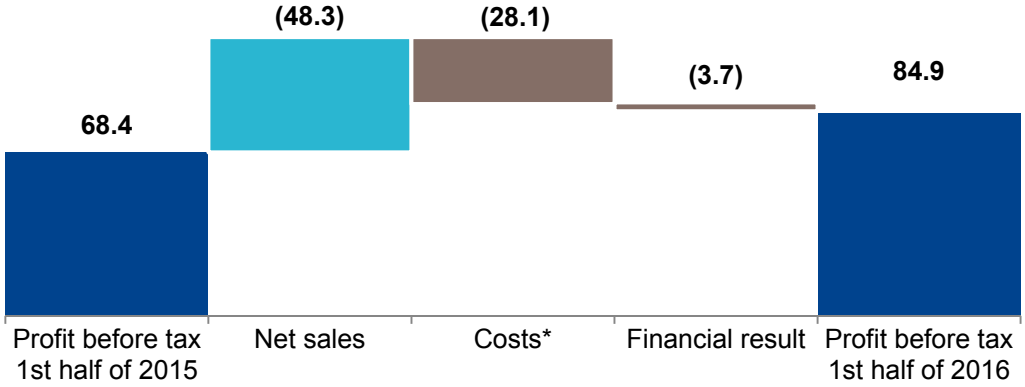
Mercure Kraków
Stare Miasto

6 FINANCIAL RESULTS

6.1 Factors affecting results

In the first half of 2016, the Orbis Group generated profit before tax amounting to PLN 84.9 million, i.e. 24.1% higher as compared to the figures for the first half of 2015.

Sources of creation of profit before tax in the 1st half of 2016



**Costs including the result from other operating activities*

Income statement – analytical approach	1st half of 2016	1st half of 2015	change (%)
Net sales	639 874	591 626	8.2%
Net sales „like-for-like"	*639 874*	*582 798*	*9.8%*
EBITDAR	213 328	193 160	10.4%
Operating EBITDA	164 289	143 118	14.8%
EBITDA „like-for-like"	*164 289*	*142 793*	*15.1%*
Operating profit (EBIT) without the effects of one-off events	91 437	73 930	23.7%
Operating profit (EBIT)	91 523	71 351	28.3%
Net result from financing activities	(6 598)	(2 822)	-133.8%
Profit before tax	84 864	68 405	24.1%

Income statement – analytical approach	2nd quarter of 2016	2nd quarter of 2015	change (%)
Net sales	392 660	362 425	8.3%
Net sales „like-for-like"	*392 660*	*355 931*	*10.3%*
EBITDAR	161 905	150 264	7.7%
Operating EBITDA	137 741	124 844	10.3%
EBITDA „like-for-like"	*137 741*	*124 050*	*11.0%*
Operating profit (EBIT) without the effects of one-off events	100 486	89 985	11.7%
Operating profit (EBIT)	100 715	89 862	12.1%
Net result from financing activities	(447)	771	-
Profit before tax	100 374	90 638	10.7%

6.2 Income statement

In the first half of 2016, the Group's net sales were at the level of PLN 639.9 million, i.e. rose by 8.2% as compared to figures for the first half of 2015.

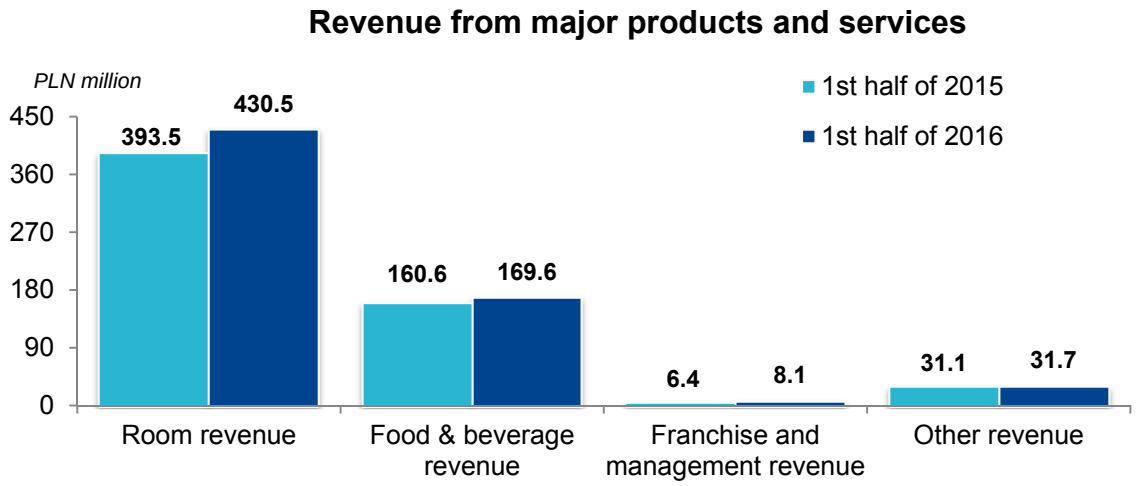
There were no significant changes in the structure of Group's revenue from major products and services versus the first half of 2015. In the first half of 2016, room revenue totalled PLN 430.5 million, which accounted for 67.3% of all the Group's revenues. The room revenue increased by 9.4% as compared to the figures for the first half of the past year.

Growth in the number of guests in Orbis Group hotels had a positive impact on F&B revenue, which stood at PLN 169.6 million across the entire Group, accounting for 26.5% of consolidated revenues. As compared to the data for the first half of 2015, the F&B revenue increased by 5.6%.

Revenue from franchise and management contributed 1.3% to the Group's revenue. As compared to the figures for the first half of the past year, revenues from franchise and management grew by 26.6%. It is particularly attributable to the expansion of the Group's hotel portfolio from 15 franchised hotels as at June 30, 2015 to 25 hotels at the end of the first half of 2016.

The other revenue, which is mainly derived from lease of property and car park spaces, accounted for 5.0% of consolidated revenue and increased by 1.9% as compared to the corresponding period of the past year.

The structure of Orbis Group sales broken down by products/services in the 1st half of 2016 and 2015 was as follows:



In geographic terms, the highest share to the Group's net sales was contributed by hotels located in Poland (63.3%) and in Hungary (21.9%). Net sales generated by hotels in Czechia and in other countries accounted for, respectively, 8.1% and 6.7% of consolidated sales.

Hotels operating in Poland generated net sales of PLN 404.8 million, which constitutes 63.3% of the Orbis Group's sales for the first half of 2016. Polish hotels reported a 6.5% sales growth as compared to the past year. Room revenue grew thanks to a higher number of rooms sold and higher average room rate. The increase in the number of guests contributed to the growth of the food & beverage revenue.

The most substantial rise in the number of rooms sold was reported in the segment of individual guests who stayed at hotels for business purposes. This was primarily an effect of a flexible pricing strategy. The positive effect was also produced by a special business offer of the ibis brand (ibis Comfort Package) as well as a medical congress held in Katowice, greater interest in the Poznań, Warsaw and Łódź Fairs, celebrations of 1050 years of Christianity in Poland taking place in Poznań, events accompanying the celebrations of the European Capital of Culture in Wrocław as well as sporting and cultural events, concerts and festivals organised in large cities.

The increase in the MICE segment is attributable to a greater number of business groups and conferences. Cultural and sporting events also had a positive impact, of which the European Men's Handball Championship, the 2016 IIHF Ice Hockey World Championship Division I Group A played in Katowice, and the European Fencing Championships Toruń 2016 contributed the most. Other key events included a medical congress and world championships in computer games (Intel Extreme Master) in Katowice, a medical conference (Top Medical Trends) in Poznań, the European Economic Congress in Katowice, the International Conference on Cardiology in Zabrze, and the NATO Anakonda-16 exercise in Toruń and Warsaw in June.

As regards the food&beverage department, revenue from breakfasts increased thanks to a greater volume of hotel guests. Mercure hotels reported an increase in revenue from WineStone restaurants and Novotels from NOVO[2] restaurants. Revenue from banquets and conferences also contributed to the growth in food & beverage revenue.

Hotels in Hungary generated operating revenues of PLN 140.4 million, accounting for 21.9% of consolidated revenues. Higher-than-last-year's results (by 11.7%) were achieved thanks to higher Occupancy Rate and Average Room Rate. A major growth in the number of rooms sold was possible thanks to a higher demand for accommodation services in Budapest, both in the segment of individual guests and groups.

In Hungary, a positive trend prevailed in the segment of individual guests travelling for business. In the segment of tourist groups, a minor drop was reported due to a lesser number of groups and absence of the so-called last-minute groups (numerous in the past year). The growth in the MICE segment was fuelled by a larger number of business groups, as well as conferences. In addition, numerous sporting and cultural events such as the circus festival, the European Shooting Championships and the OECD Congress also had a positive impact.

A positive impact of the corporate guests segment was also reported in the first half of 2016 mainly thanks to long-term projects implemented by international companies. The number of rooms sold in this segment increased in the Novotel, Mercure and Sofitel brands.

In the first half of 2016, revenues generated by hotels located in Czechia amounted to PLN 51.8 million (8.1% of the total revenues of the Group). These hotels reported the highest growth in sales of 8.4% thanks to higher Average Room Rate and F&B revenues. The Occupancy Rate during the first half of 2016 in hotels located in Czechia was somewhat lower than in the past year.

The upward trend prevailing in the first quarter of 2016 slowed down in the second quarter of the year due to absence of major sporting events that were held in the past year. Consequently, the number of individual guests staying for private purposes went down significantly. Decrease in the number of rooms sold was also reported in the segment of tourist groups, particularly in the ibis brand due to a change of strategy involving reduced availability for groups and greater focus on business guests.

The biggest growth in Czechia was reported in the segment of private guests travelling on business thanks to a special business package and higher distribution via online distribution channels. The positive trend also prevailed in the corporate segment. Growth was reported in the ibis, Mercure and MGallery brands. On the other hand, Czechia hotels reported slight decrease in the MICE segment.

Revenues for the first 6 months of 2016 generated in other countries where the hotels of the Group are located reached the level of PLN 42.9 million, i.e. 6.7% of consolidated revenues. Hotels located in Lithuania, Slovakia and Romania generated sales by 13.2% higher as compared to the corresponding period of the past year.

The Novotel in Vilnius achieved higher operating revenues thanks to room revenue generated in the conditions of a slightly higher Occupancy Rate and Average Room Rate. The number of guests rose in the individual guest segment primarily thanks to promotional offers. The corporate guests segment was at the past year's level, while a decline was reported in the MICE segment.

Slovakia is represented by two hotels located in Bratislava: Mercure and ibis. Both these hotels generated higher operating revenues, mainly thanks to increased Occupancy Rate and Average Room Rate. F&B revenue in Mercure grew, while ibis reported a decline in F&B sales as compared with the past year. The growth in the number of rooms sold during the reporting period occurred chiefly in the segment of individual guests travelling both for business and leisure thanks to a flexible pricing policy and its adjustment to the market as well as a greater interest in promotional offers. The business groups segment also declined as compared with the past year, mainly on account of large one-off events in the second quarter of 2015. The growth in the corporate segment was attributable to the recovery of the automotive industry and key customer stays in hotels of the Mercure brand.

The Novotel in Bucharest achieved a growth in room revenues thanks to higher occupancy accompanied by an average room rate below the level recorded last year. F&B revenues also rose, partially thanks to the opening of the WineStone restaurant in February. The most substantial rise in the number of rooms sold was reported in the segment of individual guests, mainly tourists. Beneficial impact was exerted by the alteration of the pricing policy, a special promotional offer launched at the end of April and a special business package. A minor growth was also reported in the tourist group segment.

The growing occupancy rate in the Group's hotels in the first half of 2016 resulted in an increase in direct operating costs, although the share of individual types of costs in net sales remained unchanged as compared to the past year. The greatest increase was reported in the cost of outsourced services, mainly commissions for sales agents, staff outsourcing costs as well as maintenance and repair costs. Compared to the first half of 2015, the employee benefits expenses increased significantly as a result of higher employment, as well as salary and wage increases and growth in bonuses based on financial performance. The higher level of costs of raw materials and energy used is directly connected with higher volume of F&B sales.

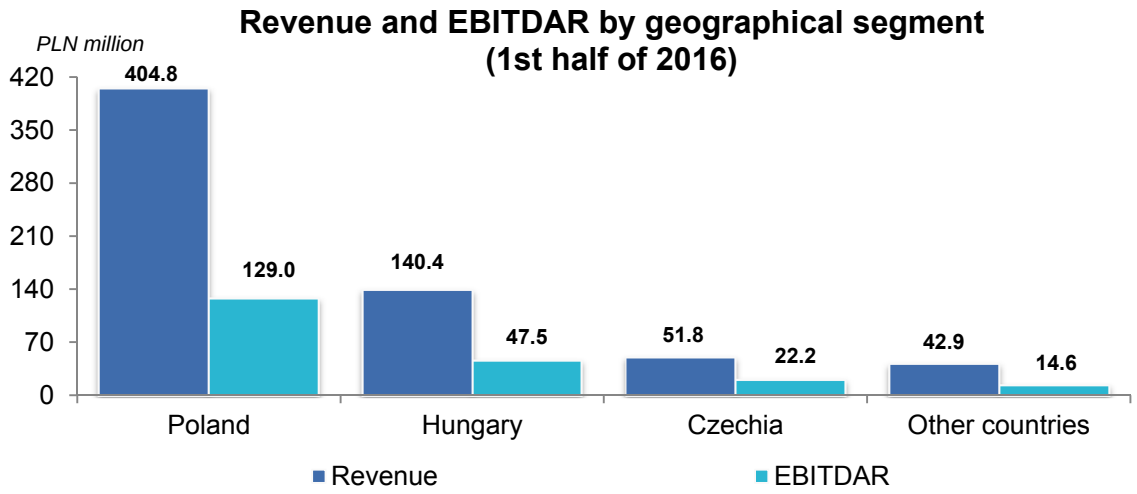
Growth in expenses was lower than the revenue growth momentum. Consequently the Group generated the EBITDAR of PLN 213.3 million, which translates into an increase by 10.4% versus the first half of 2015.

In the first half of 2016, the rental expenses went down, while depreciation and amortisation went up at the same time. It is the result of a buyback transaction of two formerly leased hotels as well as a growth in the value of assets thanks to capital expenditure incurred on new and existing hotels.

As a result of the above, operating **EBITDA grew by 14.8% up to PLN 164.3 million**, while the operating result excluding one-off events amounted to PLN 91.4 million, i.e. improved by 23.7% against the first half of 2015.

In the current year, the Group generated lower result on financial activities. In the first half of 2015, foreign exchange gains on revaluation of balances and transactions in foreign currencies constituted a major part of the finance income.

The Orbis Group ended the 1st half of 2016 with a net profit of PLN 71.4 million, so the result was by 34.0% higher compared to figures for the 1st half of 2015.



6.3 Statement of financial position

On June 30, 2016, the Group's assets totalled PLN 2 598.7 million and rose by 4.6% comparing to December 31, 2015.

The major components of the Group's assets are non-current assets, out of which the predominant item are property, plant and equipment valued at PLN 2 057.8 million, accounting for 79.2% of assets. Due to the type of business pursued, the major item of property, plant and equipment are buildings and structures as well as land and rights to perpetual usufruct of land. Property, plant and equipment increased by 7.0% as compared with its value as at December 31, 2015. It is above all the result of a buyback of two hotels so far leased (the ibis Budapest Heroes Square and the Mercure Budapest City Center) by a subsidiary, Accor-Pannonia Hotels Zrt. The capital expenditure for the buyback of these hotels totalled PLN 124.0 million. Increase of the value of property, plant and equipment is also attributable to capital expenditure of PLN 76.8 million incurred for development of new hotels and upgrading the standard of the existing hotels. Depreciation and amortisation (PLN 71.1 million) had also an impact upon the value of property, plant and equipment.

Intangible assets (mainly goodwill) valued at PLN 113.2 million also make a major item of non-current assets. Their contribution to the Group's assets runs to 4.4%.

As regards current assets, the most significant changes in the first half 2016 occurred with regard to cash and cash equivalents, trade receivables and short-term receivables, as well as short-term financial assets.

At the end of June 2016, the Orbis Group reported total cash and cash equivalents of PLN 236.4 million (9.1% of assets). The decline in the balance of cash and cash equivalents in the first half of 2016 is above all the result of capital expenditure incurred and repayment, at the end of June 2016, of loan instalment including principal amount plus interest on the loan as well as payment of interest on issued bonds.

Increase of trade receivables by 42.2% as compared to December 2015 is the result of a significant growth in the volume of rooms sold in June 2016 against year end.

The other short-term receivables item comprises predominantly VAT receivables and prepayments. Slight decrease in the balance of this item from PLN 34.5 million at the end of 2015 to PLN 32.0 million as at June 30, 2016, (change by 7.3%) is attributable to, amongst others, posting of prepayment, receivable by the Group as at December 31, 2015, in the amount of PLN 5.5 million for buyback of leased hotels, receipt of an instalment (of PLN 3.4 million) for the sale of the Mercure Kasprowy Hotel in Zakopane, as well as reduction in the value of VAT receivable versus the year end, which is typical for the first semi-annual period of the year. As at June 30, 2016, the balance of the Group's prepayments is higher as compared to 31 December 2015, mainly due to fees for perpetual usufruct of land.

Short-term financial assets as at December 31, 2015 included a loan granted by Accor-Pannonia Hotels Zrt. to external companies, namely City Budapest Zrt. and Hotel Liget. Zrt. This receivable was settled in the first half of 2016 as part of the buyback transaction of two hotels located in Budapest.

The Group financed its operating activities predominantly with its own funds. On June 30, 2016, equity amounted to PLN 1 810.8 million (69.7% of equity and liabilities).

As at June 30, 2016, Orbis S.A. had the following non-current liabilities bearing interest:

- liabilities under the bond issue of PLN 299.3 million (11.5% of liabilities),
- borrowings of PLN 105.1 million (4.0% of the balance sheet total),

and current liabilities (borrowings) of PLN 35.3 million (1.4% of liabilities).

On June 30, 2016, the Group's net debt stood at PLN 203.3 million, i.e. accounted for 11.2% of equity.

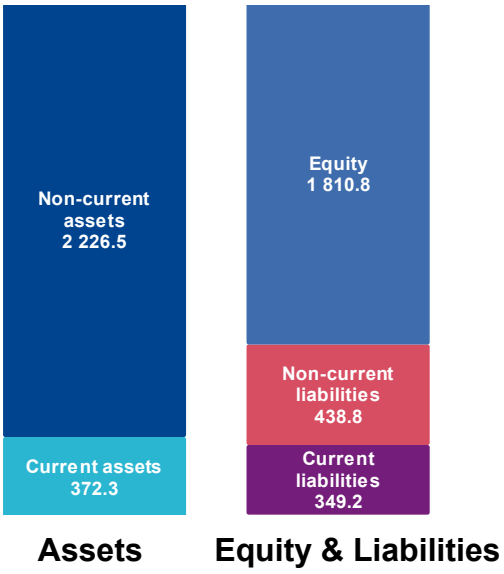
Increase in the balance of trade payables is connected with higher occupancy than at the end of 2015, resulting in increased purchases in the Group's hotels.

A significant item of current liabilities are other current liabilities, including mainly tax and social security liabilities and accrued expenses of employee benefits (also for bonus payments and unused holiday leaves) and liability of Orbis S.A. associated with the declared dividend of PLN 69.1 million. The date of dividend payment was set for August 3, 2016.

A much higher level of deferred revenue as at June 30, 2016 results predominantly from prepayments received for accommodation services to be provided during summer. Moreover, growth of non-current deferred revenue results from prepayment (PLN 3.6 million) received against the purchase price of the Mercure Mrągowo Resort & SPA Hotel.

Decline of liabilities associated with tangible assets in the first half of 2016 results in particular from posting of expenditure incurred for the rebranding of the Orbis Wrocław Hotel into the ibis brand as well as completion of modernisation works in the following hotels: Mercure Częstochowa Centrum, Mercure Poznań Centrum, Novotel Gdańsk Marina, Novotel Katowice Centrum and Sofitel Warszawa Victoria.

Structure of the Orbis Group's balance sheet
in PLN million
(as at June 30, 2016)



6.4 Statement of changes in equity

On June 30, 2016, equity amounted to PLN 1 810.8 million against PLN 1 783.3 million at the end of 2015.

The retained earnings of the Orbis Group include a net profit of PLN 71.4 million for the first half of 2016. Increase of retained earnings is also attributable to posting of the payment of EUR 4 million (equivalent to PLN 17.3 million) received from Accor S.A. directly to retained earnings. The payment was made in connection with the agreement signed on January 15, 2016 (description in Section 10 of the Condensed Interim Consolidated Financial Statements for the First Half of 2016). Also the income tax resulting from this transaction was posted to equity. The dividend for 2015 amounting to PLN 69.1 million had an adverse impact upon the value of retained earnings as at the end of June 2016.

The change in the Group's other reserves in the six months of 2016 resulted from valuation of the derivative instrument hedging against the risk of interest rate change related to the bond issue of 2015. The information concerning this hedge was provided in Section 9.3 of the Condensed Interim Consolidated Financial Statements for the First Half of 2016.

The foreign currency translation reserve of the Group increased from PLN 2.8 million at the end of 2015 up to PLN 14.1 million as a result of translating foreign operations into the currency of presentation (PLN). The level of the foreign currency translation reserve was greatly impacted by the growth of average rates of exchange of foreign currencies as at the end of June 2016 as compared to December 31, 2015 (refer to Section 1 of the Condensed Interim Consolidated Financial Statements for the First Half of 2016).

6.5 Statement of cash flows

During the first six months of 2016, net cash flows of the Orbis Group amounted to - PLN 36.0 million (- PLN 5.1 million in the first half of 2015). Cash flows comprised:

- Operating activities – significant growth of the volume of sales in the first half of 2016, attained both thanks to higher prices as well as increase in occupancy, contributed to the improvement of the profit before tax and directly into higher net cash generated by operating activities as compared to the past year. In addition, the level of prepayments against accommodation services to be provided which was higher than in the past year had an additional positive impact.

- Investing activities – the main reason for the cash outflow of PLN 188.4 million was the expense of PLN 198.8 million incurred on property, plant and equipment. The highest part of this sum was allocated for the buyback of two leased hotels. Within the frame of this transaction, the Hungarian subsidiary made a payment of EUR 24.2 million (approx. PLN 107 million), which resulted from the agreed price of EUR 27.5 million less the amount receivable under the granted loans of EUR 2 million and the prepayment of EUR 1.3 million made in December. Moreover, Accor Pannonia Hotels Zrt. paid the sum of HUF 197.5 million (an equivalent of PLN 2.8 million) as tax on the finalised transaction.
  Expenditures on investing activities were partially offset with the prepayment received for the sale of the Mercure Mrągowo Resort & SPA hotel (PLN 3.6 million) and the receipt of yet another instalment (PLN 3.4 million) for sale of the Mercure Kasprowy hotel in Zakopane.

- Financing activities – the cash received from Accor S.A. under the agreement described in Section 10 of the Condensed Interim Consolidated Financial Statements for the First Half of 2016 was recognised as cash inflows from financing activities of the Orbis Group. On the other hand, expenditure during the first half of 2016 was incurred for the repayment of the principal amount of the credit facility granted to Orbis S.A. and reducing the balance of overdraft by a subsidiary Katerinska Hotels s.r.o., as well as payment of interest and other borrowing costs (interest, commissions and other costs) by Orbis S.A. Consequently, in the first half of 2016 the Orbis Group generated cash outflow from financing activities equal to PLN 8.6 million.

6.6 Financial ratios

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).

In the first half of 2016, the Orbis Group generated better profitability ratios compared to figures for the first half of 2015.

Selected financial ratios of the Orbis Group	1st half of 2016	1st half of 2015
Margin ratios		
EBITDAR margin in %	33.3	32.6
EBITDA margin in %	25.7	24.2
EBIT margin in %	14.3	12.1
Profitability ratios		
Return on Equity (ROE)	4.0%	3.0%
Return on assets (ROA)	2.8%	2.4%
Return on sales (ROS)	11.2%	9.0%
Efficiency ratios		
Receivables collection period	17	15
Payables deferral period	31	23
Inventory turnover	2	2
Financing ratios		
Net debt (in PLN million)	203.3	244.2
Debt-to-equity*	30.3%	32.2%
Non-current assets cover ratio	81.3%	79.8%
Liquidity ratios		
Current ratio	1.07	1.15

** total liabilities/total equity and liabilities*

6.7 Projections of EBITDA for 2016

The Management Board of Orbis S.A. took decision to prepare and publish on July 28, 2016 the forecasted EBITDA of the Orbis Group for 2016. In the opinion of the Management Board, the forecasted EBITDA for 2016 should be in the range of PLN 360 and 370 million.

The forecasted EBITDA includes the result of operating activities, excluding the effects of one-off events such as sale of real properties, revaluation of non-current assets or costs of employment restructuring.

The projection has been prepared on the basis of financial results generated in the first half of 2016 and forecasted sales in hotels in the coming quarters of the current year.

The fulfilment of the projection will be monitored by the Management Board of Orbis S.A. on an ongoing basis, with a particular focus on an analysis of financial results generated in the months to come. In case of major deviations (at least 10%) from the bottom limit of the projected result, the Company will adjust the projection and disclose it to the public in a current report.

The projection has not been reviewed by the licensed auditor.

RISK AREAS

Mercure Poznań Centrum

7 RISK AREAS

7.1 Business risk

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

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

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

7.1.2 Competition risk

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

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

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

7.1.3 Risk related to cooperation with travel agents

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

7.2 Financial risk

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

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

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

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

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

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

7.2.1 Currency risk

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

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

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

7.2.2 Interest rate risk

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

A potential rise in interest rates will increase Orbis' finance costs and adversely affect Group's financial result.

As at June 30, 2016, Orbis S.A.'s liabilities with variable interest rates comprised:

- Credit facility of PLN 141.2 million at Bank Pekao S.A. and Société Générale S.A. bearing interest rate equal to WIBOR 3M plus margin. Interest rate on this credit facility is based on variable reference rates that are updated on a quarterly basis.
- Liabilities arising from the bond issue – PLN 300.0 million. The bonds bear interest per annum at a variable interest rate equal to WIBOR for six-month deposits (WIBOR 6M), plus interest rate margin of 0.97 p.p. Interest will be payable in six-month instalments. The bonds will be redeemed on June 26, 2020.

In case of bonds, cash flow volatility is offset by means of the executed Interest Rate Swap transaction.

7.2.3 Credit risk

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

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

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

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

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

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

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

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

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

7.2.4 Liquidity risk

The Orbis Group hedges liquidity through credit facilities, internal loans and credit lines on current accounts.

Moreover, the Group benefits from cash pooling between Orbis S.A. and the subsidiary Hekon-Hotele Ekonomiczne S.A. on accounts kept at Bank Handlowy w Warszawie S.A.

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

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

7.2.5 Price risk

In pursuing its business, the Orbis Group is exposed to the following price risk factors:

- Competition. The hotel market is marked by a high growth in the number of rooms rendered operational in recent years, which has brought about a pressure on prices of hotel services.
- Market environment in Poland and globally. Economic development stimulates growing interest in hotel services due to a higher number of business trips and increasing propensity to travel.
- Exchange rates. Particularly the exchange rate of the euro against the currencies of the majority of countries where the Group operates represents a significant factor of price risk in hotel business, as well as incoming and outgoing tourism. A low rate of exchange of the euro translates into a drop in revenue denominated in local currencies, mainly in Hungary, Czechia and Romania.

Price risk is minimised by way of implementing a policy of active room availability and price management (yield management). It is not possible to forecast the impact of the above risk on the financial results of the Group.

7.3 Legal risk

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

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

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

7.4 Reputational risk

Brands under which hotels of the Orbis Group operate and their reputation are the Group's most important assets. Customer acquisition and maintenance depend on the standard and quality of services and application of 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, violation of employees' rights and improper relations with local authorities. Given the expansion of social media, the potential scale (range) of negative perception and public disclosure of such events may be large, even disproportionate to the adverse effects such events actually produce. The occurrence of the above-mentioned situations may contribute to the growth in operating expenses or may have an adverse impact on revenue.

The Orbis Group monitors media activity on a current basis and responds to problems notified on social 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.

7.5 Risk factors related to the Bonds

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

Pursuant to Article 24.3 of the Bonds Act, in the event of liquidation of Orbis S.A., the Bonds become immediately redeemable on the date of commencing the liquidation, even if their redemption date has not yet lapsed.

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

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

ADDITIONAL INFORMATION

Novotel Kraków West City

8 ADDITIONAL INFORMATION

8.1 Capital expenditure

In the first half of 2016, capital expenditure of the Orbis Group amounted to PLN 200.8 million (PLN 27.2 million in the corresponding period of past year).

Capital expenditure of the Group	1st half of 2016	1st half of 2015
Development projects	50 811	18 014
Leased hotels buyback	123 969	0
Other expenditure	26 038	9 180
Total	**200 818**	**27 194**

A major portion of capital expenditure in the first half of 2016 was appropriated for buyback of two hotels so far leased by Accor-Pannonia Hotels Zrt. The transaction involved the ibis Budapest Heroes Square Hotel (139 rooms) and the Mercure Budapest City Center Hotel (227 rooms). The purpose of leased hotels buyback is to optimise the hotel business of the Orbis Group, in particular to eliminate lease costs. The total net price paid by Accor-Pannonia Hotels Zrt. for the acquisition of the above-mentioned hotels totalled EUR 27.5 million, of which EUR 16.0 million was financed from a loan granted to the Hungarian company by Hekon-Hotele Ekonomiczne S.A.

Expenditure incurred in the first half of 2016 was also allocated for Orbis S.A. development projects. A total sum of PLN 50.8 million was appropriated for the following investment projects:

- Mercure Kraków Stare Miasto. Works related to the construction of a new hotel located in the city centre launched in 2015 were continued in the first half of 2016. The shell of the building, the facade and the installation of the utility systems have been completed. The construction project entered the phase of FF&E procurement for hotel rooms, the public areas and the hotel back office. Completion of construction project is scheduled for the end of Q3 2016.
- ibis Gdańsk Stare Miasto. The construction of the shell of the hotel building reached its final phase and the residence permit was obtained. The construction of an outdoor car park for guests has also been completed. At present, the works in the hotel entered the phase of FF&E installation. Completion of work is scheduled for the end of Q3 2016.
- Orbis Wrocław. As part of the modernisation works of the former Orbis Wrocław Hotel launched in 2015 and its partition into two hotels operating under different brands, the ibis-branded section of the hotel was opened for guests on April 1, 2016. The next phase of modernisation works is pending on four floors of the Novotel Hotel and in the Novotel public areas, also in the conference rooms, the lobby, the restaurant and in the hotel back office. At present, the works are nearing completion with FF&E installations. Completion of the modernisation works in the Novotel section is scheduled for the Q 3 of 2016.
- Novotel Poznań Centrum. Modernisation of the hotel planned for 2016-2017 and involving the partition of the hotel and partial rebranding into ibis has started. Works related to preparation of mock-up rooms and design works were pending in the first half of 2016. Room modernisation will be completed in 4 phases. The first phase will begin at the turn of the second and third quarter of 2016, the last phase will be launched in the third quarter of 2017.

Other expenditure incurred in the first half of 2016 (PLN 26.0 million) was earmarked for upgrading the standard of hotels operating in the Group and for improving security, fire safety and IT expenditure.
The key investment projects implemented in the first half of 2016 include modernization and rebranding of the Mercure Budapest Duna and Mercure Budapest Metropol into ibis Styles hotels (ibis Styles Budapest Center and ibis Styles Budapest City). The remaining expenditure was allocated for, amongst others, rearrangement of rooms in the Sofitel Grand Hotel in Sopot, modernization of the lobby and the restaurant in the Novotel Szczecin Centrum, modernisation of conference rooms including FF&E replacement in Novotel Gdańsk Marina and Novotel Poznań Centrum, renovation of a restaurant in the Novotel Kraków West City, modernisation of the lobby, reception and upgrading of the bar to the Wine Stone standard in the Mercure Poznań Centrum hotel and Mercure Wrocław Centrum hotel. Modernisation works have also progressed in other selected hotels of the ibis and ibis budget brands.

As regards expenditure on IT, a comprehensive reception systems replacement project was completed in the first half of 2016 in all the Orbis Group hotels in Poland. In the second half of 2016, the project involving a professional WiFi access service based on the latest wireless solutions will be resumed. In addition to offering top quality of service to guests, investments in WiFi and new iPMS systems render the Orbis Group ready for new projects implemented within the framework of the "Digital Plan" which is being implemented since 2015. Other expenditure on information technology concerned a planned replacement and modernization of the existing IT infrastructure in hotels and the Head Office as a result of the duration of use, security policy, elimination of outdated technology solutions and current business needs.

8.2 Human resources

In the first half of 2016, the average employment in the Orbis Group stood at 3 857 full time equivalents, having risen by nearly 3% compared to the same period of last year.

Average employment (in full-time equivalents)	1st half of 2016	1st half of 2015	% change
Poland	2 500	2 460	1.6%
Hungary	884	838	5.5%
Czechia	212	203	4.4%
Other countries	261	244	7.0%
Total	**3 857**	**3 745**	**3.0%**

In the 1st half of 2016 the Orbis Hotel group completed, in the form of both traditional and e-learning training courses, over 4 100 training days for nearly 2 660 employees (5 611 participants).

8.3 People and Corporate Social Responsibility

Orbis stakeholders - employees, shareholders, business partners, investors, analysts and guests - expect transparency and credibility and this is exactly what we have been striving to deliver. In order to ensure transparency in the Company's operations, Orbis is applying the rules set out in the Code of Best Practices for WSE Listed Companies. Following this approach, in 1H2016 we issued and deployed 3 biding documents: the Ethics & Corporate Social Responsibility Charter, the Orbis Hotel Group Diversity Charter aimed at promoting workplace equality and preventing discrimination so that everyone is given an unrestricted opportunity to professionally grow within the Company and the Orbis Hotel Group Sponsorship Policy.

On the People side, Orbis is focused not only on attracting and retaining the best talents but also on supporting its employees in the era of digital and cultural transformation across the entire company. That is why, employees trainings programs in 1H2016 were focused not only on technical skills (through a series of trainings named the "Digital Deployment Days") but also on modern leadership and on empowering employees' relational skills through i.e. the "Happy Guest Come Back" program that has offered 130 workshop hours and has reached representatives of 100 hotels in the region. Moreover, in scope of its F&B strategy, Orbis is also investing in expanding the professional perspective of young Chefs throughout the "Culinary Excellence" program, a series of workshops bringing together more than 200 beneficiaries (Chefs, external experts and young talents from vocational schools across Poland) from January till the end of June 2016. Taking into account the popularity and business success of this program, "Culinary Excellence" has been deployed in Warsaw, Tri-City, Kraków, Wrocław and Poznań and might be developed abroad on other markets such as Budapest.

As a leading employer exerting special impact on social issues in Eastern Europe, since the beginning of the year Orbis has been engaged in the UN Women "HeForShe" campaign with the objective to involve more men in the process of improving the situation of women in its region. Detailed objectives to be attained by 2017 were set: understanding and championing male employees' involvement in the HeForShe campaign, driving towards parity in pay, better representation of women in Orbis Group top management and advancing knowledge of the evolving "ideal worker" and the changing hospitality industry.

Also, throughout the women's corporate network "Women At AccorHotels Generation" (WAAG) that today comprises more than 220 members in Orbis Group, we have started an empowerment and mentoring program for Orbis Group employees in Poland, Czechia, Romania, and Bulgaria. In Poland, almost 100 beneficiaries profited from "Happiness at Work" workshops focused on developing soft skill techniques and in Romania almost 20 beneficiaries started a series of workshops on women's leadership which is fuelling further WAAG members' professional success. As of today, 40% of general managers in Orbis Group hotels are women and the company strives its best to sustain the gender balance in the top management of the company.

Committed to child protection policy, in the first 6 months of 2016 the Orbis Group with the support of the Nobody's Children Foundation, extended its prevention policy to its business partners by offering trainings to almost 130 employees of security firms supplying professional daily services to Orbis Group hotels in Poland and to 50 hotel employees. This extension will enable Orbis to pursue a better, even more effective fight against abuse of children in hotel industry in Eastern Europe.

On the environmental side, Orbis continued to deploy the "Plant for the Planet" program in two countries: in Romania through the cooperation with Mihai Eminescu Trust foundation (a reforestation program - almost 2M trees planted in Transylvania) and in Poland in cooperation with the NGO AgriNatura, thanks to which almost 3 000 organic fruit trees of the traditional Polish varieties such as, for instance, the "kosztela" variety have been planted in central Poland bringing substantial help to farmers owning small parcel of lands who decided to cultivate bio farming, which become the only source of revenues for the family. Moreover, the first half of 2016 was an intensive time for deploying the new "Planet 21" program with new objectives set for 2016-2020, including the implementation of the "Healthy & Sustainable Food Charter" in our hotel business with focus on downsizing food waste by 30% in 2020, favouring local food suppliers, and promoting organically & sustainably farmed products. The menu of NOVO^2 and Winestone restaurants were revamped in the first months of the year taking into consideration recommendations contained in the above mentioned Food Charter.

Additionally, on the initiative of our employees from the ibis Bucharest Gara de Nord (Romania), since April 2016, we have been bringing substantial help to 20 disadvantaged persons working hand in hand with NGO Ateliere Fara Frontiere in Romania. By the "Bio&Co" program in Ciocanari village in Romania, we support these people in becoming more autonomous in life by offering them professional insertion and jobs focused on bio gardening. It is worth noticing that food waste from hotels is used as eco compost and that the bio products – vegetables and fruits from this gardening activity are supplied to Orbis Group hotels in Bucharest, making a true circular economy. The Solidarity AccorHotels corporate foundation decided to bring additional financial support of EUR 23 thousand in 2016.

8.4 Shareholder structure

As at June 30, 2016, the share capital of Orbis S.A. comprised the share capital disclosed in the amount set out in the Statutes and entered in the court register, adjusted for effects of hyperinflation, i.e.:

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

The list of Orbis S.A. shareholders determined on the basis of the list of shareholders empowered to attend the Annual General Meeting convened for June 2, 2016, is as followed:

Shareholder	Number of shares and votes	% of total number of shares and votes at the GM
Accor S.A.	24 276 415	52.69
of which: subsidiary Accor S.A. – Accor Polska Sp. z o.o.	*2 303 849*	*4.99*
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	4 589 000	9.96
Amplico Otwarty Fundusz Emerytalny and Metlife Amplico Dobrowolny Fundusz Emerytalny managed by Amplico Powszechne Towarzystwo Emerytalne	3 600 000	7.81
Nationale-Nederlanden Otwarty Fundusz Emerytalny	3 448 653	7.48
Others	10 162 940	22.06

The value of share capital of Orbis S.A. did not change in the first half of 2016.

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

Orbis' strategic investor is Accor S.A. – the world's leading hotel operator.

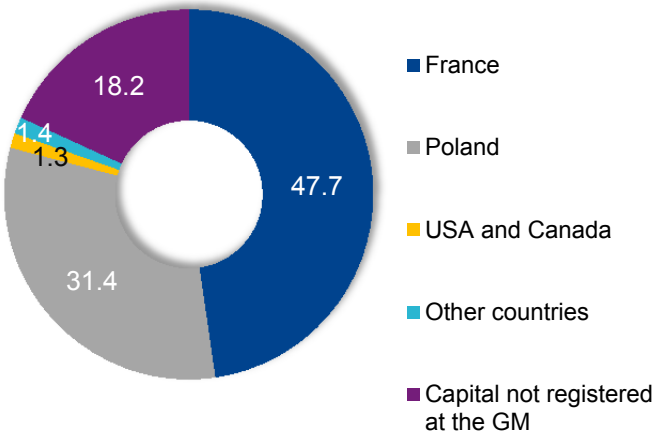
As at the date of publication of the Report, Vice-President of the Management Board, Mr. Ireneusz Andrzej Węgłowski, held 3 000 Orbis S.A. shares. Other members of the Management Board did not hold any Company shares.

Among the members of the Supervisory Board, solely Mr. Jacek Kseń held 2 010 Orbis S.A. shares.

No changes occurred in respect of the holding of Orbis S.A. shares by managing and supervising persons in the first half on 2016.

Shareholders by country of origin*

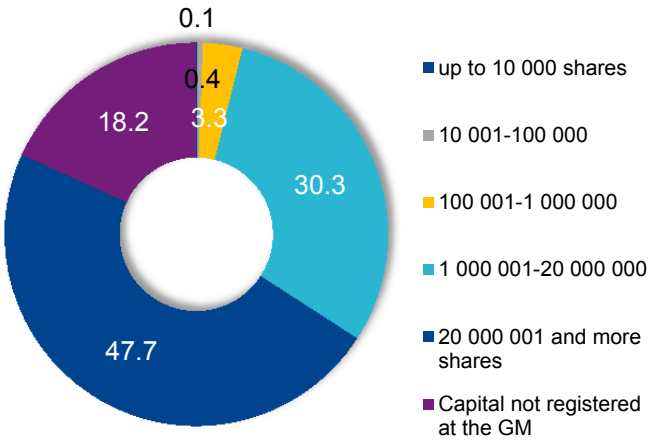
Countries	Number of shares
France	21 972 566
Poland	14 459 805
USA and Canada	595 051
Other countries	672 076
Shareholders not registered at the GM	8 377 510
Total	46 077 008



Simulation based on the list of shareholders empowered to attend the Annual General Meeting convened for June 2, 2016. The list comprised shareholders representing 81.82% of share capital (as at the day of compiling the list).

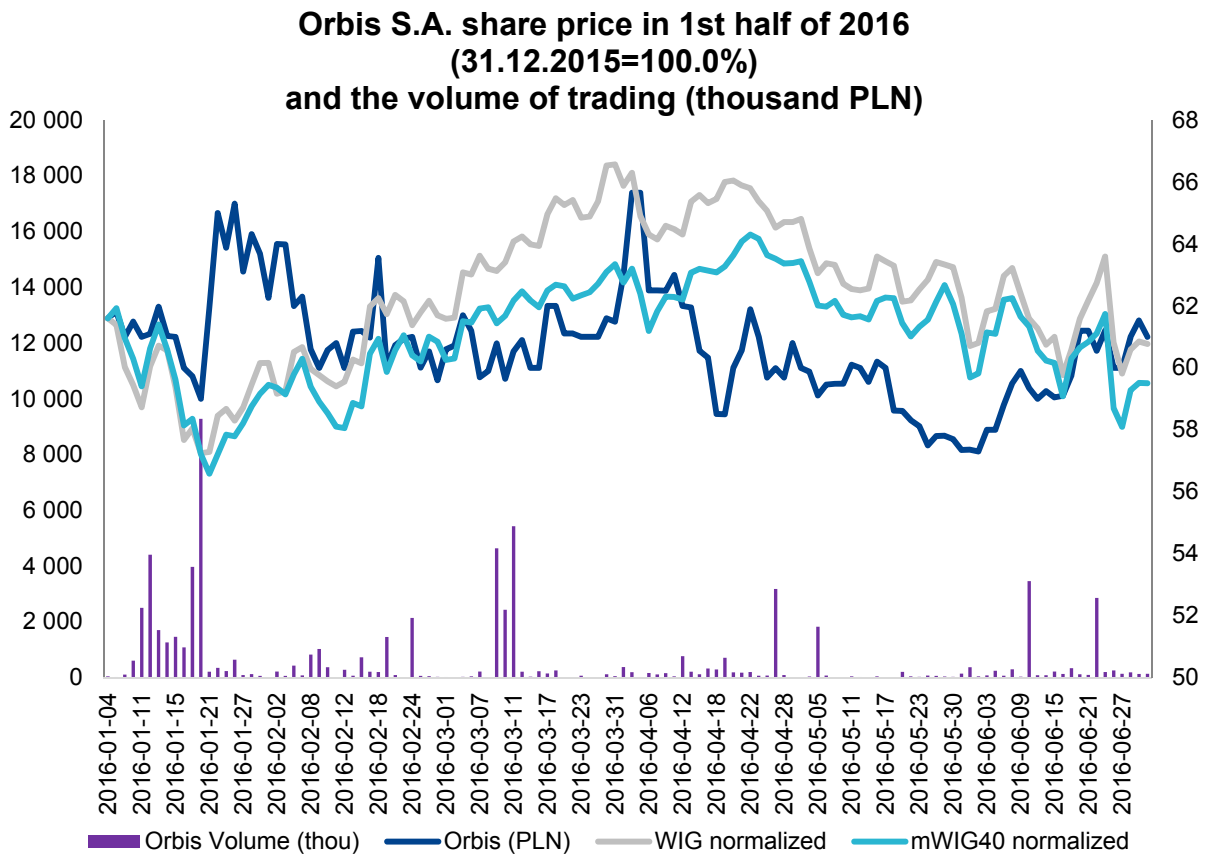
Shareholders according to the number of shares registered at the GM

Number of registered shares	Number of shares
up to 10 000 shares	55 229
10 001-100 000	193 719
100 001-1 000 000	1 536 482
1 000 001-20 000 000	13 941 502
20 000 001 and more	21 972 566
Shareholders not registered at the GM	8 377 510
Total	46 077 008



8.5 Share price

From January 1, 2016, till June 30, 2016, the Orbis share price fluctuated from PLN 57.30 to PLN 65.65. The range between the highest and the lowest price quoted was PLN 8.35, which accounted for 15% of the lowest price. The Orbis H1 2016 share closing price was at the level corresponding to the WIG index and 2.5% above mWIG40 index. The shares reached their top level on April 4, 2016 (share price of PLN 65.65). The average trading volume in Orbis shares totalled 9.5 thousand in 2016. As at June 30, 2016, the Orbis share price equalled PLN 61.00 and remained at a level comparable to the beginning of the year.



8.6 Statutory bodies of the Company

On June 2, 2016, the Annual General Meeting of Orbis S.A. Shareholders appointed the Supervisory Board of the 10th tenure

From January 1 till June 30, 2016, Orbis S.A. Supervisory Board was composed of the following members:

- Jan Ozinga – Chairman (Chairman of the Supervisory Board from June 2, 2016; Member of the Board till June 2, 2016),
- Bruno Coudry – Member,
- Artur Gabor – Independent Member,
- Christian Karaoglanian – Member,
- Jacek Kseń – Independent Member,
- Jean-Jacques Morin – Member (appointed as member of the Supervisory Board on June 2, 2016),
- Laurent Picheral – Member,
- Andrzej Procajło – Member,
- Andrzej Przytula – Member,
- Jarosław Szymański – Member,
- Sophie Isabelle Stabile – Chairman (mandate of Supervisory Board member expired on June 2, 2016).

From January 1 till June 30, 2016, Orbis S.A. Management Board was composed of the following members:

- Gilles Clavie – President of the Management Board, Chief Executive Officer,
- Ireneusz Węgłowski – Vice-President of the Management Board,
- Marcin Szewczykowski – Member of the Management Board, Finance Director,
- Dominik Sołtysik - Member of the Management Board (from June 2, 2016).

On June 2, 2016, the Supervisory Board appointed Dominik Sołtysik for the position of a Member of Orbis S.A. Management Board .

8.7 Entity authorised to audit the financial statements

The financial statements of the Orbis Group and of Orbis S.A. are audited by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa, registered under the number 73 on the list of licensed entities maintained by the National Chamber of Statutory Auditors.

Presently, there is no rule in Orbis S.A. concerning replacement of the entity authorised to audit financial statements.

8.8 Investor relations

Whilst fulfilling exhaustively its information disclosure obligations, Orbis pursues an open information policy. The Management Board of the Company offers comments and responds to investor inquiries during teleconferences organised after publication of quarterly results. Individual meetings with investors and analysts are held at the Company's Head Office. Company representatives also participate in the so-called Investor's Days organised by financial institutions.
In the first half 2016, Orbis S.A. held:

- meetings devoted to publication of 2015 results,
- teleconference to present the Q1 2016 results,
- a road show in connection with the issue of bonds.

All financial data and information published by Orbis are available on the corporate website www.orbis.pl. Corporate sections of the website are updated and expanded with new content in line with service users' requests. "Orbis TV" platform is available on the Company's website, allowing users to follow on-line broadcasts of corporate events and browse the archives with films, reports and interviews about Orbis. 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.

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.

APPENDIX: GLOSSARY OF TERMS

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

CAPEX – Capital Expenditure

CSR – Corporate Social Responsibility

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

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

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

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

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

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

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

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

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

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

Up & Midscale hotels – one of the two reportable operating segments of the Orbis Group that comprises hotels of the following brands: Sofitel, Pullman, MGallery, Novotel, Mercure and Orbis Hotels.

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
July 27, 2016	Gilles Stephane Clavie	President of the Management Board	
July 27, 2016	Ireneusz Andrzej Węgłowski	Vice-President of the Management Board	
July 27, 2016	Dominik Sołtysik	Member of the Management Board	
July 27, 2016	Marcin Szewczykowski	Member of the Management Board	

DECLARATIONS OF THE MANAGEMENT BOARD

Ibis Poznań Północ

DECLARATIONS OF THE MANAGEMENT BOARD

True and fair view of the financial statements

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

At the same time, the Management Board of Orbis S.A. declares that according to its best knowledge the attached condensed interim financial statements of Orbis S.A. for the first half of 2016 and comparative figures for the first half of 2015 and for the year 2015 have been prepared in accordance with the accounting policy applied by the Company and with the International Financial Reporting Standards and reflect, in a true, fair and transparent manner, the economic and financial standing and financial result of Orbis S.A.

The Directors' Report on the Operations of the Orbis Group for the First Half of 2015 contained in this document depicts the true image of development and achievements as well as condition of the Orbis Group, including description of main threats and risks.

Selection of an entity authorised to audit the financial statements

The Management Board of Orbis S.A. hereby declares that the entity authorised to audit the financial statements, entrusted with the task of reviewing the condensed interim financial statements of Orbis S.A. and the condensed interim consolidated financial statements of the Orbis Group for the first half of 2016 has been selected in conformity with the law. This entity and the licensed auditors in charge of the said review met the requirements necessary to issue an unbiased and independent report on the review, pursuant to the applicable regulations and professional standards.

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

Gilles Clavie

President of the Management Board, Chief Executive Officer

Ireneusz Węgłowski

Vice-President of the Management Board

Dominik Sołtysik

Member of the Management Board

Marcin Szewczykowski

Member of the Management Board, Finance Director.

Warsaw, July 27, 2016