



Orbis Group and Orbis S.A.

DIRECTORS' REPORT ON THE OPERATIONS FOR 2018



Directors' Report on the Operations of the Orbis Group and Orbis S.A. for 2018

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

According to §71.8 of the above Regulation, the Directors' Report on the Operations of the Orbis Group for 2018 and Directors' Report on the Operations of Orbis S.A. 2018 have been compiled in a single document.

Consolidated data is presented throughout this Report except Section 4 which contains financial information relating to Orbis S.A. for 2018. Given that Orbis S.A. is the parent company of the Group, the greater part of information contained in the remaining sections of the Report also apply to the business of Orbis S.A. Therefore, in order to fully comprehend the business of Orbis S.A., it is recommended to read the entire Report.

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PRESENTATION OF THE ORBIS GROUP



1 PRESENTATION OF THE ORBIS GROUP

1.1 Orbis Group at a Glance

We are the largest hotel network in Poland and in the Central Europe with nearly 22 thousand rooms in 130 hotels operating under the following Accor brands: Sofitel, Pullman, MGallery, Novotel, Mercure, ibis Styles, ibis and ibis budget.

We create shareholder value shaped by the imperatives of product improvement, further expansion of the hotel network and deploying development projects, keeping our focus on people that is employees and guests.

These three strategic objectives define all of our thinking – from investment decisions to talent management.

We focus on strengthening our portfolio of brands to put us in a position to cater for guests' needs and changing behaviour patterns and life styles more effectively. We develop our network both through franchise and management agreements as well as subsidiary hotel projects. We want to create an efficient, modern and dynamic organisation delivering solid growth in profitability.

We launch innovative solutions in various areas of our business in order to increase efficiency and satisfaction with our service. 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.

„We develop our network both through franchise and management agreements as well as subsidiary hotel projects. We want to create an efficient, modern and dynamic organisation delivering solid growth in profitability.”

Our business model

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

Upscale and luxury hotels

SOFITEL
HOTELS & RESORTS

PULLMAN
HOTELS AND RESORTS



Midscale hotels

NOVOTEL
HOTELS & RESORTS

adagio

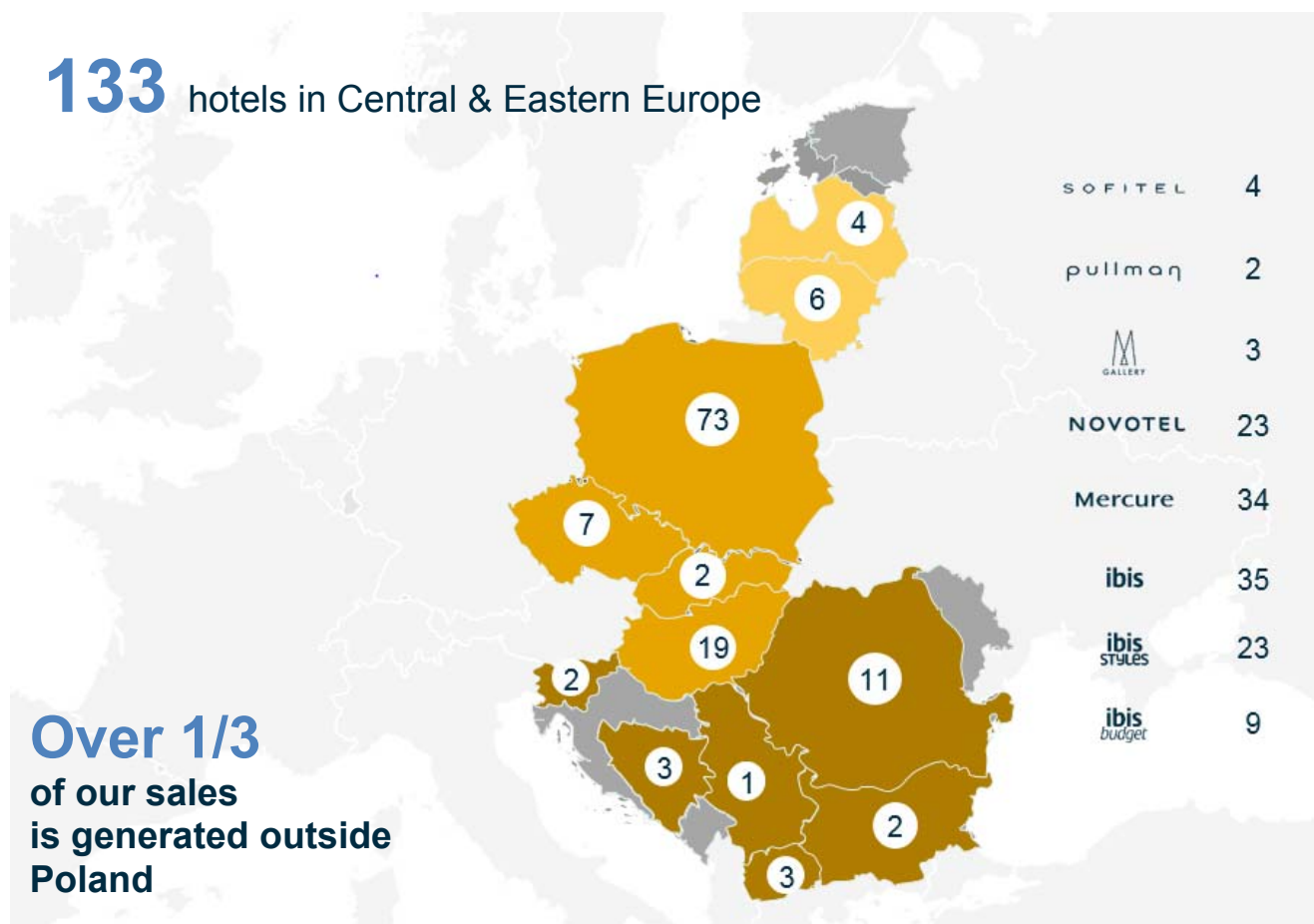
Mercure
HOTELS

Economy hotels



Our markets

Orbis Group is the largest hotel operator in Eastern Europe, operating in 12 countries with a potential to expand into further 4 countries of the region. We are the sole licensor of Accorhotels brands in 16 countries including Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.



Highlights of 2018

PLN 1 433.5 m (+4.1%)
net sales (in terms of like-for-like)

PLN 421.1 m (+46.9%)
profit before tax

2.7% RevPAR growth

Financial performance is discussed on pages 24-41 of this Report.

Our brands



**In the Orbis Group: 4 hotels,
1 thousand rooms**

Authentic luxury hotels with a French soul

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.



**In the Orbis Group: 2 hotels,
360 rooms**

Connecting performance with enjoyment

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.



**In the Orbis Group: 3 hotels,
320 rooms**

Luxury boutique hotels, inspired and generous

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.



**In the Orbis Group: 23 hotels,
5.3 thousand rooms**

Modern Easy Living

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 the Orbis Group: 34 hotels,
5.6 thousand rooms**

In harmony with people and places

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.



**A new brand present in the
Orbis portfolio from 2017**

The place to stay in major city centres

Adagio – fashionable midscale aparthotels located in the centres of major cities; Adagio access - economy aparthotels located near leading cities' centres, Adagio premium – the upscale aparthotels.



**In the Orbis Group: 35 hotels,
5.3 thousand rooms**

Well-being at the best price

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



**In the Orbis Group: 23 hotels,
2.5 thousand rooms**

Comfort, unique design, all inclusive

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.



**In the Orbis Group: 9 hotels,
1.2 thousand rooms**

Essential comfort at a budget price

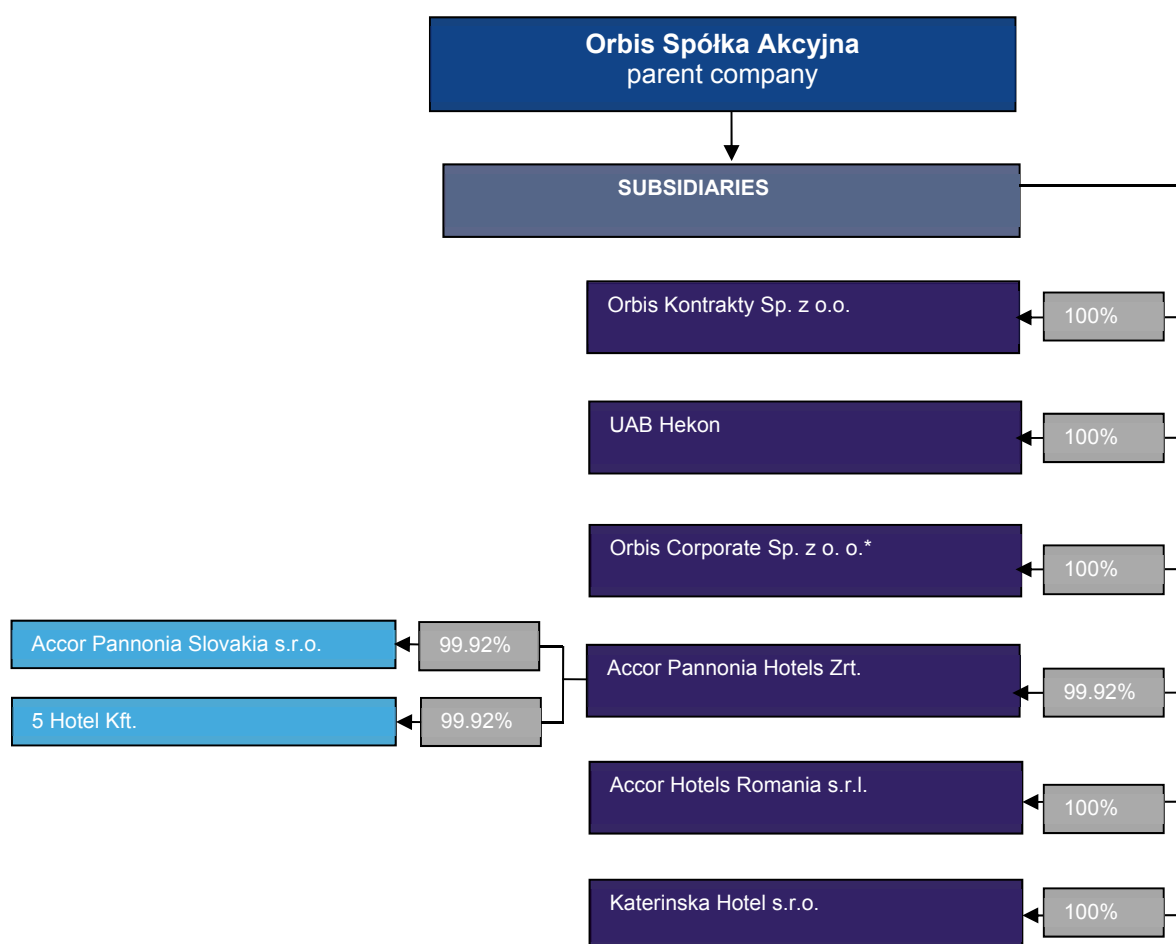
International standardised brand. Modern, simple design. Comfortable *Cocoon* rooms for 1-3 persons with shower and flat screen TV, Wi-Fi network and all-you-can-eat self-service breakfast buffet.

1.2 Structure of the Orbis Group and its Changes

The parent company of the Orbis Group is Orbis S.A. with its registered address in Warsaw, at 16 Bracka Street, Warsaw, 00-028. The Company was established in the course of transformation of the State-Owned Enterprise Orbis (Przedsiębiorstwo Państwowe Orbis) on the basis of the Act of July 13, 1990, on Privatisation of State-Owned Enterprises (Official Journal "Dz.U." of 1990, No. 51 item 298, as further amended). On December 17, 1990, a notary's deed of transformation of the State-Owned Company Orbis into a single-shareholder company of the State Treasury was drafted (Notary's Deed Rep. A No. 1882/90). On January 9, 1991, the District Court for the Capital City of Warsaw, XVI Commercial Division, issued a decision on entering Orbis Spółka Akcyjna in the Commercial Register (RHB 25134). On June 28, 2001, the District Court for the Capital City of Warsaw, XIX Commercial Division of the National Court Register, entered Orbis Spółka Akcyjna in the Register of Business Operators.

Orbis Spółka Akcyjna is registered under the number KRS 0000022622 in the District Court for the Capital City of Warsaw, presently XII Commercial Division of the National Court Register (KRS).

On December 31, 2018, the structure of the Orbis Group was as follows:



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

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

Changes in the structure of the Orbis Group

The following changes in the structure of the Orbis Group took place in 2018:

Sale of a company

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

Merger of companies

The merger of subsidiaries Business Estate Entity a.s. and H-DEVELOPMENT CZ a.s. (merged companies) with a subsidiary Katerinska Hotel s.r.o. (the merging company) was registered on December 12, 2018. Katerinska Hotel s.r.o. held a stake representing 100% of share capital of the merged companies. The merger took place at the beginning of 2018 and was effective as from January 1, 2018.

1.3 Companies of the Orbis Group

Operations in Poland

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

As at December 31, 2018, the Group had 73 hotels with a total of 12 603 rooms on the Polish market. Cities with the largest number of hotels included:

- Warsaw – 15 hotels
- Wrocław – 8 hotels
- Kraków – 7 hotels

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

Operations in Hungary

In Hungary, the Orbis Group has two subsidiaries:

- Accor Pannonia Hotels Zrt.
- 5 Hotel Kft.

The first of these companies is a hotel operator, operating 19 hotels with 3 537 rooms, including sixteen hotels in Budapest, as at December 31, 2018.

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

A third company named 5 Star Hotel Kft., which owned the Sofitel Budapest Chain Bridge, also operated in Hungary until the end of May 2018. On May 31, 2018, Accor Pannonia Hotels Zrt. finalized the sale of the Sofitel Budapest Chain Bridge hotel by selling its stake of 100% of the share capital in 5 Star Hotel Kft.

Operations in the Czech Republic

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

In 2018, the Group had two other companies in the Czech Republic, i.e. H-DEVELOPMENT CZ a.s. and Business Estate Entity a.s., which were involved in real property rental and administration. The merger of subsidiaries Business Estate Entity a.s. and H-DEVELOPMENT CZ a.s. (merged companies) with a subsidiary Katerinska Hotel s.r.o. (the merging company) was registered on December 12, 2018. Katerinska Hotel s.r.o. held a stake representing 100% of share capital of the merged companies. The merger took place at the beginning of 2018 and was effective as from January 1, 2018.

As at December 31, 2018, the Group had 7 hotels with 1 277 rooms on the Czech market. Five hotels operate in Prague.

Operations in other countries

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

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

As at December 31, 2018, the network of Orbis hotels located in other countries of the region comprised:

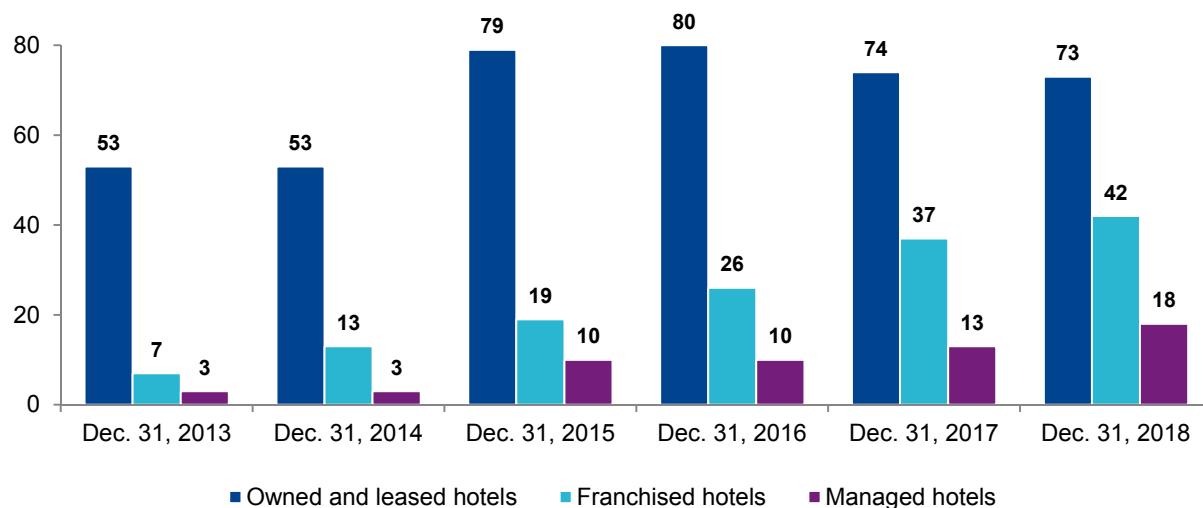
- Romania: eleven hotels offering 1 634 rooms in total. Seven of them, including a Pullman hotel, operated in Bucharest.
- Lithuania: six hotels, including three in Vilnius, with a total of 731 rooms.
- Latvia: four hotels in Riga, with 498 rooms in aggregate.
- Bulgaria: two hotels in Sofia, with 262 rooms.
- Slovakia: two hotels located in Bratislava, with a total of 295 rooms.
- Macedonia: three hotels in Skopje, with 258 rooms.
- Serbia: one hotel in Belgrade with 73 rooms.
- Bosnia and Hercegovina: three hotels with 360 rooms, including two hotels in Sarajevo.
- Slovenia: two hotels in Maribor with 147 rooms.

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

1.4 Hotel Portfolio of the Orbis Group

The Orbis Group is the largest hotel operator in Poland and in the Central & Eastern Europe. At the end of December 2018, the Group's network comprised a total of 133 hotels with nearly 21.7 thousand rooms. The majority of these hotels (73 hotels) operate in Poland.

Number of hotels of the Orbis Group



| Hotel portfolio of the Orbis Group | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018/ Dec. 31, 2017 |
|--------------------------------------|---------------|---------------|---------------------------------|
| Number of hotels, of which: | 133 | 124 | 7.3% |
| Owned and leased hotels | 73 | 74 | -1.4% |
| Managed hotels | 18 | 13 | 38.5% |
| Franchised hotels | 42 | 37 | 13.5% |
| Number of rooms, of which in: | 21 675 | 20 420 | 6.1% |
| Owned and leased hotels | 14 385 | 14 527 | -1.0% |
| Managed hotels | 2 658 | 1 791 | 48.4% |
| Franchised hotels | 4 632 | 4 102 | 12.9% |

Change in the number of hotels in 2018 is the result of:

- acquisition of the Mercure Bucharest Unirii hotel in Romania, which to date was operated based of a management agreement (July 2018),
- opening of new subsidiary hotels:
 - ibis Vilnius hotel in Lithuania (August 2018),
 - ibis Styles Warszawa Centrum (November 2018),
 - ibis Poznań (December 2018),
- sale and signing a management back agreement of :
 - Sofitel Budapest Chain Bridge hotel in Hungary (as of June 2018),
 - Novotel Szeged hotel in Hungary (as of May 2018),
 - ibis Pilsen hotel in Czech Republic (as of August 2018),
- opening of hotels based on management agreements:
 - ibis Styles Budapest Airport hotel in Hungary (January 2018),
 - ibis Styles Bucharest Erbas hotel in Romania (August 2018),
 - ibis Styles Budapest City West (December 2018),

e) sale and franchise-back transactions relating to:

- Mercure Cieszyn hotel (August 2018),
- ibis Styles Bielsko-Biala (August 2018),

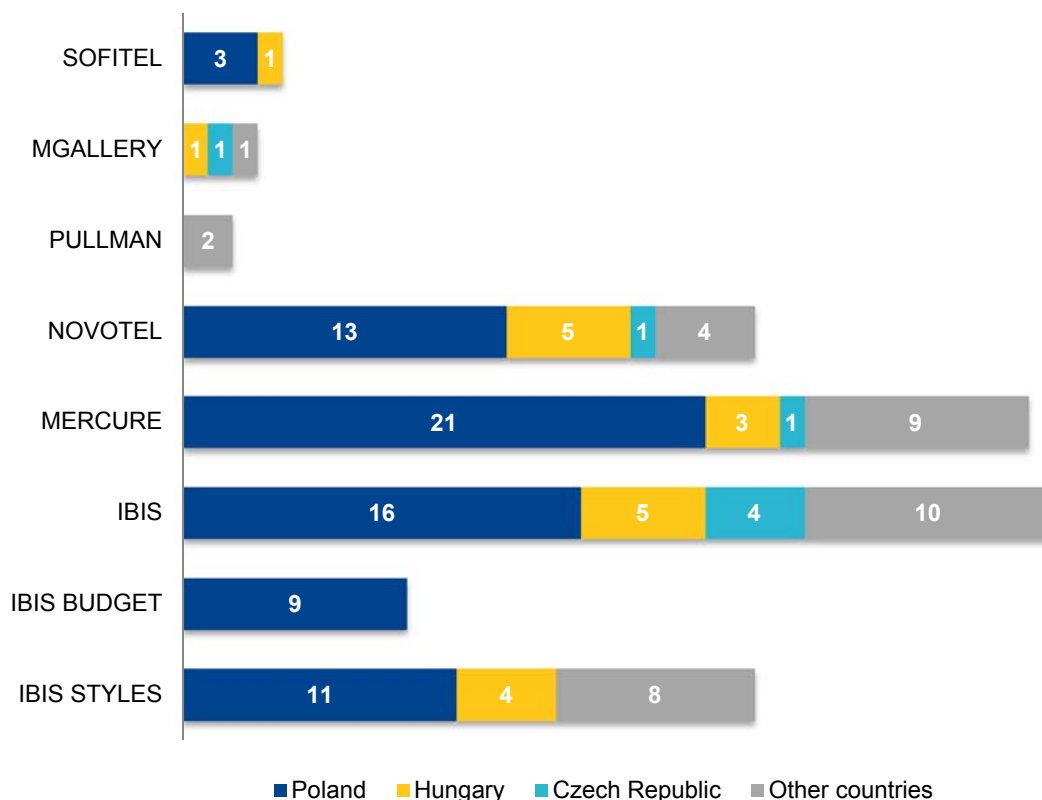
f) launch of operations of the following hotels under a franchise agreement:

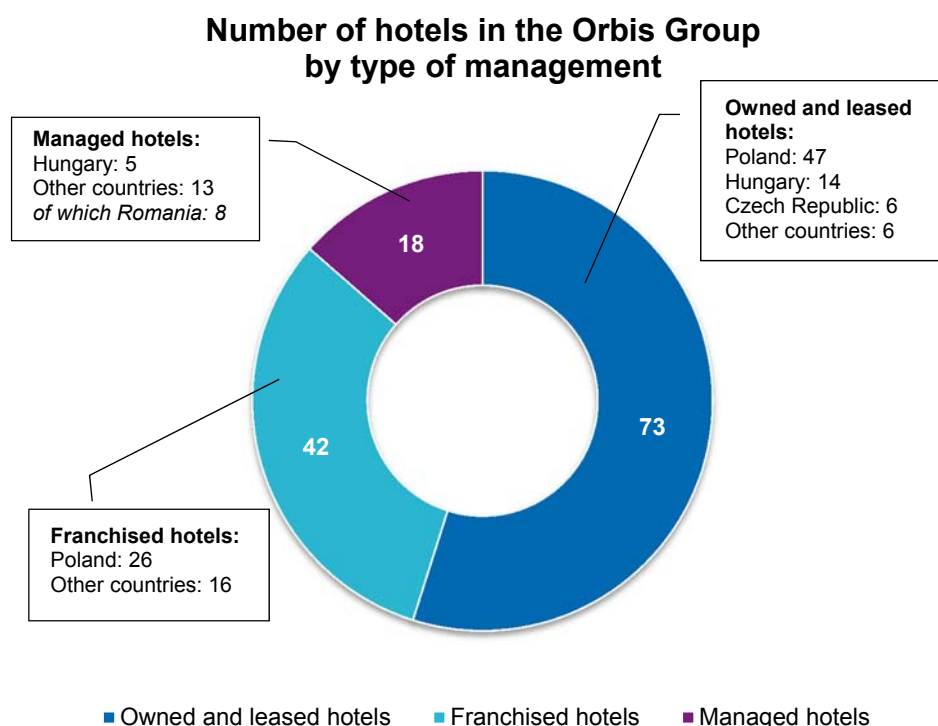
- Mercure Terme Maribor Piramida in Slovenia (as of February 2018),
- ibis Styles Terme Maribor in Slovenia (as of February 2018),
- Mercure Tetovo in Macedonia (as of February 2018),
- ibis Styles Warszawa City (as of March 2018),
- ibis Styles Sarajevo in Bosnia and Herzegovina (as of November 2018),
- ibis Styles Warszawa West (as of December 2018),

g) termination of cooperation under the franchise agreement with:

- Mercure Zamość Stare Miasto hotel (at the end of 2017),
- ibis Olomouc hotel in Czech Republic (at the end of March 2018),
- Mercure Mragowo (at the end of September 2018).

Number of hotels in the Orbis Group per brand





1.5 Directions of the Orbis Group's Development

The dynamic growth of the Orbis Group is driven directly by the deployment of the key assumptions of its strategy, which is based on four pillars. It is only the full implementation of all of the directions listed below, combined with a dynamic expansion in the region, that shapes the Group's ability to generate a growing shareholder value.

Value creation areas in the Orbis Group:

PERFORMANCE

- Focus on the growth of operating results
- Efficient cost management
- Implementation of innovative solutions to increase efficiency and guest satisfaction

PEOPLE

- Responding to guests' needs and building success by supporting talents
- Being a CSR trendsetter in the hospitality industry
- Special focus on guest needs and building our success based on a greater employee engagement
- Being a CSR trendsetter in the industry as a hospitality leader in the region

PARTNERS

- Focus on the experience of our business partners
- Custom-tailored solutions
- Extended range of products and services
- Consultancy and know-how based on many years of experience in the industry

PORTFOLIO

- Dynamic network growth
- Capital engagement in the most promising markets and brands

The development strategy of the Group's hotel network envisages having subsidiary hotels in the most important locations, i.e. 6 key urban centres of Poland (Warsaw, Kraków, Wrocław, Tri-City, Poznań, Szczecin) and in the capitals of all the countries in which we operate. We currently operate in 7 such locations (Prague, Budapest, Bucharest, Belgrade, Sofia, Vilnius, Skopje) and we also have new constructions or takeovers of existing hotels in the pipeline. In other locations, we develop our network in cooperation with local partners on the basis of real estate non-ownership franchise or management agreements.

Following Accor SA tender offer for Orbis shares announced in November 2018, Accor strengthened its position as the company's shareholder and increased its stake in the company's capital up to 85.84%, which may bring on a change in the Orbis Group's long-term strategy. In the tender offer, Accor announced that its priority is to implement the asset-light model in Eastern Europe following the transaction carried out last year in Accor.

FACTORS IMPACTING THE GROUP'S OPERATIONS



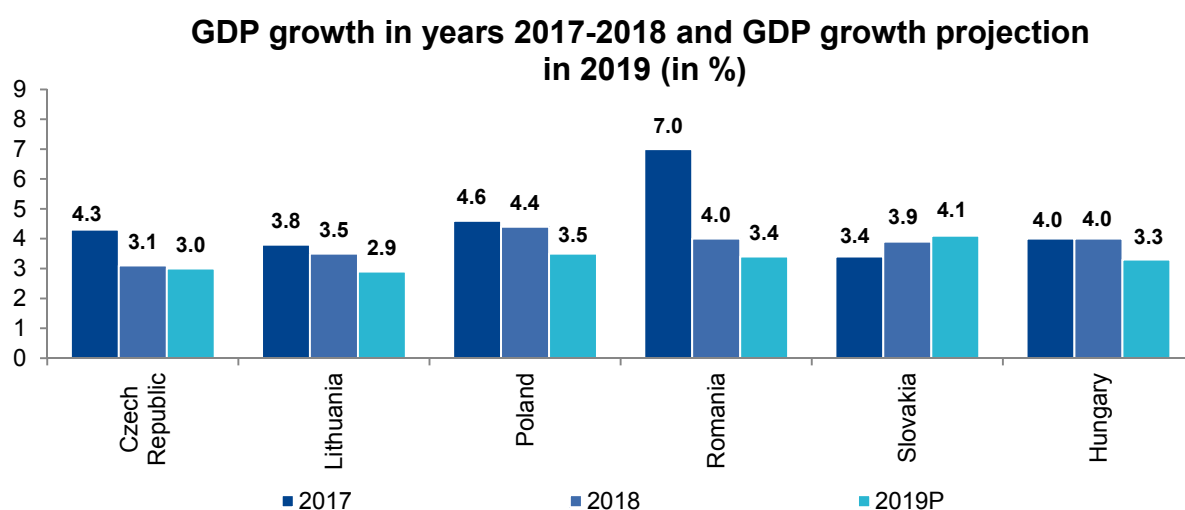
Novotel Kraków Centrum

2 FACTORS IMPACTING THE GROUP'S OPERATIONS

2.1 Macroeconomic Environment

Stabilised economic growth momentum

Despite expectations of a slowdown, the economic growth in the region remained high, averaging +3.6%, in 2018. Continued momentum has driven the regional economy: strong domestic demand driven by private sector spending and public sector investments outweighed weak external demand in the face of the Eurozone slowdown and the economic crisis in Turkey. However, year-end economic indicators indicate a slowdown in the growing economy through a decrease in the growth consumer spending and exports dynamics. The months to come will verify whether it indeed heralds a reversal of a positive trend or is just a temporary slowdown.



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

Manufacturing sector slowdown

In H1 2018, the PMI, which is a gauge for the economic conditions, remained significantly above 50 points across the whole region. In the last months of the year, for the first time in a longer span of time, Poland and the Czech Republic recorded a PMI below 50 pts. (47.6 pts. and 49.7 pts. at the end of 2018, respectively), signifying a slowdown in the manufacturing sector. In the Orbis' other key markets, such as for example Hungary, PMI remains high at 54.2 pts. at the end of the year. The economic trends in Europe also declined towards the end of the year, but remained at the level above 50 points. (the PMI in the Eurozone was at 51.4 pts.).

Strong labour market

The difficult labour market, i.e. shortage of employees and the growing wage& salary dynamics is one of the main challenges for future business and economy growth. In most countries of the region, we are observing a significant decrease in unemployment as compared to the same period of the past year, which translates into one-digit unemployment rates in countries from Central and Eastern Europe. The unemployment rates in some economies in recent months reached their lowest ever levels (Poland - 5.8%, the Czech Republic – 3.1%, Romania – 3.3% and Hungary - 3.6%). Low unemployment and employee shortages compel employers to increase salaries significantly to attract and retain employees, which contributes to shrinking margins.

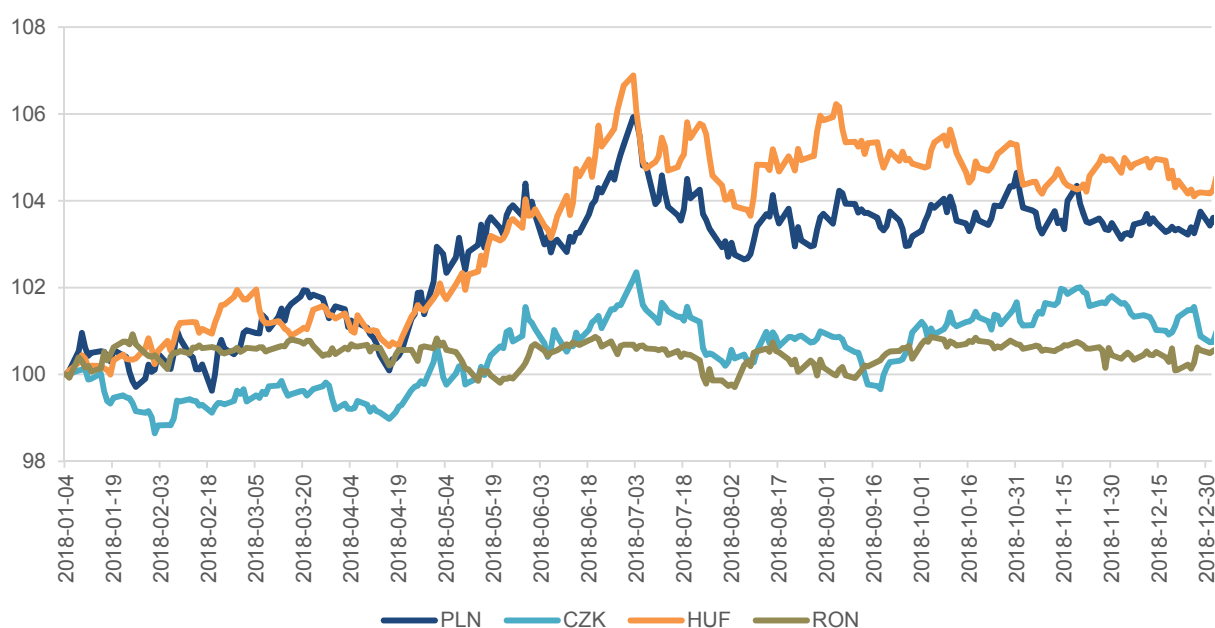
Stable inflation

All economies encountered weakened inflationary pressure given significantly lower fuel costs at the end of the year. As a result of the falling inflation, policy makers in the Czech Republic, Hungary and Poland kept interest rates at their current low levels during their last monetary policy meetings in 2018. Regional inflation is expected to remain generally stable in the coming years and to average 2.5% in 2019.

Stabilisation at the currency markets in second part of year

Following the turmoil in the currency market at the end of the second quarter and a major drop in currency value, the currency market calmed down during the second half of the year. At the end of December 2018, the PLN/EUR rate fluctuated around PLN 4.30, the CZK/EUR rate around CZK 25.70, and the Hungarian forint around 320 HUF. Numerous geopolitical risk factors may curb the room for currency growth.

**Currency quotations against the euro
(rates as at January, 2018 = 100.0%)**



Source: Thomson Reuters

Forecasts indicate growth rate stabilisation

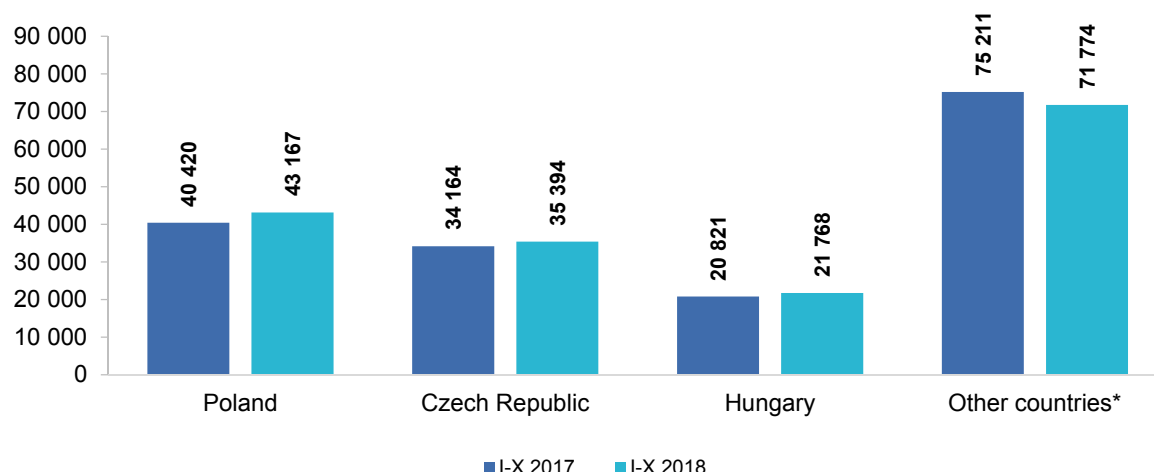
Following a two-year period of solid economic conditions in their Central and Eastern Europe, the economic growth momentum stabilised in 2018 as the main economies of the region approach the end of the economic cycle. The slowdown in the Eurozone and in global trade may lead to the weakening of exports-oriented industries in the region. Internally, however, strong labour markets and low borrowing costs should provide sufficient fuel for most of the economies to continue to grow dynamically, although not at the past-years pace. In addition, lower fuel costs contributing to higher domestic demand can be a positive growth driver. In a short term, fiscal policy will play a vital role in the event of a slowdown in household spending, while reasonable use of fiscal tools may help governments in mitigating the economic slowdown.

In the light of optimistic data for the fourth quarter, analysts expect the regional growth to reach 3.3% and 3.1% in 2019 and 2020, respectively.

2.2 Hotel Market – Continued Positive Trends

Despite a high base of the past year, the majority of hotel locations operating in the region of the Central and Eastern Europe reported an improvement in the key hotel operating ratios in 2018.

Number of rooms and nights spent in hotels and similar establishments in Eastern Europe (in PLN thousand)



* Other countries comprise Bulgaria, Estonia, Lithuania, Latvia, Macedonia, Romania, Serbia and Slovakia

Source: Eurostat

Like in the past year, the Revenue per Available Room (RevPAR) of hotels in the region was driven by the Average Room Rate. In some locations, the Occupancy Rate declined due to higher prices. Among the cities where the Orbis Group's hotels are located, the highest increase in the Average Room Rate compared to the past year was reported in Sofia (+16.2%), Riga (+9.1%) and Poznań (+5.2%). Poznań also achieved the highest (+10.0%) RevPAR increase among all Polish cities. On the other hand, some cities (Warsaw and the Tri-City) recorded a RevPAR decrease resulting from a significant number of new room openings on these markets in recent months. Amongst the Eastern European cities where the Group operates, hotels in Sofia and Riga reported a high Revenue per Available Room (RevPAR), +13.9% and +12.1, respectively.

2.3 Risk Areas

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

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

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

Basic risks that may, should they transpire, have a major impact on the Group's operations have been presented below. Apart from the risks listed in this Chapter, the Group is also exposed to financial risks presented in the Consolidated Financial Statements of the Orbis Group for 2018 (Note 31.2).

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

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

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

Competition risk

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

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

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

Risk related to cooperation with travel agents

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

Reputational risk

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

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

Legal risk

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

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

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

2.4 The Non-Financial Report

According to Article 49b of the Accounting Act, the Orbis Group presented two separate non-financial reports for 2018, i.e. the separate report and the consolidated report.

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

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

2.5 Factors to Affect the Orbis Hotel Group's Operations in 2019

Further RevPAR growth

The hospitality markets in the Central and Eastern Europe continue to follow a favourable economic trend in 2018. Solid economic conditions in the countries across the region are reflected in results generated by hotels, although the revenue growth momentum is no longer as spectacular as it used to be in recent years. Large volume of investment projects in the hospitality market accompanied by continuing interest in short-term rental has resulted in the growth in demand being outdone by accommodation supply increase. This will lead to a stronger competitive price struggle and potentially a drop in the occupancy rates. It is therefore to be expected that the price per room will be the main driver of growths in the coming months. This development is a positive one, particularly in the context of widespread employment problems, which in view of increasing occupancy contribute to higher work intensity and an increase in the associated costs of hotel operations.

Increase in accommodation supply

The hotel market is strongly correlated with macroeconomic trends. Stable economic growth in the CEE region observed in 2017 and 2018 will continue to last in the year to come, however, the growth momentum will slow down a little. According to the projections of the International Monetary Fund, the real GDP growth in 2019 in those countries where the Orbis Group has its subsidiary hotels will be at 3.4% on average as compared to 3.8% in 2018. The macroeconomic forecasts for the coming months are therefore satisfactory for the hospitality industry and herald the continuation of trends initiated on the market in the preceding years.

Favourable economic conditions boost investments in the hotel market, thus contributing to opening modern branded hotels. Many projects are currently in the construction phase, and further investments are in the pipeline for the coming years. Recent years brought increased interest in hotels not only amongst investors experienced in the hospitality industry, but also developers who strive to diversify their operations and are looking for sources of income other than office buildings or shopping malls. Recently, multifunctional buildings that combine the functions of, for example, a hotel, an office and retail premises, have also gained popularity. New investors are attracted above all by higher rate of returns on a hotel. Investment decisions are also fuelled by relatively inexpensive and available bank loans. Often developers also decide to change the functions of their properties (for example turning office buildings into hotels), especially where the supply of land is limited. The hotel market is already well saturated and further developments may lead to oversupply. The largest volume of investments under construction is reported in Warsaw and the Tri-City. According to analysts, within two years, over 2.5 thousand rooms will enter the market in the capital city alone, while Łódź and Poznań are also dynamically developing markets for new investments.

An increase in the market share of hotels affiliated with international networks has also been observed recently in the countries of Central and Eastern Europe, which is caused by an increase in tourism spend and better financial condition of the region's population. Operators are launching new hotel brands which have not been present on the market so far. This is particularly noticeable in tourist cities, where only local players have been in the market to date. The growing share of young generation in the guest mix is also conducive to the emergence of brands that take into account not only tastes and preferences, but also the budgets of young customers.

In addition, the accommodation supply in large cities expands quite intensively with private apartments for rent, which compete with categorised hotels for tourist guests. This is particularly noticeable in Prague (the Czech Republic). Hoteliers responded to the growing share of apartments for rent in the market by offering aparthotels which combine the advantages of an apartment with a high-quality hotel service.

Effective portfolio management

Asset management and expansion of the Group's hotel portfolio is an important pillar of our strategy. The Group continues its efforts aimed at boosting its market share and focusing investments in key markets of the region. In August 2018, the Group opened the ibis Vilnius Centre hotel in Lithuania, in November – the ibis Styles Warszawa Centre and in the first days of July 2018, the Group acquired the Mercure Bucharest Unirii hotel, which before the transaction was managed by Accor Hotels Romania s.r.l., a Romanian company belonging to the Group. The remaining hotels belonging to the Group undergo successive modernizations with a view to adapt the hotel space to the requirements of modern tourists.

In order to develop operations in the fast-growing market of aparthotels, at the end of 2017 the Group signed a Master Franchise Agreement, thus expanding its portfolio by the Adagio brand - the No. 1 brand amongst European aparthotels that offers apartment rental services according to the hotel system (i.e. per night).

In order to optimise its hotel portfolio, the Group focuses on highly profitable investments, at the same time entering into sale and franchise-back transactions of hotels with non-strategic importance for the Group. At the end of July, the Group finalised the sale of the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biała hotel. Moreover, the Sofitel Budapest Chain Bridge hotel and the Novotel Szeged hotel in Budapest were divested in May and the ibis Plzeň hotel located in the Czech Republic was sold at the end of July. Following their sale, all the hotels will operate as franchised or managed hotels to ensure continued operations under our brands.

The Group also continues its expansion based on the asset light model. The successive 20 franchise and management agreements were signed in 2018 for hotels located in 8 countries (over 2 700 rooms in total). These agreements reinforce the presence of hotel brands in the countries of the Central and Eastern Europe without the need to invest in hotel construction and maintenance.

Challenges and positive prospects for the hospitality industry

Low unemployment rate, lack of qualified staff in the market and the consequent problems with finding the right employees continue to pose a challenge for (not only) the hospitality industry. Hotels are not only struggling with difficulties to attract and retain properly qualified staff. At the moment we have an employee market, which is reflected in an increased staff turnover rate and wages&salaries growth. Retaining employees compels employers not only to present good financial conditions (considering in addition that low level employee salaries in the hospitality industry have been under the market for many years), but also to devise interesting non-wage incentives, such as a system of trainings or a flexible career path. This approach to human resources will no doubt translate into an

increase in wages&salaries costs, but at the same time it will facilitate not only building employee loyalty so that they will want to continue to be a part of the organisation (despite the persistently high labour supply, which makes a potential decision to change job easy), but also maintaining high quality of the service provided and a high level of hotel guest satisfaction.

Problems associated with the employee market also affect the investment process. Shortage of workers resulted in a significant increase in the wage costs in the construction industry, and, combined with rising prices of building materials and increasing prices of land, translated into an increase in the costs of construction and extension of the whole process in time.

A factor that has a positive impact on the hospitality industry performance is the noticeable improvement in the affluence of population in the region which translates into its purchasing power. A higher income level boosts the propensity to travel, which is becoming an integral part of lifestyle.

At the same time, as income levels go up, guests expectations as to the standard and variety of service offered also rise, predetermining their choice of the destination, the place (venue) and the standard of accommodation. This poses further challenges for the industry, if it to remain competitive against the background of the growing accommodation supply.

In addition to relatively low prices, visitors are encouraged by the development of tourism and improved transport infrastructure in the form of new roads, rail connections and cheap flights to Poland and other countries where the Group operates its hotels. The propensity to travel is also heartened by cultural and sporting offer. Numerous events will take place in the largest cities of the Central and Eastern Europe in 2019, including the World Fencing Championships and the World Championships in table tennis to be organised in Budapest and the U-20 Football Championships to be held in Poland (the competition will take place in June in Łódź, Lublin, Gdynia). Szczecin will host the European Championships in gymnastics and Slovakia will organize the 2019 IIHF Ice Hockey World Championship.

Summary

To summarise, the hospitality industry continues to be doing well and its future depends on economic conditions and rational decision-making by investors whether to build new hotels. The market has entered a stabilized phase, which means that such spectacular increases as in the past years should not be expected.

FINANCIAL RESULTS OF ORBIS GROUP



ibis Styles Warszawa
Centrum

3 FINANCIAL RESULTS OF ORBIS GROUP

3.1 Major Events of 2018

The most important events of 2018 which affected the financial information of the Orbis Group include:

Finalisation of the Mercure Cieszyn and the ibis Styles Bielsko-Biala hotels sale transaction

On July 31, 2018, Orbis S.A. executed the preliminary conditional sale agreement of February 8, 2018, and sold organised parts of the enterprise in the form of the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biala hotel for a total net price of PLN 8.1 million. The sale price was fully paid by August 3, 2018.

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

Transaction of real property purchase in Cracow and execution of a preliminary purchase agreement of real estate in Krakow for construction of a new hotel

On February 20, 2018, Orbis S.A. purchased real property (plot of land) of a total area of 771 square meters, located in Cracow, at 8, Worcella Street, for a net price of PLN 13.0 million.

On the other hand, on September 28, 2018, Orbis S.A. executed a preliminary sale agreement based on which Orbis intends to purchase a real property (plot of land) with a total area of 595 square meters, located in Krakow at 6, Worcella Street for a net price of PLN 9.2 million. The final sale and purchase agreement of the Real Property will be executed by September 30, 2020 at the latest, subject to fulfilment of conditions laid down in the agreement. In order to secure the transaction, after fulfilment of each particular condition, the Orbis shall gradually pay an earnest money (*zadatek*) to the seller, the total sum of which will be equal to 30% of the sale price.

Both properties were purchased in order to implement an investment project (hotel construction). At the moment Orbis continues conducting the study of the technical and operational details of the investment, which will determine the choice of the best economy brand under which the hotel will operate. The purchase of the adjacent Real Property (given that Orbis already holds the title to the Real Property at 8, Worcella Street), will allow expanding the size of the property (the hotel) and greater flexibility in the selection of the brand.

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

On May 9, 2018, Accor Pannonia Hotels Zrt. sold the Novotel Szeged hotel for a price of HUF 757.6 million. The transaction involved the sale of real property and the business conducted by the hotel. After the sale, the hotel continues its operation under the Novotel brand based on a management agreement executed for a term of 15 years.

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

On May 31, 2018, a subsidiary company of Orbis S.A., i.e. Accor Pannonia Hotels Zrt. with its registered address in Budapest (the seller) and two controlled subsidiaries of the Starwood Capital Group (the buyer) finalised the sale transaction of the Sofitel Budapest Chain Bridge hotel. The transaction was executed by selling a stake representing 100% of the share capital in 5 Star Hotel Kft. and transferring to the buyers of all the assets belonging to the hotel (including real estate and movables) as well as the business conducted by the hotel (including contracts and customers). The sale price was agreed at EUR 75.0 million (downward adjustment resulting from a final transaction accounting equals EUR 0.9 million). On the day of finalising the transaction, the parties entered into an agreement under which the management of the hotel was entrusted to Accor Pannonia Hotels Zrt. The hotel will continue to operate under the Sofitel brand. The management agreement was executed for an initial term of 30 years.

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

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

Acquisition of a real property in Vilnius

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

Acquisition of the Mercure Unirii in Bucharest

On July 2, 2018, Accor Hotels Romania s.r.l. with its registered address in Bucharest executed an agreement with Baron-Service s.r.l. under which this subsidiary of Orbis S.A. acquired the Mercure Unirii hotel located in Bucharest (covering a plot of land with a building and other assets) together with the business of the hotel. The initial purchase price amounted to EUR 11.4 million (with an option of a final adjustment of the price on account of the financial and business standing of the hotel (including its working capital) at the date of closing of the transaction). The ownership title to the hotel was transferred to Accor Hotels Romania s.r.l. and the price paid on July 5, 2018.

Execution of a General Contractor Agreement for the construction of the ibis Styles hotel in Szczecin

On December 18, 2018, Orbis S.A. and Mota-Engil Central Europe S.A. with its registered office in Kraków (the "General Contractor") executed a General Contractor Agreement for the construction of an ibis Styles hotel (161 rooms) located at 10, Panieńska Street in Szczecin. The parties agreed that the General Contractor's net fee will total PLN 41.5 million. Construction works should be completed by the General Contractor in Q3 2020.

Execution of Wrocław real property sale agreement

On December 20, 2018, Orbis S.A. and a developer company (the "Buyer") executed a conditional sale agreement of non-hotel real property located in Wrocław with a total area of 7 919 square meters. No hotel business is conducted on the property. The parties agreed that the net sale price of the real property was to be PLN 44 million. The sale agreement was conditional due to the pre-emptive rights vested in the lessee of the real property.

The ownership title to the property passed upon the Buyer upon payment of the sale price on February 1, 2019.

3.2 Financial Results of the Orbis Group

During 12 months of 2018, the Orbis Group generated profit before tax amounting to PLN 421.1 million, i.e. by 46.9% higher as compared to the figure for 2017.

| Income statement – analytical approach | 2018 | 2017 | change (%) |
|---|-----------|-----------|---------------|
| Net sales | 1 440 028 | 1 458 073 | -1.2% |
| <i>Net sales "like-for-like"</i> | 1 433 504 | 1 377 453 | 4.1% |
| EBITDAR | 537 072 | 532 390 | 0.9% |
| Operating EBITDA | 479 348 | 468 349 | 2.3% |
| <i>EBITDA "like-for-like"</i> | 477 955 | 443 557 | 7.8% |
| Operating profit (EBIT) without the effects of one-off events | 308 748 | 304 282 | 1.5% |
| Operating profit (EBIT) | 437 344 | 315 677 | 38.5% |
| <i>Net result from financing activities</i> | (16 274) | (29 115) | 44.1% |
| Profit before tax | 421 070 | 286 562 | 46.9% |

| Income statement – analytical approach | 4th quarter of 2018 | 4th quarter of 2017 | change (%) |
|---|------------------------|------------------------|---------------|
| Net sales | 358 023 | 356 619 | 0.4% |
| <i>Net sales "like-for-like"</i> | 354 063 | 331 102 | 6.9% |
| EBITDAR | 136 801 | 116 219 | 17.7% |
| Operating EBITDA | 121 358 | 101 554 | 19.5% |
| <i>EBITDA "like-for-like"</i> | 120 036 | 95 129 | 26.2% |
| Operating profit (EBIT) without the effects of one-off events | 75 685 | 60 799 | 24.5% |
| Operating profit (EBIT) | 73 804 | 65 520 | 12.6% |
| <i>Net result from financing activities</i> | (1 165) | (10 756) | 89.2% |
| Profit before tax | 72 639 | 54 764 | 32.6% |

In 2018, the net sales of the Group totalled PLN 1 440.0 million as compared to PLN 1 458.1 million in 2017.

The change in the level of net sales results mainly from Sofitel Budapest Chain Bridge and Novotel Szeged sale in May, 2018 as well as sale of ibis Plzeň, Mercure Cieszyn and ibis Styles Bielsko-Biała in July 2018. **Sales like-for-like** equalled PLN 1 433.5 million, i.e. **increased by 4.1% as compared to 2017 figures**.

The continued positive business trends in the countries of the Central and Eastern Europe, high demand for hospitality services as well as numerous promotional actions and flexible pricing strategy tailored to the current conditions on each individual market were the main factors that contributed to the increase in the Average Room Rate and the Revenue per Available Room (RevPAR) while the Occupancy Rate remained at the corresponding period's level.

During 12 months of 2018, the Revenue per Available Room (RevPAR) in subsidiary hotels¹ of the Orbis Group stood at PLN 190.6, i.e. was by 3.8% higher compared to the like-for-like figures for 2017. During the reporting period, customers of Orbis Group hotels paid on average PLN 259.2 per room, i.e. 3.8% more than in the corresponding period of the past year. Moreover, during the period from January to December 2018, the Occupancy Rate in owned hotels slightly decreased to 73.4% as compared to the data for 2017.

| Operating ratios of managed and franchised hotels by main category | 2018 | 2017 | change (%) | 2018 | 2017 | change (%) |
|--|-------------|-------|------------|---------------|-------|------------|
| | as reported | | | like-for-like | | |
| Orbis Hotel Group | | | | | | |
| Occupancy rate (%) | 73.2 | 74.0 | -0.8 p.p. | 73.4 | 74.4 | -1.0 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 259.2 | 249.6 | 3.8% | 259.5 | 246.9 | 5.1% |
| Revenue per Available Room (RevPAR) in PLN | 189.8 | 184.8 | 2.7% | 190.6 | 183.6 | 3.8% |

| Operating ratios of owned hotels by main category | 4th quarter of 2018 | 4th quarter of 2017 | change (%) | 4th quarter of 2018 | 4th quarter of 2017 | change (%) |
|--|---------------------------|---------------------------|---------------|---------------------------|---------------------------|---------------|
| | as reported | | | like-for-like | | |
| Orbis Hotel Group | | | | | | |
| Occupancy rate (%) | 71.6 | 72.0 | -0.4 p.p. | 72.2 | 72.6 | -0.4 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 255.7 | 245.2 | 4.3% | 256.4 | 239.4 | 7.1% |
| Revenue per Available Room (RevPAR) in PLN | 183.0 | 176.6 | 3.6% | 185.2 | 173.8 | 6.6% |

A detailed list of the Orbis Group's operational ratios for 2018 and for Q4 2018 from various angles was attached as Appendix No. 1 to this Report.

There were no significant changes in the **structure of Group's revenue** from major products and services versus 2017. During 12 months of 2018, room revenue totalled PLN 986.3 million, which accounted for 68.5% of all the Group's revenues. The room revenue increased remained at the similar level as compared to the last year.

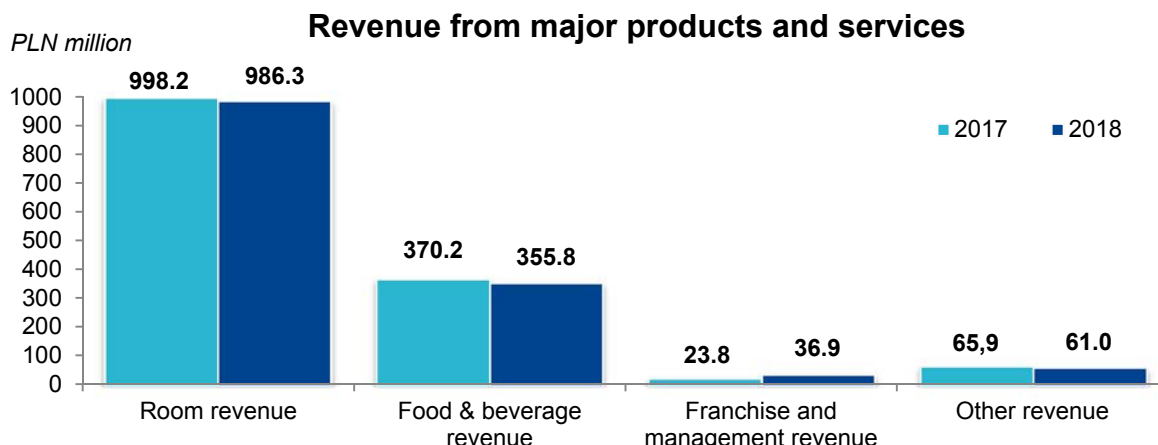
Food and beverage revenue stood at PLN 355.8 million and accounted for 24.7% of consolidated revenues. The share of the food and beverage revenue in the Group's revenues remained at the past year's level.

Revenue from franchise and management contributed 2.6% to the Group's total revenues. As compared to the figures from last year, revenues from franchise and management grew by 55.3%. It is particularly attributable to the expansion of the Group's hotel portfolio from 37 franchised and 13 managed hotels as at December 31, 2017, to 42 franchised and 18 managed hotels at the end of December 31, 2018.

The other revenue, which is mainly derived from lease of property and car park spaces totalled PLN 61.0 million in 2018, which accounted for 4.2% of consolidated revenue (4.5% in the past year).

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

In 2018 and 2017, the structure of revenue from major products and services of the Orbis Group was as follows:



The **operating expenses** of the Orbis Group (including rental expense and depreciation/amortisation) in the reporting period totalled PLN 1 139.8 million, i.e. decreased by 1.6%, as compared to 2017, although the share of individual types of costs in net sales remained unchanged as compared to the past year.

The greatest increase in 12 months of 2018 was reported in the employee benefits' expenses which increased as a result of salary and wage increases, increase of bonuses correlated with achieved results and costs related to staff turnover. The increase in the employee benefits' expenses was offset by savings on the costs of materials and energy consumption caused by, among others, the sale of the Sofitel Budapest Chain Bridge and the Novotel Szeged hotels in Hungary in May 2018. Costs of outsourced services decreased slightly as compared to the past year, with an increase in selling and cleaning services which was compensated by an decrease in costs of maintenance and rental services (other than real property rental).

In the reporting period, the rental expenses went down significantly with an increase of depreciation and amortization. It is a result of buyout of the formerly leased Sofitel Budapest Chain Bridge hotel and increase in the value of property of the Orbis Group.

As a result of the above changes, the **operating EBITDAR of the Orbis Group amounted to PLN 537.1 million, the operating EBITDA like-for-like grew by 2.3% up to PLN 479.3 million while the operating result excluding one-off events amounted to PLN 308.7 million.**

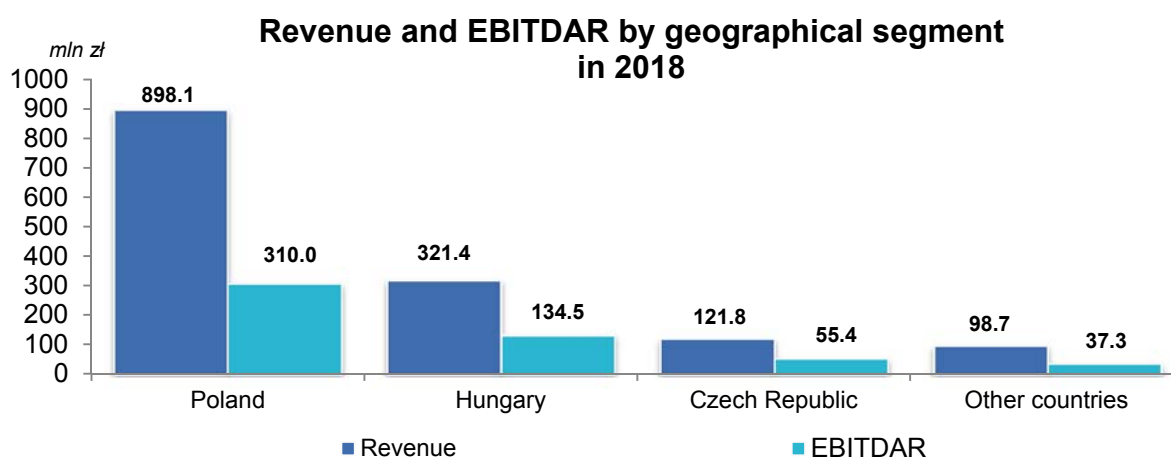
In the reporting period, the Orbis Group reported a positive result of PLN 128.6 million from one-off events. The high profit on one-off events was generated thanks to finalisation, on May 31, 2018, of the sale transaction of the Sofitel Budapest Chain Bridge hotel by the Hungarian company Accor Pannonia Hotels Zrt. The profit on this transaction totalled PLN 126.5 million. Furthermore, one-off events include the profit on sale of the Novotel Szeged hotel (PLN +2.2 million) as well as the result on the sale of the Mercure Cieszyn, the ibis Styles Bielsko-Biala, and the ibis Plzeň hotels and the profit on the sale of non-hotel real properties located in Karpacz and Warszawa, at 1 Sierpnia Street. As a result, the Group generated **operating profit (EBIT) in the amount of PLN 437.3 million** (increase by 38.5%).

In 2018, the Group generated the result on financing activities which was higher by PLN 12.8 million as compared to the past year which was mainly attributable to lower (by PLN 8.8 million) negative exchange rate differences and lower (by PLN 3.8 million) costs incurred on borrowings.

The Orbis Group ended the year 2018 with a **net profit of PLN 363.4 million**, comparing to a net profit of PLN 232.4 million in the corresponding period of 2017, which means an improvement of the result by 56.3%.

3.3 Financial Results Across Geographical Segments

Across geographical segments, the highest share to the Group's net sales was contributed by hotels located in Poland (62.4%) and in Hungary (22.3%). Net sales generated by hotels located in the Czech Republic and in other countries accounted for, respectively, 8.5% and 6.9% of consolidated sales.



Poland

| Financial results (in PLN million) and operating ratios of owned hotels located in Poland | 2018 | 2017 | % change |
|---|-------|-------|-----------|
| Net sales | 898.1 | 887.2 | 1.2% |
| EBITDAR | 310.0 | 302.5 | 2.5% |
| Operating EBITDA | 302.4 | 294.7 | 2.6% |
| EBIT without the effects of one-off events | 175.2 | 169.6 | 3.3% |
| Capital expenditure | 194.6 | 93.6 | 107.9% |
| Occupancy Rate (%) | 71.4 | 72.3 | -0.9 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 252.2 | 238.6 | 5.7% |
| Revenue per Available Room (RevPAR) in PLN | 180.1 | 172.5 | 4.4% |
| Clients: Business | 61.5% | 63.2% | -1.7 p.p. |
| Clients: Leisure | 38.5% | 36.8% | 1.7 p.p. |

Hotels operating in Poland generated net sales of PLN 898.1 million, which constitutes 62.4% of the consolidated sales for 2018. Polish hotels reported a 1.2% sales growth as compared to the corresponding period of the past year.

Sales revenues grew year-on-year as a result of the increase of the hotel portfolio during the reporting periods. The number of owned and leased hotels in Orbis S.A. as at December 31, 2018, remained at the same level as in the past year, while the number of franchised hotels increased by 5 hotels.

The hotels operating in Poland reported a **growth of the Average Room Rate (ARR) by 4.3% like-for-like** in 2018 (with a slightly lower Occupancy Rate), which resulted in the growth of the Revenue per Available Room (RevPAR) by 2.5%.

During 12 months of 2018 and during Q4 2018, the number of rooms sold to tourist groups increased (based on comparable hotel parameter). The greatest growth momentum was reported in Kraków, Wrocław and Tri-City. The number of rooms sold also increased in the business groups segment thanks to much better results achieved in Q4, which compensated for decreases in this segment in previous quarters. Among others, the United Nations Climate Change Conference (COP24) held in Katowice in December contributed positively to the results achieved. A slight decrease was reported in other segments, mainly due to completion of projects implemented last year and an increased hotel (hotel rooms) supply, particularly in Warsaw and the Tri-City.

Hungary

| Financial results (in PLN million) and operating ratios of owned hotels located in Hungary | 2018 | 2017 | % change |
|--|-------|-------|-----------|
| Net sales | 321.4 | 356.3 | -9.8% |
| EBITDAR | 134.5 | 136.9 | -1.8% |
| Operating EBITDA | 117.0 | 112.5 | 4.0% |
| EBIT without the effects of one-off events | 90.1 | 87.8 | 2.6% |
| Capital expenditure | 55.1 | 516.0 | -89.3% |
| Occupancy Rate (%) | 77.1 | 76.0 | 1.1 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 263.5 | 269.7 | -2.3% |
| Revenue per Available Room (RevPAR) in PLN | 203.3 | 205.1 | -0.9% |
| Clients: Business | 43.7% | 44.9% | -1.2 p.p. |
| Clients: Leisure | 56.3% | 55.1% | 1.2 p.p. |

Hotels in Hungary generated operating revenues of PLN 321.4 million, accounting for 22.3% of Orbis Group's consolidated revenues. From May 2018, portfolio of hotels in Hungary decreased by Sofitel Budapest Chain Bridge and Novotel Szeged. In terms of comparable perimeter, hotels operating in Hungary reported both an increase of the Average Room Rate and an increase in the Occupancy Rate (by, respectively, 7.0% and 1.3 p.p. like-for-like), which resulted in a 8.8% increase in the RevPAR.

The highest increase in the number of rooms sold (taking into account a comparable hotel parameter) occurred in the segment of individual guests staying for both leisure and business, thanks to the high demand for accommodation services in Budapest. The majority of hotels in this market reported better results, with Novotel and Mercure recording the highest growth. Growth was also reported in the business groups segment. In Q4 2018 alone, the upward trend in the individual guest segment continued and more tourist and business groups were hosted.

The Czech Republic

| Financial results (in PLN million) and operating ratios of owned hotels located in the Czech Republic | 2018 | 2017 | % change |
|---|-------|-------|-----------|
| Net sales | 121.8 | 122.1 | -0.2% |
| EBITDAR | 55.4 | 56.3 | -1.6% |
| Operating EBITDA | 41.0 | 42.5 | -3.5% |
| EBIT without the effects of one-off events | 28.5 | 29.8 | -4.4% |
| Capital expenditure | 5.6 | 9.7 | -42.3% |
| Occupancy Rate (%) | 75.6 | 77.8 | -2.2 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 289.5 | 264.6 | 9.4% |
| Revenue per Available Room (RevPAR) in PLN | 218.9 | 205.9 | 6.3% |
| Clients: Business | 45.4% | 43.4% | 2.0 p.p. |
| Clients: Leisure | 54.6% | 56.6% | -2.0 p.p. |

In 2018, revenues generated by hotels located in the Czech Republic amounted to PLN 121.8 million (8.5% of the total revenues of the Group). Despite a slight drop in the Occupancy Rate (caused by the increased supply of private rooms or apartments for rent), these hotels reported a significant increase in the Average Room Rate (by 9.4%), which was also reflected in higher Revenue per Available Room (+6.3%). The increase in the Average Room Rate results from a change in the structure of segment mix, i.e. the share of segments with a low Average Room Rate (such as tourist groups) decreased in favour of segments with higher rate.

Other countries

| Financial results (in PLN million) and operating ratios of owned hotels located in other countries | 2018 | 2017 | % change |
|--|-------|-------|-----------|
| Net sales | 98.7 | 92.5 | 6.7% |
| EBITDAR | 37.3 | 36.7 | 1.6% |
| Operating EBITDA | 18.9 | 18.6 | 1.6% |
| EBIT without the effects of one-off events | 14.8 | 17.1 | -13.5% |
| Capital expenditure | 100.6 | 2.8 | 3 492.9% |
| Occupancy Rate (%) | 75.9 | 82.1 | -6.2 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 274.8 | 271.9 | 1.1% |
| Revenue per Available Room (RevPAR) in PLN | 208.5 | 223.2 | -6.6% |
| Clients: Business | 49.0% | 56.0% | -7.0 p.p. |
| Clients: Leisure | 51.0% | 44.0% | 7.0 p.p. |

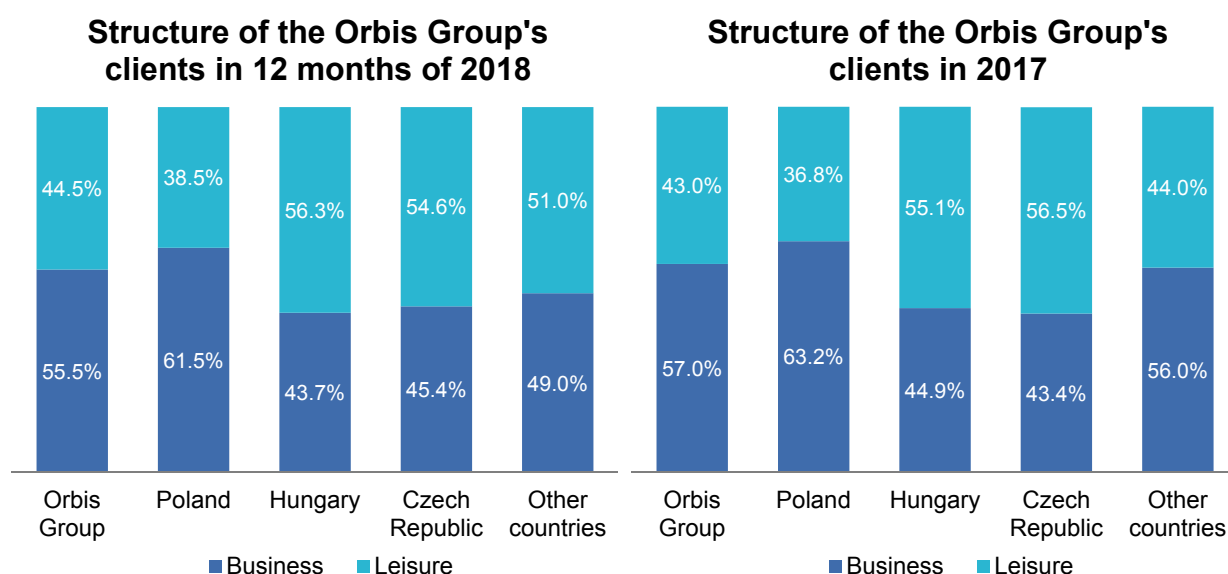
In 2018, revenues generated in other countries, in which hotels owned by the Group are located, reached the level of PLN 98.7 million. i.e. 6.9% of consolidated revenues. Hotels located in Lithuania, Slovakia and Romania reported sales revenues higher by 6.7% than in the corresponding period of the past year.

Hotel Novotel in Vilnius achieved slightly higher room revenues as compared to the past year thanks to higher Average Room Rate. Increase in the number of guests was reported both in the MICE segment thanks to a larger number of business groups, particularly in the first quarter of 2018, as well as in the corporate guest segment (thanks to demand from regular clients). The number of individual guests and tourist groups in Q4 2018 alone also increased. Another subsidiary hotel belonging to the economy segment, i.e. ibis Vilnius Centre, opened in Vilnius in mid-August 2018.

Slovakia is represented by two hotels located in Bratislava: Mercure and ibis. Room revenues were slightly below the past year's level due to lower Occupancy Rate in the Mercure hotel despite a higher Average Room Rate in both these hotels. A positive trend in the tourist group segment which continued throughout Q4 2018 was observed during the reporting period.

The Novotel in Bucharest achieved a growth in operating revenues thanks to higher Average Room Rate. A much greater number of rooms was sold to individual and more tourist groups were hosted during the reporting period, while the corporate segment decreased due to lower demand in H2 2018. In Q4 2018 alone, the demand from individual customers and tourist groups remained high.

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



3.4 Financial Results per Operating Segments

The Orbis Group distinguishes two reportable operating segments:

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

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

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

More information on segments is provided in Note 4.1 to the Consolidated Financial Statements of the Orbis Group for 2018.

| Operating segments – analytical approach (in PLN million) | 2018 | 2017 | % change |
|--|---------|---------|-----------|
| Up&Midscale Hotels | | | |
| Net sales | 1 069.8 | 1 104.2 | -3.1% |
| EBITDAR | 444.2 | 451.0 | -1.5% |
| Operating EBITDA | 397.6 | 397.4 | 0.1% |
| EBIT without the effects of one-off events | 273.3 | 280.4 | -2.5% |
| Capital expenditure | 243.2 | 483.8 | -49.7% |
| Occupancy Rate (%) | 72.5 | 73.2 | -0.7 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 299.4 | 288.7 | 3.7% |
| Revenue per Available Room (RevPAR) in PLN | 217.1 | 211.2 | 2.8% |
| Economy Hotels | | | |
| Net sales | 319.7 | 317.9 | 0.6% |
| EBITDAR | 157.3 | 156.7 | 0.4% |
| Operating EBITDA | 147.8 | 147.7 | 0.1% |
| EBIT without the effects of one-off events | 105.9 | 105.3 | 0.6% |
| Capital expenditure | 105.2 | 124.0 | -15.2% |
| Occupancy Rate (%) | 74.5 | 75.7 | -1.2 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 186.9 | 178.2 | 4.9% |
| Revenue per Available Room (RevPAR) in PLN | 139.2 | 135.0 | 3.1% |

During 12 months of 2018, the revenues of the Up&Midscale segment accounted for 74.3% of consolidated revenues as compared to 75.7% in the past year. The lower share of the Up&Midscale revenues in consolidated revenues in 2018 (despite the RevPAR growth by 2.8% y/y) was the result, above all, of the sale of the Sofitel Budapest Chain Bridge hotel and the Novotel Szeged hotel in May 2018. The Up&Midscale portfolio was also reduced by the Mercure Toruń Centrum (at the end of September 2017), and the Mercure Cieszyn (at the end of July 2018). On the other hand, the revenues generated by economy hotels accounted for 22.2% of the Group's revenues and were similar to revenues for 2017 (21.8%).

The average Revenue per Available Room ranged from PLN 139.2 in economy hotels to PLN 217.1 in hotels of the Up&Midscale segment in 12 months of 2018 and from PLN 135.0 to PLN 211.2 respectively in the corresponding period of 2017. RevPAR growth is attributable in particular to higher Average Room Rates (ARR growth rate in economy hotels by 4.9% and by 3.7% in hotels of the Up&Midscale segment). Revenue per available room in Q4 2018 was slightly below the 12-month average and amounted to PLN 137.8 in economy hotels and PLN 208.0 in 3-start hotels and hotels of higher standard.

3.5 Statement of Financial Position

| Statement of financial position – analytical approach | 2018 | Share in total assets / equity & liabilities | 2017 | Share in total assets / equity & liabilities | 2018/ 2017 |
|--|------------------|---|------------------|---|---------------|
| Non-current assets | 2 546 642 | 79.1% | 2 392 340 | 81.9% | 6.4% |
| Current assets | 663 148 | 20.6% | 325 869 | 11.2% | 103.5% |
| Assets classified as held for sale | 8 690 | 0.3% | 201 093 | 6.9% | -95.7% |
| TOTAL ASSETS | 3 218 480 | 100.0% | 2 919 302 | 100.0% | 10.2% |
| Equity | 2 386 786 | 74.2% | 2 080 877 | 71.3% | 14.7% |
| Non-current liabilities | 545 411 | 16.9% | 548 571 | 18.8% | -0.6% |
| Current liabilities | 286 283 | 8.9% | 289 854 | 9.9% | -1.2% |
| TOTAL EQUITY AND LIABILITIES | 3 218 480 | 100.0% | 2 919 302 | 100.0% | 10.2% |

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

As at December 31, 2018, Orbis Group's assets totalled PLN 3 218.5 million, i.e. increased by 10.2% as compared to December 31, 2017.

The major component of the Group's assets are non-current assets, accounting for 79.1% of total assets. The predominant item of non-current assets are property, plant and equipment valued at PLN 2 415.8 million, accounting for 75.1% of total 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 titles to perpetual usufruct of land. Property, plant and equipment increased by PLN 164.3 million as compared to December 31, 2017, while capital expenditure (PLN +349.0 million) was reduced by depreciation and amortization (PLN -167.9 million) and downward adjustments resulting from disposals (PLN -22.2 million), incl. the sale of the Novotel Szeged hotel in Hungary and ibis Plzeň in the Czech Republic. In addition, the property, plant and equipment items decreased by the non-hotel real property in Wrocław which was transferred to assets held for sale. The balance of non-current assets under construction as at December 31, 2018, was by PLN 46.8 million higher than the balance as at December 31, 2017. The change in non-current assets under construction during the period from December 31, 2018, and December 31, 2017, results from capital expenditure of PLN 349.0 million, reclassification of real property located in Toruń with an unfinished construction of the ibis hotel building of PLN 4.6 million and additions to non-current assets of PLN 305.2 million. Furthermore, the decrease in non-current assets under construction was caused by an impairment adjustment of PLN 1.5 million.

Intangible assets (mainly goodwill) valued at PLN 114.8 million also constitute a major item of non-current assets. The contribution of intangible assets to the Group's assets was at 3.6% at the end of December 2018. Increase of the goodwill item by PLN 4.4 million is attributable to accounting the Mercure Bucharest Unirii hotel acquisition transaction including the hotel's business by the subsidiary Accor Hotels Romania s.r.l. (more information on this transaction and its accounting is provided in Note 3 of the Consolidated Financial Statements of the Orbis Group for 2018).

As regards current assets, the most significant changes in 12 months of 2018 versus December 31, 2017, occurred with regard to cash and cash equivalents, other current receivables and tax receivable.

Under the current assets item, the most important sub-item are cash and cash equivalents of PLN 537.8 million, accounting for 16.7% of total assets. Increase in cash and cash equivalents by PLN 323.0 million as compared to December 31, 2017, is above all attributable to the receipt of payment in the amount of EUR 80.0 million plus VAT (approx. PLN 344.0 million) for the sale of the Sofitel Budapest Chain Bridge hotel and HUF 773.9 million including VAT (approx. PLN 10.3 million) for the sale of the Novotel Szeged hotel.

A major item of current assets as at December 31, 2018, were other current receivables (PLN 44.8 million). This item comprises predominantly of receivables from sale of tangible assets, VAT receivables and prepayments. As at the end of December 2018, the Group held receivables resulting from the sale of tangible assets of PLN 5.9 million (13.3% of other current receivables) from the sale of the Mercure Mrągowo Resort & SPA hotel. At the end of 2017, this item also included receivable of PLN 3.9 million from the sale of the Mercure Kasprowy hotel in Zakopane. As at the end of December 2017, this item also included PLN 3.9 million receivable from sale of the Mercure Kasprowy in Zakopane. As at December 31, 2018, the Group reported lower prepayments as compared to December 31, 2017 (by 3.6%), mainly resulting from lease of land.

Moreover, as at December 31, 2018, Orbis Group reported assets of PLN 8.7 million classified as assets held for sale, which include a non-hotel real property located in Wrocław. As compared to the end of 2017, assets classified as assets held for sale were reduced by the Mercure Cieszyń hotel, the ibis Styles Bielsko-Biała hotel, the Sofitel Budapest Chain Bridge hotel and non-hotel real property located in Karpacz, which have been sold.

The Orbis Group financed its assets predominantly from equity. As at December 31, 2018, the Group's equity accounted for 74.2% of the total equity and liabilities (PLN 2 386.8 million).

As at December 31, 2018, Orbis S.A. had non-current liabilities bearing interest liabilities under the bond issue of PLN 502.1 million (15.6% of liabilities). The maturity date of the bonds are in 2020 and 2021.

As at December 31, 2018, the Group did not have any borrowings. As at December 31, 2017, only a subsidiary Accor Pannonia Hotels Zrt. had a current overdraft of PLN 40.9 million.

The most significant item of current liabilities as at December 31, 2018, comprises trade liabilities (28.2%) liabilities associated with tangible assets (25.7%) and other current liabilities (26.6%).

A significant item of other current liabilities including mainly accrued expenses of employee benefits (also for bonus payments and unused holiday leaves), tax and social security liabilities (including VAT) and public imposts (mainly including the challenged rights to perpetual usufruct of land). A lower level of these liabilities results predominantly from lower level of employee benefits due to payout of bonuses and awards as well as payment of tax on hotels acquired last year by Accor Pannonia Hotels Zrt.

The value of liabilities related to non-current assets as at December 31, 2018, increased significantly as compared to the value of the past year. Capital expenditure incurred in 2018 was significantly higher than in the past year and totalled PLN 194.6 million in Orbis S.A. alone (PLN 93.6 million in 2017). The major figures as at the end of 2018 related to the following hotels: ibis Styles Warszawa Centrum, Mercure Wrocław Centrum, Mercure Poznań Centrum, Novotel Katowice Centrum, Novotel Kraków West City, Novotel Warszawa Airport, Novotel Warszawa Centrum and Novotel Gdańsk Marina.

In connection with the implementation of IFRS 15, a new category of liabilities, i.e. liabilities arising from contracts, was created. As at December 31, 2018, the contractual liabilities item, both current and non-current, comprised fees received for affiliation with hotel network (the so-called Entrance fee) under executed franchise agreements as well as advances and prepayments received for accommodation services in subsequent periods.

3.6 Statement of Changes in Equity

On December 31, 2018, equity amounted to PLN 2 386.8 million against PLN 2 080.9 million at the end of 2017.

The retained earnings of the Orbis Group include a net profit of PLN 363.2 million for 2018. The dividend for 2017 amounting to PLN 73.7 million had an adverse impact upon the value of retained earnings at the end of 2018.

Moreover, the retained earnings' opening balance as at January 1, 2018, was adjusted by PLN -1.227 thousand due to implementation of IFRS 15. For a more detailed description see Note 2.7.1 of the Consolidated Financial Statements of the Orbis Group for 2018).

On the other hand, the foreign currency translation reserve increased from PLN -10.7 million at the end of 2017 to PLN 7.7 million at the end of December of 2018. This change results specifically from the reversal of exchange differences relating to the valuation of a net investment in a subsidiary operating abroad. In addition, this item includes foreign exchange differences attributable to translation of foreign operations into the currency of presentation (PLN). The increase of average rates of exchange of foreign currencies as at December 31, 2018 as compared to December 31, 2017, resulted in an increase in the foreign currency translation reserve (foreign currency applied for translation of financial statements of foreign subsidiaries is presented in Note 1 of the Consolidated Financial Statements of the Orbis Group for 2018).

3.7 Statement of Cash Flows

| Statement of cash flow | 2018 | 2017 | % change |
|---|----------------|------------------|---------------|
| Cash generated by operating activities | 394 162 | 390 230 | 1.0% |
| Net cash used in investing activities | 51 798 | (535 767) | - |
| Net cash generated by financing activities | (128 766) | (173 546) | 25.8% |
| Total net cash | 317 232 | (319 083) | - |
| Cash and cash equivalents at the end of period | 537 834 | 214 844 | 150.3% |

During 2018, the net cash flows of the Orbis Group amounted to PLN 317.2 million as compared to PLN -319.1 million in 2017.

- **Cash flows from operating activities**

The gross profit generated during 2018, amounting to PLN 421.1 million (i.e. by PLN 134.5 million higher than in 2017) has directly impacted the higher net cash flows from operating activities, which totalled PLN 394.2 million (PLN 390.2 million in 2017).

- **Cash flows from investing activities**

Positive cash flows in period from January to December of 2018 were generated primarily by the Group's revenues from the sale of property, plant and equipment, including mainly the Sofitel Budapest Chain Bridge hotel (EUR 74.1 million net, i.e. approx. PLN 316.2 million), the Novotel Szeged hotel (net sum of HUF 757.6 million, i.e. approx. PLN 10.1 million), the Mercure Cieszyn and the ibis Styles Bielsko-Biała hotels (PLN 8.1 million in total), the ibis Plzeň hotel (the net sum of CZK 72.0 million, i.e. approx. PLN 12.0 million) and the sale of non-hotel real properties (PLN 4.5 million in aggregate) and sale of hotel property with Mercure Mrągowo Resort & SPA for PLN 5.0 million.

Furthermore, in the period of 12 months of 2018, the Group received PLN 4.9 million of other investment inflows, including PLN 3.9 million as another instalment receivable from the sale of the Mercure Kasprowy hotel in Zakopane and PLN 0.9 million of prepayment under the sale transaction of the following non-hotel real properties: real property located in Szczecin at 3-go Maja Street and real property located in Szczecin at Panieńska Street, i.e. parts of land that belonged to the former Arkona hotel.

Cash inflows from investing activities (PLN 365.8 million) were reduced by expenditure of a total of PLN 314.0 million, earmarked for the construction and modernization of Orbis Group hotels. The largest capital expenditures during 2018 were allocated for the purchase of the Mercure Unirii hotel and the ibis Vilnius hotel.

- **Cash flows from financing activities**

The negative cash flows from financing activities during 2018 at the level of PLN -128.8 million resulted from payment of dividend to Orbis shareholders in the amount of PLN 73.7 million, repayment of an overdraft with interest by Accor Pannonia Hotels Zrt. in Hungary (total of PLN 40.5 million) and payment of interest on bonds in the total amount of PLN 14.1 million. In 2017 the Group reported negative cash flows from financing activities at the level of PLN -173.5 million. This was in particular attributable to the early repayment of the loan in December 2017 in the amount of PLN 105.9 million and repayment of the principal amount of the loan in the amount of PLN 17.6 million in June. In addition, borrowing costs in the total amount of PLN 18.0 million were paid and a dividend of PLN 73.7 million was distributed in 2017. At the same time, in the reporting period, the subsidiary Accor Pannonia Hotels Zrt. in Hungary incurred an overdraft of PLN 41.7 million.

3.8 Capital Expenditure

In 2018, capital expenditure of the Orbis Group amounted to PLN 349.0 million (PLN 622.1 million in the corresponding period of past year).

| Capital expenditure of the Group | 2018 | 2017 |
|----------------------------------|----------------|----------------|
| Leased hotels buyback | 0 | 471 255 |
| Development projects | 223 329 | 84 610 |
| Other expenditure | 125 664 | 66 235 |
| Total | 348 993 | 622 100 |

A total sum of PLN 223.3 million was appropriated for the following investment projects:

- **The ibis Styles Warszawa Centrum hotel.** The construction of the Ibis Styles Warszawa Centrum hotel, launched in September 2017, came to an end. It is yet another hotel of the Orbis Group which is being built in accordance with BREEAM-certification standards (certification for green buildings). The hotel offers 179 rooms, 4 conference rooms, a WineStone restaurant and a bar. The hotel opened for guests on November 30, 2018. The total estimated expenditure for this hotel construction in 2016-2019 is above PLN 48 million.
- **The Novotel Poznań Centrum hotel.** The modernization of the hotel scheduled for years 2016-2019, which involved the division of the hotel and its partial rebranding into ibis, was continued in 2018. In 2017, 246 rooms of the Novotel brand and 142 rooms of the ibis brand were modernised. In 2018, successive upgraded ibis and Novotel rooms (516 rooms in aggregate) were made available to guests and all works related to rearrangement of public areas were finished in the hotel, including large conference rooms, the restaurant and the WineStone bar, the WiseCafe and the fitness area. Technical modernisation and upgrading of the back office will be continued in Q1 2019. The total estimated expenditure for this investment project during the period 2016-2019 will come to approx. PLN 59 million.
- **The Novotel Kraków City West hotel.** The modernization of the Novotel Kraków City West hotel was also continued in 2018, 12 rooms with bathrooms were completed in H1 2018. The replacement of the hotel façade (the western and southern side) was completed. Renovation of the swimming pool facilities was commenced, the back office arrangement was changed and a new fitness zone was created. Renovation works were carried out in the swimming pool area, including replacement of the ceiling, lighting and ventilation. The eastern façade is being modernised from the beginning of November 2018 and its completion is scheduled for the end of April 2019. The missing section of the northern façade will be renovated in January - February. Currently, work on adaptation of rooms on the 3rd and 4th floors to meet the N'Room Light standard is in progress. At the moment, renovation work in 12 rooms with bathrooms has been completed. 40 rooms and 2 suites are still to be completed in H1 2019. The total estimated expenditure for this investment project during the period 2016-2018 will exceed PLN 22 million.

- **The Sofitel Warszawa Victoria hotel.** As part of the next phase of the Sofitel Warszawa Victoria hotel modernization works, commenced in 2017, 170 rooms with corridors on the 3rd and 4th floors of the hotel and the SPA were modernized in 2018. The modernisation of 2 Opera suites and the Presidential Suite will be completed in Q1 2019, and 2 successive Opera suites will be ready in February 2019. The total estimated expenditure for this investment project will come to approx. PLN 20 million.
- **The Mercure Budapest City Center hotel.** The modernization of hotel rooms, commenced at the end of 2016, involves all 7 floors of the building and is conducted under the theme 'Budapest's monuments and tourist attractions'. Mock-up rooms were completed in 2017, most of the hotel's rooms were completely renovated. In the 9 months of 2018, the works focused on modernisation of the remaining hotel rooms and the lobby; 12 additional rooms and a fitness area were created. The total estimated expenditure for this investment project during the period 2016-2018 will come to approx. EUR 5.1 million.
- **The Mercure Budapest Buda hotel.** In Q4 2017 major renovation works aimed at transforming the hotel from the current Mercure brand into a combo hotel (i.e. two hotels of different brands, ibis and Mercure, operating in the same building) were started. The new hotel will have 250 renovated rooms operating under the Mercure brand and 150 new ibis rooms. 160 rooms were renovated in the 9 months of 2018, the renovation of further 240 rooms and the public areas is scheduled for the period from Q4 2018 to Q2 2019. The investment is scheduled to be completed in Q3 2019 and the total estimated cost of the project during the years 2017 - 2019 will amount to approx. EUR 8.8 million.
- **The Mercure Budapest Korona hotel.** The hotel's modernization scheduled for the period 2017–2020 envisages the renovation of all the hotel rooms, conference rooms and public areas on all the floors of the building. The renovation of 138 rooms was completed and one of the two conference centres was modernised in 2018. Public areas renovation is planned for H1 2019. The investment is to be completed in Q2 2020 and the total estimated cost of the investment is to come to approx. EUR 9.9 million.
- **The Mercure Bucharest Unirii hotel.** At the beginning of July 2018, Accor Hotels Romania s.r.l. acquired the Mercure Bucharest Unirii hotel (together with the hotel business), which till the date of its acquisition was managed by the Romanian company. The newly acquired hotel has 95 rooms, 2 conference rooms and a restaurant. The total net price paid for the hotel (excluding the hotel business) totalled EUR 10.1 million.
- **The ibis Vilnius Centre hotel.** In mid-July 2018, UAB Hekon acquired a newly built ibis Vilnius Centre hotel from UAB Merko Būstas with its registered office in Vilnius to which the construction of the hotel was entrusted. The net purchase price totalled EUR 8.7 million. The hotel has 164 rooms on 7 floors, 2 conference rooms, a bar, a restaurant and a car park and was opened in August 2018. The total estimated cost of the hotel construction during the years 2016-2018 exceeded EUR 11 million (including the hotel purchase price).

Moreover, in February, 2018, the real property (plot of land), located in Cracow, at Worcella Street, was purchased for a net price of PLN 13 million and in September 2018, a preliminary sale agreement was executed based on which Orbis intends to purchase a real property (plot of land) located in its vicinity. Both properties were purchased in order to implement an investment project (hotel construction), and a study of the technical and operational details of the investment, which will determine the choice of the best economy brand under which the hotel will operate is still being conducted. The purchase of the property adjacent to the Worcella Street plot will allow expanding the size of the property (the hotel) and greater flexibility in the selection of the brand. Work on development of the construction design started during the reporting period. The total estimated expenditure for hotel construction project during the period 2018 – 2021 will exceed PLN 90 million.

An agreement was signed in December 2018 with the general contractor of the **ibis Styles Stare Miasto in Szczecin**. The construction works are scheduled to start at the beginning of 2019. Due to the location of the hotel in the historical part of the city, the building's façade will blend with the historical buildings in the vicinity.

Other expenditure incurred in 2018 (PLN 125.7 million) was allocated for modernisation of hotels operating in the Group, technical installations modernisation and IT investments.

The most important investment projects implemented during 2018 include:

- Completion of redesign of 84 rooms with corridors on three floors of the **Novotel Warszawa Centrum** hotel,
- Modernisation work at the **Novotel Wrocław City** hotel, where 65 rooms and 33 bathrooms were completed; the façade was modernized and windows were replaced in 2018, A/C installations were installed in the hotel; the cooling units will be installed by the end of February 2019,
- Completion of renovation works of 140 rooms and bathrooms in the **Novotel Katowice Centrum** hotel and works aimed at new conference rooms being built in place of the former casino,
- Modernisation of 80 rooms and corridors at the **Novotel Warszawa Airport**,
- Completion of modernization of 108 rooms (including 10 rooms with bathrooms) in the **ibis budget Warszawa Centrum** hotel,
- Replacement of beds and TV sets in 134 rooms and partial replacement of in-built furniture in the restaurant and the bar at the **Sofitel Sopot Grand Hotel** and commenced renovation of historic windows in this hotel,
- completion of modernization of 66 rooms and corridors on two floors (floor VII and VI) in the **Mercure Poznań Centrum hotel**,
- Modernisation of 33 rooms and bathrooms at the **ibis Warszawa Stare Miasto** hotel, modernisation of 25 bathrooms in the **ibis Łódź Centrum hotel**; preparing a master room in line with the latest brand standards at the **ibis Warszawa Centrum hotel**; completion of re-arrangement of 32 rooms at the **ibis Kraków Centrum hotel**,
- Interior arrangement design and construction design for the extension of the WineStone restaurant in the **Mercure Gdańsk Stare Miasto** hotel; in Q3 2018, the arrangement of 80 rooms was changed and in Q4 2018, 80 rooms were re-designed, based on two master rooms constructed in the first half of the year,
- Completion of modernization of the cooling sources in the **Sofitel Warszawa Victoria** hotel, the **Novotel Warszawa Centrum** hotel and the **Novotel Katowice Centrum** hotel,
- Commencement of rearrangement of the lobby and the reception in the **Mercure Warszawa Grand** hotel,
- Modernisation of 40 bathrooms and the SPA incl. fire safety installations and replacement of carpeting in 40 rooms of the **Mercure Gdańsk Posejdon** hotel,
- Completion of modernization of 27 rooms with bathrooms in the **Novotel Szczecin Centrum** hotel,
- Commencement of modernization of 194 rooms in the **Novotel Gdańsk Marina** hotel, where 3 master rooms were completed by the end of 2018; in 2019, 112 rooms with bathrooms will be made available to guests; new concept of the public area (reception, bar, restaurant) is being developed,
- Construction of a board room in the **Novotel Krakow Centrum** hotel and completion of modernization of 20 N'room standard rooms in this hotel.

Moreover, with regard to IT and digital services expenses, in Q4 2018 the Group completed the implementation of hotel systems for newly built properties and actively supported the owner change process in franchised and managed hotels, at the same time initiating partial replacements of infrastructure. Consolidation of WiFi providers was also initiated in order to improve guest satisfaction and enable the launch of successive mobile services.

3.9 Ratio Analysis of the Financial Statements

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

Majority of ratios achieved by the Orbis Group in 2018 remained at a level similar to part year's or increased, as in the case of profitability ratios. Changes in the financing and liquidity ratios result from the higher balance of cash and cash equivalents as compared to December 2017, which was primarily attributable to cash received from the sale of the Sofitel Budapest Chain Bridge, Novotel Szeged and ibis Plzeň hotels.

| Selected financial ratios of the Orbis Group | 2018 | 2017 |
|--|-------|-------|
| Margin ratios | | |
| EBITDAR margin in % | 37.3 | 36.5 |
| EBITDA margin in % | 33.3 | 32.1 |
| EBIT margin in % | 30.4 | 21.7 |
| Profitability ratios | | |
| Return on Equity (ROE) | 16.3% | 11.5% |
| Return on Assets (ROA) | 11.8% | 8.0% |
| Return on Sales (ROS) | 25.2% | 15.9% |
| Efficiency ratios | | |
| Receivables collection period | 17 | 16 |
| Payables deferral period | 29 | 34 |
| Inventory turnover | 2 | 2 |
| Financing ratios | | |
| Net debt (in PLN million) | - | 327.8 |
| Debt-to-equity* | 25.8% | 28.7% |
| Non-current assets cover ratio | 93.7% | 87.0% |
| Liquidity ratios | | |
| Current ratio | 2.35 | 1.82 |

* total liabilities/total equity and liabilities

The Orbis Group meets its obligations towards counterparties, obligatory public imposts and investment obligations on a daily basis. The Group pays its liabilities using cash generated from operating income and using external sources of capital, i.e. overdrafts, cash from issue of bonds, credits facilities and loans, depending on the needs. As at December 31, 2018, the total value of unused overdrafts of the Orbis Group totalled PLN 66.2 million, while the surplus of cash over liabilities from bond issue totalled PLN 35.7 million.

3.10 Assessment of Divergence Between Estimates and Generated Results

The EBITDA of the Orbis Group generated during 12 months of 2018 (after eliminating the impact of one-off events) stood at PLN 479.3 million, in line with the projection disclosed in the current report no. 29/2018 of July 26, 2018, where the forecasted EBITDA was in the range of PLN 465 and 480 million.

FINANCIAL RESULTS OF ORBIS S.A.



4 FINANCIAL RESULTS OF ORBIS S.A.

4.1 Factors Affecting Results

In 2018 Orbis S.A. generated operating profit amounting to PLN 156.8 million. i.e. by 8.5% lower as compared to 2017. On the other hand, profit before tax increased as compared to the past year by 12.1% to PLN 175.2 million in connection with the positive result from financing activities.

| Income statement – analytical approach | 2018 | 2017 | % change |
|--|----------------|-----------------|--------------|
| Net sales, of which: | 900 145 | 888 275 | 1.3% |
| Room revenue | 611 953 | 606 707 | 0.9% |
| Food & beverage revenue | 231 146 | 229 449 | 0.7% |
| Franchise and management revenue | 14 674 | 11 154 | 31.6% |
| Other revenue | 42 372 | 40 965 | 3.4% |
| EBITDAR | 292 440 | 287 316 | 1.8% |
| Operating EBITDA | 284 844 | 279 567 | 1.9% |
| Operating profit (EBIT) without the effects on one-off events | 157 708 | 154 403 | 2.1% |
| Operating profit (EBIT) | 156 825 | 171 328 | -8.5% |
| <i>Net result from financing activities</i> | <i>18 339</i> | <i>(15 046)</i> | <i>-</i> |
| Profit before tax | 175 165 | 156 282 | 12.1% |
| Net profit | 141 901 | 126 603 | 12.1% |

4.2 Income Statement

The following factors positively contributed to the 2018 result:

In 2018, **net sales** of Orbis S.A. increased to PLN 900.1 million as compared to the corresponding period of the past year. Growths were reported in each revenue category as compared to the past year.

Orbis hotels reported an increase of the Average Room Rate during the 12 months of 2018 versus the corresponding period of 2017 by 5.7% (4.3% in terms of like-for-like figures) despite a slightly lower Occupancy Rate (by 0.9 p.p. and 1.3 p.p. in terms of like-for-like figures). As a result of these changes, Orbis hotels reported growth of the Revenue per Available Room by 4.4% (by 2.5% in terms of like-for-like). Majority of the Company's hotels reported an improvement in room revenues, with the largest growth achieved by hotels from Poznań, Katowice and Krakow, including in particular the Novotel Poznań Centrum hotel, the Novotel Poznań Malta hotel, Mercure Poznań Centrum, Novotel Katowice Centrum and Novotel Kraków Old Town. Increase of room revenue was also reported by hotels from Warsaw and Wrocław. The increase in RevPAR was achieved thanks to the introduction of a flexible pricing strategy adjusted to the conditions of individual markets, introduction of seasonal promotional offers and attractive business packages.

Food and beverage revenues also increased slightly (by 0.7%). At the same time, franchise and management revenues rose (by 31.6%) as a result of y/y growth in the number of franchised and managed hotels.

Other revenues, including revenues from rental of real property and parking spaces increased to PLN 42.4 million.

Operating expenses of Orbis S.A. (including rental expense and depreciation/amortisation) totalled PLN 741.4 million during the reporting period, i.e. increased slightly by 1.0% as compared to 2017. The share of individual cost types in the net sales remained unchanged as compared to the corresponding period of the past year. The largest costs in the company included the costs of employee benefits (26.5% share in sales), followed by outsourced services (22.1%) and depreciation and amortization and materials and energy used (14.1% and 14.6%, respectively). As compared to 2017, increase was reported above all in the costs of employee benefits (as a result of salary increases and higher costs associated with employee turnover) as well as costs of outsourced services, such as selling costs, cleaning services, repair and maintenance, and advertising and banking services. Lower costs of materials and energy used are attributable to energy and water savings. The costs of real property rental during the reporting period were close to their respective values in 2017 and totalled respectively PLN 7.6 million. Depreciation and amortization costs increased in the analysed period by PLN 2.0 million mainly as a result of an increase in the value of assets as a result of capital expenditures incurred for new and existing hotel facilities.

As a result of the above changes, in 2018, the **EBITDAR** of Orbis S.A. **amounted to PLN 292.4 million**, the **operating EBITDA amounted up to PLN 284.8 million**, while the **operating result excluding one-off events amounted to PLN 157.7 million**.

In 2018, Orbis S.A. generated a negative **result on one-off events of PLN 0.9 million**. The result from sale of real properties totalled PLN 2.1 million and was generated from the sale of two hotels, i.e. the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biala hotel and non-hotel real properties located in Karpacz and in Warsaw, at 1 Sierpnia Street, and transferring to the municipality of Gdynia the real property located in Gdynia, at Armii Krajowej Street. The positive result from the sale of real property was reduced as a result of the recognition of an impairment loss on fixed assets under construction in the amount of PLN 1.5 million and PLN 0.6 million of consultancy costs related to Accor S.A. tender offer to subscribe for the sale of the Company's shares, announced on November 26, 2018. In the past year, the company generated profit in the total amount of PLN 11.7 million from the sale of four hotels of non-strategic importance for the company (the Mercure Jelenia Góra hotel, the Mercure Karpacz Resort hotel, the Mercure Toruń Centrum hotel and the ibis Katowice Zabrze hotel) as well as 3 non-hotel real properties. This profit was increased by income from revaluation of non-current assets of PLN 8.3 million and reduced by restructuring costs of PLN 3.2 million.

Consequently, the **operating result (EBIT)** totalled **PLN 156.8 million** as compared to PLN 171.3 million in 2017.

In 2018, the company reported a **significant change on the result on financing activities** as compared to the past year. During the period from January to December 2018, Orbis generated a **positive result on financing activities totalling PLN 18.3 million** as compared to a loss of PLN 15.0 million in the corresponding period of 2017. High financial costs incurred by the Company in 2017 resulted primarily from unrealised foreign exchange differences on a loan granted to subsidiaries, which in turn contributed to the increase in financial income in 12 months of 2018. Moreover, in the past year, the Company recognized PLN 4.0 million of financial expenses related to debt which was repaid in full in December 2017.

Orbis S.A. ended 2018 with a **net profit of PLN 141.9 million** as compared to net profit of PLN 126.6 million in the corresponding period of 2017 (increase by 12.1%).

4.3 Statement of Financial Position

| Statement of financial position – analytical approach | 2018 | Share in total assets / equity & liabilities | 2017 | Share in total assets / equity & liabilities | 2018/ 2017 |
|--|------------------|---|------------------|---|---------------|
| Non-current assets | 2 271 603 | 79.8% | 2 517 115 | 92.0% | -9.8% |
| Current assets | 567 489 | 19.9% | 195 240 | 7.1% | 190.7% |
| Assets classified as held for sale | 8 690 | 0.3% | 23 514 | 0.9% | -63.0% |
| TOTAL ASSETS | 2 847 782 | 100.0% | 2 735 869 | 100.0% | 4.1% |
| Equity | 2 121 463 | 74.5% | 2 056 754 | 75.2% | 3.1% |
| Non-current liabilities | 543 010 | 19.1% | 538 551 | 19.7% | 0.8% |
| Current liabilities | 183 309 | 6.4% | 140 564 | 5.1% | 30.4% |
| TOTAL EQUITY AND LIABILITIES | 2 847 782 | 100.0% | 2 735 869 | 100.0% | 4.1% |

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

As at December 31, 2018, Orbis S.A.'s assets totalled PLN 2 847.8 million, i.e. increased by PLN 111.9 million as compared to the end of 2017.

The major component of the Group's assets are non-current assets, accounting for 79.8% of total assets. The predominant item of non-current assets are property, plant and equipment valued at PLN 1 660.4 million, accounting for 58.3% of total 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 titles to perpetual usufruct of land. Property, plant and equipment increased by PLN 72.7 million as compared to December 31, 2017, and the capital expenditure incurred (PLN 194.6 million) was reduced to account for depreciation and amortisation (PLN 125.0 million) and decrease resulting from reclassification of non-hotel real property in Wrocław as assets held for sale (PLN 9.0 million). A more detailed description of capital expenditure was presented in Note 3.8.

The second biggest item of the statement of financial position of Orbis S.A. in terms of share in the total carrying amount of assets/equity and liabilities, is investments in subsidiaries valued at PLN 467.5 million (16.4% of assets). More detailed information about Orbis investments in subsidiaries is contained in Note 12 to the Separate Financial Statements of Orbis S.A. for 2018.

The major component of non-current assets are also intangible assets valued at PLN 109.3 million, including the goodwill of PLN 107.3 million, which has been recognized as from the moment of takeover of the subsidiary, i.e. as of the date of purchase of shares in Hekon-Hotele Ekonomiczne S.A. The intangible assets' contribution to the Group's assets was at 3.8% at the end of 2018.

As regards non-current assets, the Company also reports non-current loans granted. On December 31, 2018, Orbis had a total of PLN 179.3 million of receivables under loans granted to related parties, of which PLN 156.5 million was classified as current loan and PLN 22.8 million as non-current loan. The significant decrease in the loan balance as compared to the end of December results mainly from partial repayment of loans by the Hungarian company which repaid EUR 60.0 million in 2018. More detailed information about granted loans is presented in Section 4.6.

As regards current assets, the most significant changes in 2018 occurred with regard to cash and cash equivalents, loans granted and other current receivables.

Under the current assets item, the most important sub-item are cash and cash equivalents of PLN 359.2 million, accounting for 12.6% of total assets. An increase of this item by PLN 282.2 million as compared to December 2017 was primarily the result of loan repayment which was granted to subsidiary Accor Pannonia Hotels Zrt.

Other current receivables (PLN 22.8 million) comprise predominantly of VAT receivables, receivables resulting from sale of tangible assets and prepayments. As at December 31, 2018, the Company had receivables resulting from the sale of tangible assets of PLN 5.9 million resulting from the sale of the Mercure Mrągowo Resort & SPA hotel and organised part of the enterprise of the Mercure Kasprowy hotel in Zakopane. At the end of 2017, receivables resulting from sale of tangible assets additionally included PLN 3.9 million from the sale of the Mercure Kasprowy hotel in Zakopane. At the end of December 2018, the Company also reported VAT receivables in the amount of PLN 13.5 million under the Other current receivables item.

As at December 31, 2018, Orbis S.A. also reported assets of PLN 8.7 million classified as assets held for sale, which include assets of a non-hotel real property located in Wrocław, including the right to perpetual usufruct of land, buildings and equipment. As at December 31, 2017, assets classified as assets held for sale also included the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biała hotel (sold at the end of July 2018) and non-hotel real property located at Konstytucji 3 Maja Street in Karpacz (its sale was finalised in March 2018).

Orbis S.A. finances its assets predominantly from equity which accounted for 74.5% of the total equity and liabilities (PLN 2 121.5 million) as at December 31, 2018. The external capital equalled PLN 726.3 million, of which 74.8% were non-current liabilities and long-term provisions.

As at December 31, 2018, Orbis S.A. had non-current liabilities bearing interest liabilities under the bond issue of PLN 502.1 million (17.6% of liabilities). The maturity date of the bonds are in 2020 and 2021.

At the end of 2018, the net debt of Orbis S.A. stood at PLN 142.9 million, i.e. accounted for 6.7% of equity.

The biggest item of current liabilities of the Company as at December 31, 2018, was trade payables (26.4%), liabilities associated with tangible assets (29.4%) and other current liabilities (25.8%), including above all liabilities under taxes and social insurance and accrued expenses of employee benefits (incl. bonuses and unused employee leaves) as well as public imposts (mainly under the challenged fees for the title to perpetual usufruct of land). A lower level of these liabilities as at December 31, 2018, as compared to the end of December 2017 results predominantly from the drop in the balance of provisions for employee benefits due to payout of bonuses and awards.

The balance of liabilities associated with tangible assets as at December 31, 2018 increased by PLN 35.9 million as compared to December 31, 2017. The biggest positions of liabilities at the end of 2018 relate to the following hotels: ibis Styles Warszawa Centrum, Mercure Wrocław Centrum, Mercure Poznań Centrum, Novotel Katowice Centrum and Novotel Kraków West City.

In connection with the implementation of IFRS 15, a new category of liabilities, i.e. liabilities arising from contracts, was created. As at December 31, 2018, the contractual liabilities item, both current and non-current, comprised fees received for affiliation with hotel network (the so-called Entrance fee) under executed franchise agreements as well as advances and prepayments received for accommodation services in subsequent periods. The largest prepayments at the end of 2018 were reported by hotels located in Warsaw (the Sofitel Warszawa Victoria hotel, the Novotel Warszawa Centrum hotel, the Mercure Warszawa Centrum hotel and the Mercure Warszawa Grand hotel), followed by hotels in Cracow (the Mercure Kraków Stare Miasto hotel, the Novotel Kraków Centrum hotel and the Novotel Kraków West City hotel) and Tri-City (the Sofitel Grand Sopot hotel, the Mercure Gdańsk Stare Miasto hotel and the Mercure Gdynia Centrum hotel). Significant value of prepayments was also reported by the Novotel Katowice Centrum hotel in connection with the UN climate summit scheduled for December and the Novotel Poznań Centrum hotel. Moreover, this item includes prepayments received in connection with the sale of non-hotel real properties in Poznań at Prusimska Street, in Szczecin at 3-go Maja Street and in Szczecin at Panieńska Street, i.e. parts of land that belonged to the former Arkona hotel.

4.4 Statement of Changes in Equity

As at December 31, 2018, equity amounted to PLN 2 121.5 million against PLN 2 056.8 million at the end of 2017. The increase resulted from the posting of net profit for 2018, amounting to PLN 141.9 million, to retained earnings. The dividend for the year 2017 paid out in the total amount of PLN 73.7 million had a negative impact on retained earnings in 2018.

Moreover, the retained earnings' opening balance was adjusted due to implementation of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The total impact of these new standards on retained earnings of Orbis S.A. equalled PLN -2.6 million.

4.5 Statement of Cash Flows

| Statement of cash flow | 2018 | 2017 | % change |
|---|----------------|-----------------|---------------|
| Cash generated by operating activities | 258 334 | 231 139 | 11.8% |
| Net cash used in investing activities | 111 984 | (56 993) | - |
| Net cash generated by financing activities | (87 813) | (214 974) | 59.2% |
| Total net cash | 282 505 | (40 828) | - |
| Cash and cash equivalents at the end of period | 359 170 | 76 973 | 366.6% |

During 12 months of 2018, the net cash flows of Orbis S.A. amounted to PLN 282.5 million (-PLN 40.8 million in 2017). The following factors had contributed to the cash flows in the analysed period:

- **Cash flows from operating activities**

The net result of PLN 175.2 million generated in 12 months of 2018 (PLN 156.3 million in the corresponding period in the past year) directly impacted the positive cash flows from operating activities in the amount PLN 258.3 million (PLN 231.1 million in 2017).

- **Cash flows from investing activities**

The main reason for the positive cash flows of PLN 112.0 million during the period from January to December 2018 (PLN -57.0 million in 12 months of 2017) was repayment of a loans of PLN 258.8 million (i.e. EUR 60.0 million) granted to Hungarian subsidiary and to UAB Hekon in amount PLN 6.4 million (i.e. EUR 1.5 million). Moreover, in 2018 Orbis received PLN 8.1 million from the sale of the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biała hotel, PLN 5.0 million from sale of the real property of the Mercure Mrągowo Resort & SPA and PLN 4.5 million from the sale of non-hotel properties. Positive cash flows from investing activities were also generated thanks to PLN 12.4 million of dividend received from Orbis Kontrakty Sp. z o.o., PLN 9.1 million from interest income (including PLN 7.4 million from loans granted to subsidiaries) and PLN 4.9 million of inflows from other investing activities (of which PLN 3.9 million is another instalment payable under the sale transaction of the Mercure Kasprowy hotel in Zakopane and PLN 0.9 million of prepayments received in connection with the sale of non-hotel real properties in Poznań at Prusimska Street, in Szczecin at 3-go Maja Street and in Szczecin at Panieńska Street, i.e. parts of land that belonged to the former Arkona hotel. Inflows from investing activities of PLN 309.1 million were reduced by investment expenditure of a total amount of PLN 197.1 million, of which PLN 163.7 million was allocated to construction and modernisation of Orbis S.A. hotels. Moreover, in the reporting period the Company granted loans in the total amount of PLN 33.4 million to its subsidiaries, UAB Hekon and Accor Hotels Romania s.r.l.

- **Cash flows from financing activities**

The negative cash flows from financing activities during the period of 12 months of 2018 which amounted to PLN -87.8 million resulted from the dividend payment to Orbis shareholders totalling PLN 73.7 million and the repayment of interest on issued bonds totalling PLN 14.1 million. In the past year, the Company additionally made an early repayment of the loan in the amount of PLN 105.9 million and repayment of the principal amount of the loan in the amount of PLN 17.6 million and a result generated negative flows from financial activities of PLN -215.0 million.

4.6 Loans Granted

As at December 31, 2018, Orbis S.A. had the following receivables under loans granted to its subsidiaries:

| Date of the agreement | Loan amount and currency (in thousands) | Interest rate | Date of repayment of the last instalment | As at Dec. 31, 2018 | As at Dec. 31, 2017 |
|------------------------------------|---|--------------------------|--|---------------------|---------------------|
| Accor Pannonia Hotels Zrt. | | | | 131 150 | 377 511 |
| Feb16, 2016 | EUR 16 000 | EURIBOR 6M + 2.5% margin | Dec 31, 2019 | 131 150 | 325 375 |
| Dec 20, 2016 | EUR 65 000 | | | | |
| May 25, 2017 | EUR 12 500 | EURIBOR 6M + 2.5% margin | Mar 31, 2018 | - | 52 136 |
| UAB Hekon | | | | 28 810 | 20 855 |
| Jun 1, 2017 | EUR 1 000 | EURIBOR 6M + 2.5% margin | Dec 31, 2018 | - | 4 171 |
| Jul 27, 2018 | EUR 1 000 | EURIBOR 6M + 2.5% margin | Feb 28, 2019 * | 4 300 | 4 171 |
| Oct 31, 2017 | EUR 3 000 | EURIBOR 6M + 2.5% margin | May 31, 2019 ** | 12 900 | 12 513 |
| May 9, 2018 | EUR 1 500 | EURIBOR 6M + 2.5% margin | Dec 31, 2019 *** | 4 300 | - |
| Jun 26, 2018 | EUR 1 700 | EURIBOR 6M + 2.5% margin | Dec 31, 2020 | 7 310 | - |
| Accor Hotels Romania s.r.l. | | | | 19 381 | - |
| Jun 28, 2018 | RON 21 000 | ROBOR 6M + 2.2% margin | Jun 30, 2022 | 19 381 | - |
| TOTAL LOANS GRANTED | | | | 179 341 | 398 366 |
| Current loans | | | | 22 815 | 329 500 |
| Non-current loans | | | | 156 526 | 68 866 |

* the loan repayment date was extended to December 31, 2019, by an annex dated February 8, 2019.

** the loan repayment date was extended to December 31, 2019, by an annex dated February 8, 2019.

*** the repayment date of the remaining EUR 1 000 thousand of the loan was extended from Dec 31, 2018, to Dec 31, 2019, by an annex dated December 31, 2018.

Loans granted to Accor Pannonia Hotels Zrt.

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

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

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

Accor Pannonia Hotels Zrt. repaid EUR 46.0 million in June 2018 and EUR 1.5 million in December 2018.

At the end of December 2017, Orbis S.A. had also receivable under a loan granted to the Hungarian company on May 25, 2017, in the amount of EUR 12.5 million. The loan was granted in order to finance the agreement of buy-back of the Sofitel Budapest Chain Bridge hotel, operated by the Hungarian company under lease agreement. The Hungarian company repaid the loan in full on June 4, 2018.

Loans granted to UAB Hekon

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

In 2018, UAB Hekon repaid in full the EUR 1.0 million loan granted to it on June 1, 2017, and partially repaid the EUR 0.5 million loan granted to it on May 9, 2018.

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

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

According to the signed agreements, the interest on the loans is paid for 6-month periods as at the end of June and December of each year. If the variable rate (EURIBOR 6M, ROBOR 6M) is negative, the interest rate on the loans is equal to the interest margin under the agreement.

In 2018, Orbis S.A. received PLN 7 393 thousand as interest on the loans granted, of which PLN 6 119 thousand from Accor Pannonia Hotels Zrt. (equivalent to EUR 1 417 thousand), PLN 736 thousand from UAB Hekon (equivalent to EUR 171 thousand) and PLN 537 thousand from Accor Hotels Romania s.r.l. (equivalent to RON 582 thousand RON).

Furthermore, the total proceeds of Orbis S.A. from repayment of loans by subsidiaries in 2018 amounted to PLN 265 254 thousand, including PLN 258 829 thousand (EUR 60.0 million) from the Hungarian company and PLN 6 425 thousand from the Lithuanian company (EUR 1.5 million).

4.7 Bonds Issue

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

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

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

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

The bonds bear interest per annum at a variable interest rate at **WIBOR 6M** plus interest rate margin of **1.05%**. The interest shall be payable in 6 monthly (six) interest periods.

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

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

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

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

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

In 2018, the margin ratio, profitability ratios and the efficiency ratios of Orbis S.A. were at a level similar to the past year. The changes in financing and liquidity ratios result mainly from higher level of cash and cash equivalents as compared to December 2017 which was primarily the result of loan repayment granted to subsidiary Accor Pannonia Hotels Zrt.

| Selected financial ratios of Orbis S.A. | 2018 | 2017 |
|---|-------|-------|
| Margin ratios | | |
| EBITDAR margin in % | 32.5 | 32.3 |
| EBITDA margin in % | 31.6 | 31.5 |
| EBIT margin in % | 17.4 | 19.3 |
| Profitability ratios | | |
| Return on Equity (ROE) | 6.8% | 6.2% |
| Return on Assets (ROA) | 5.1% | 4.6% |
| Return on Sales (ROS) | 15.8% | 14.3% |
| Efficiency ratios | | |
| Receivables collection period (in days) | 11 | 10 |
| Payables deferral period (in days) | 24 | 26 |
| Inventory turnover (in days) | 2 | 2 |
| Financing ratios | | |
| Net debt (in PLN million) | 142.9 | 424.8 |
| Debt-to-equity* | 25.5% | 24.8% |
| Non-current assets cover ratio | 93.4% | 81.7% |
| Liquidity ratios | | |
| Current ratio | 3.14 | 1.56 |

* total debt/total equity and liabilities

Orbis S.A. meets its obligations towards counterparties, obligatory public imposts and investment obligations on a daily basis. The Company pays its liabilities using cash generated from operating income and using external sources of capital, i.e. overdrafts, cash from issue of bonds, credits facilities and loans, depending on the needs. As at December 31, 2018, the total value of overdrafts unused by the Company totalled PLN 20 million.

ORBIS S.A. SHARES

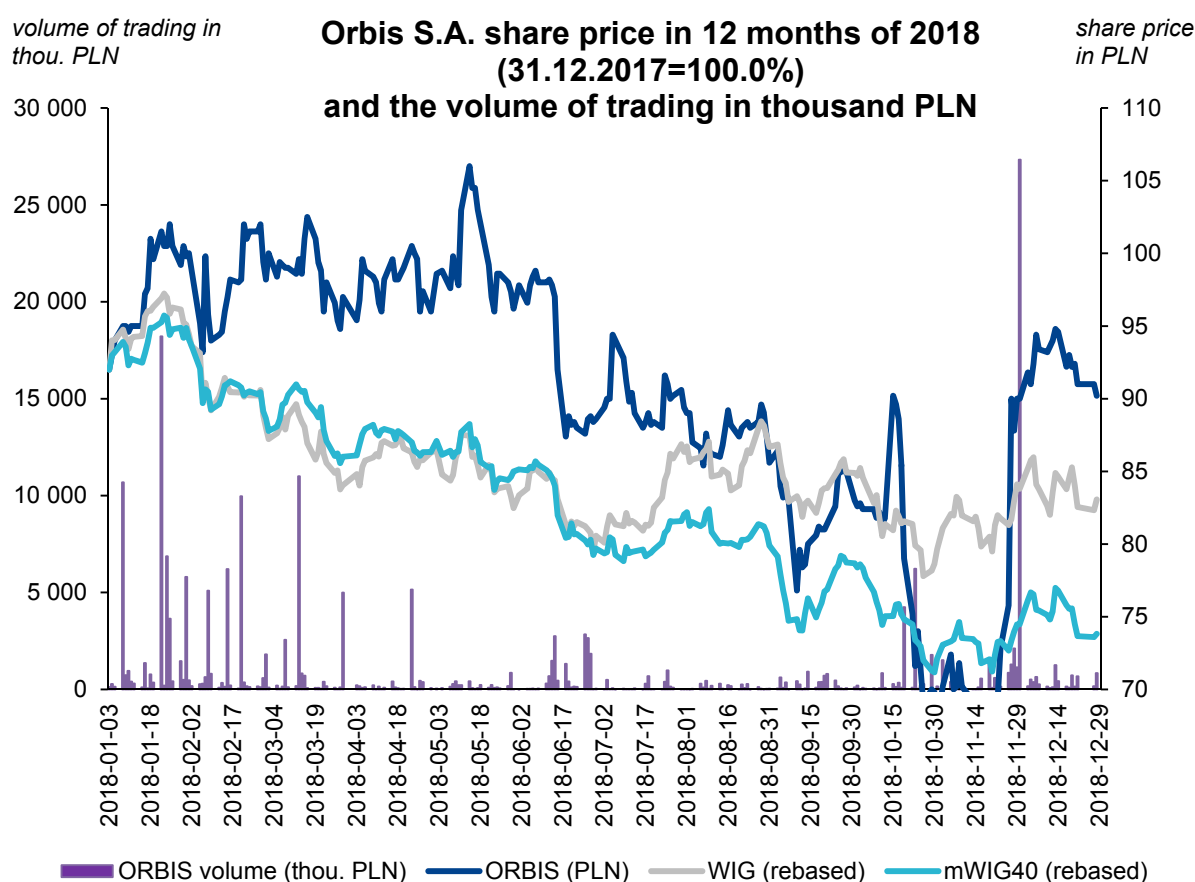


Mercure Poznań Centrum

5 ORBIS S.A. SHARES

5.1 Share Price

From January 1 to December 31, 2018, the price of Orbis S.A. shares ranged from PLN 64.2 (as at November 16) to PLN 106.0 (during the stock exchange session on May 14). The spread between the highest and the lowest quotations was PLN 41.8, which accounted for 65% of the lowest price. The Orbis share closing price at the end of 2018 stood 17% above mWIG40 index, and 7% above WIG index. On December 28, 2018, Orbis S.A. shares achieved the level of PLN 90.2, which represents a decrease by 2% as compared to PLN 92.5 as at the end of 2017. During 2018, the average trading volume in Orbis stocks equalled PLN 0.8 million (9 000 shares).



5.2 Shareholder Structure

As at December 31, 2018, the share capital of Orbis S.A. comprised the share capital disclosed in the amount set out in the Statutes and entered in the court register, adjusted for effects of hyperinflation, i.e.:

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

The value of Orbis S.A. share capital did not change throughout 2018 and till the date of publication of this Report.

On November 26, 2018, Accor S.A. (as the buyer) announced a tender offer for the sale of Orbis S.A. shares pursuant to Article 74.1 and Article 91.6 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies.

As at the date of announcement of the tender offer, Accor S.A. and its subsidiary Accor Polska Sp. z o.o. held a total of 24 276 415 shares in the share capital of Orbis S.A., representing 52.69% of the total number of shares in the share capital of Orbis and representing the same number of votes at the General Shareholder Meeting. As a result of the tender offer, Accor S.A. intended to acquire the remaining 21 800 593 shares in Orbis S.A., representing 47.31% of the total number of shares in Orbis S.A. share capital and the same number of votes at the General Shareholder Meeting of Orbis S.A.

Under the tender offer, the subscription for Orbis S.A. shares started on December 17, 2018, and ended on January 18, 2019. The purchase price of Orbis S.A. shares announced in the tender offer of November 26, 2018, was PLN 87 per share. On January 11, 2019, this price was increased up to PLN 95 per share.

In response to the tender offer, Orbis S.A. shareholders offered to sell the company's shares representing jointly 33.15% of the total number of Orbis shares (15 274 116 shares). Accor S.A. acquired the shares submitted for sale on January 23, 2019.

As a result of the tender offer, as at February 20, 2019, Accor S.A. held a total of 85.84% of Orbis S.A. shares (39 550 531 shares). The table below presents the shareholding of Orbis S.A. shares as at February 20, 2019, by the remaining shareholders who held, either directly or indirectly, at least 5% of the total number of votes at the General Shareholder Meeting, determined based on of notifications referred to in Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies:

| Shareholder (description) | Number of shares held and voting rights at the GM (based on notifications) | % of total number of shares and voting rights at the GM |
|--|--|---|
| Accor S.A. | 39 550 531 | 85.84 |
| <i>of which: Accor S.A. subsidiary – Accor Polska Sp. z o.o.</i> | <i>2 303 849</i> | <i>4.99</i> |
| Nationale-Nederlanden Otworthy Fundusz Emerytalny | 4 710 265 | 10.22 |

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

Orbis' strategic investor is AccorHotels - a global leader in travel and lifestyle offering unique experiences in more than 4.6 thousand hotels, resorts and residences, and in more than 10 thousand private residences worldwide. The AccorHotels Group is the owner of 37 hotel brands, from upscale to economy. With its dual expertise as an investor and operator, AccorHotels operates in 100 countries through its HotelInvest and HotelServices divisions and has a global team of more than 250 thousand employees.

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

As at the date of publication of this Directors' Report, the Vice-President of the Management Board, Mr. Ireneusz Andrzej Węglowski, held 4 250 shares in Orbis S.A. During 12 months of 2018, Mr. Ireneusz Węglowski executed a number of trades in Orbis shares. On June 19, Mr. Węglowski acquired 200 shares and on September 4, September 20, September 24 and October 26, 2018, respectively, Mr. Węglowski acquired further 450, 50, 200 and 350 shares. Other members of the Management Board did not hold any Company shares.

Among members of the Supervisory Board, as at December 31, 2017, only Mr. Jacek Kseń held 600 shares in Orbis S.A. which were sold on January 12, 2018 (300 shares) and January 16, 2018 (300 shares). As at the date of publication of this Directors' Report, Mr. Jacek Kseń did not hold any shares in Orbis S.A.

Except for the shareholding by Mr. Jacek Kseń and Mr. Ireneusz Węglowski, no changes occurred in respect of the holding of Orbis S.A. shares by members of the Management Board and members of the Supervisory Board in 2018 and till the date of publication of this Directors' Report. The information concerning trading in Orbis shares by Mr. Jacek Kseń was published in current reports available at the Company's website: <http://www.orbis.pl/en/investor-relations/current-reports>.

5.3 Dividends Paid

By virtue of resolution of the General Meeting of Shareholders dated June 12, 2018, net profit generated by Orbis S.A. in 2017, was appropriated for the dividend totalling PLN 73 723 thousand, i.e. PLN 1.60 per share. The dividend was paid on August 3, 2018. A decision was also made to keep the remaining part of profit, amounting to PLN 52 880 thousand, in the Company as retained earnings.

No decision concerning distribution of the net profit for 2018 has been taken by the date of publication of the financial statements.

5.4 Investor Relations

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

In 2018, Orbis S.A. held:

- meetings accompanying publication of the 2017 annual results and 2018 half-year results,
- 4 investor days in leading brokerage houses, "Investor's Days"
- „Investor Day”- meeting with the Management Board prepared by the Company
- 3 investor chats with individual investors.

All financial data and information published by Orbis are available at the www.orbis.pl corporate website. Corporate tabs of the website are updated and expanded with new content in line with service users' requests. The "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.

CORPORATE GOVERNANCE DECLARATION



6 CORPORATE GOVERNANCE DECLARATION

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

In 2018 Orbis S.A. was subject to the rules of corporate governance contained in the code of "Best Practice for GPW Listed Companies 2016" adopted by the Supervisory Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A. (GPW)) by virtue of the Resolution No. 26/1413/2015 dated October 13, 2015, effective as of January 1, 2016.

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

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

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

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

In 2018 Orbis S.A. decided not to apply the following principles of corporate governance contained in the "Best Practice for GPW Listed Companies 2016", thus continuing the departure from these principles formally announced in 2016 (the report no. 1/2016 of January 29, 2016):

Disclosure Policy and Investor Communications

Detailed principles

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

The Company does not apply the above principle.

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

Internal Systems and Functions

Detailed principles

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

Not applicable.

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

General Meeting and Shareholder Relations

Recommendation

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

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

The Company does not apply the above principle.

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

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

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

Not applicable.

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

Detailed principles

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

The Company does not apply the above principle.

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

Remuneration

Detailed principles

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

Not applicable.

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

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

Not applicable.

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

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

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

The Company does not apply the above principle.

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

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

The process of financial statements compilation

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

Compilation of the financial statements of Orbis S.A. and of the Orbis Group is supervised by the Management Board Member who is at the same time the Finance Director (CFO). The Financial Reporting and Consolidation Team in Orbis S.A. is in charge of compiling the separate and consolidated financial statements.

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

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

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

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

Internal control

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

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

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

The structure of Orbis S.A. shareholding has been discussed in detail in Section 5.2 of this Directors' Report on the Operations of the Orbis Group for 2018.

6.5 Special Controlling Powers of Securities' Holders

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

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

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

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

The Management Board

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

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

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

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

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

- 1) acquisition or sale of real property, right to perpetual usufruct or share in a real property of a net value in excess of PLN 50 000 000 (fifty million zlotys), as well as executing another transaction including sale, acquisition, credit facility and guaranty of a net value in excess of PLN 50 000 000 (fifty million zlotys); in case of transactions with a net value exceeding the amount of PLN 30 000 000 (thirty million zlotys), the material terms and conditions of the transaction must be presented to the Supervisory Board after the said transaction is executed,
- 2) transfer by the Company of shares or interest in the Company's subsidiaries, irrespective of the value of such shares or interest, transfer by the Company of shares or interest in other companies, where the transaction value exceeds PLN 30 000 000 (thirty million zlotys) as well as granting consent for the acquisition or transfer by a Company's subsidiary of shares or interest in other companies, where the transaction value exceeds PLN 30 000 000 (thirty million zlotys),
- 3) acquisition by the Company of shares or interest in other commercial companies, regardless of the value of such shares or interest,
- 4) executing an agreement with a licensed auditor,
- 5) approval of plans and the Company's development strategies prepared by the Management Board as well as its annual budgets, including annual capital expenditure and investment plans,
- 6) preparation and launching schemes relating to employee participation in the Company's profits, including plans relating to issue of options for the Company's shares as well as material amendments to collective employment agreements binding in the Company as well as major changes in social policy pursued by the Company,
- 7) proposals pertaining to distribution of the dividend.

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

Gilles Clavie, President and Chief Executive Officer:

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

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

- investor relations
- CSR
- PR and corporate communication

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

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

Marcin Szewczykowski, Member of the Management Board for Finance:

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

6.8 Principles of Modifying the Orbis S.A. statutes

The Company operates pursuant to its Statutes, the latest consolidated text of which was determined by the Annual General Meeting of Shareholders of Orbis Spółka Akcyjna on June 24, 2013 (Notary's Deed Rep. A no. 2403/2013).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The powers of the General Meeting of Shareholders include:

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

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

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

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

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

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

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

The Management Board

In 2018, Orbis S.A. Management Board was composed of the following Members:

- Gilles Clavie – President of the Management Board, Chief Executive Officer,
- Ireneusz Węglowski – Vice-President of the Management Board,
- Marcin Szewczykowski – Member of the Management Board, Finance Director (CFO),
- Dominik Sołtysik - Member of the Management Board.

On June 8, 2017, the Supervisory Board appointed all the above-mentioned Board Members for a successive 10th tenure of the Management Board.

The Supervisory Board

From January 1, 2018, till December 31, 2018, Orbis S.A. Supervisory Board was composed of the following Members:

- Jan Ozinga – Chairman (resigned from the position of Chairman and member of the Supervisory Board, effective as of April 6, 2018),
- Pierre Boisselier – Member (appointed member of the Supervisory Board effective as of April 7, 2018),
- Jean-Jacques Dessors – Member (resigned from his position of a Supervisory Board Member effective as of March 2, 2018),
- Artur Gabor – Independent Member,
- Franck Gervais – Chairman (appointed member of the Supervisory Board effective as of April 4, 2018, Chairman from 12 June, 2018),
- Christian Karaoglanian – Member,
- Jacek Kseń – Independent Member,
- Jean-Jacques Morin – Member,
- Laurent Picheral – Member,
- Andrzej Procajło – Member,
- Andrzej Przytuła – Member,
- Jarosław Szymański – Member.

Supervisory Board Committees

From January 1, 2017, till December 31, 2018, Supervisory Board Committees were composed of the following members:

Audit Committee:

- Jacek Kseń - Chairman (the function of the Chairman was entrusted to Mr. Jacek Kseń as from September 13, 2017),
- Artur Gabor,
- Jean-Jacques Morin,

Remuneration Committee:

- Jacek Kseń,
- Laurent Picheral.

Corporate Social Responsibility Committee:

- Artur Gabor,
- Laurent Picheral,
- Andrzej Procajło,
- Andrzej Przytuła,
- Jarosław Szymański.

Information concerning remuneration of Members of the Management Board and the Supervisory Board is provided in Note 33.1 to the Consolidated Financial Statements of the Orbis Group for 2018.

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

The Management Board

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

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

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

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

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

The Supervisory Board

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

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

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

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

- 1) evaluation of the Company's financial statements, including the statement of financial positions, the profit and loss account, the additional notes and the cash flow statement,
- 2) evaluation of the Company's Directors' Report and motions of the Management Board concerning distribution of profits or coverage of losses,
- 3) filing a written report to the General Meeting outlining the results of activities referred to in points 1 and 2 above,
- 4) suspending, for material reasons, the performance of duties by a member of the Management Board or the entire Management Board,
- 5) delegating a member or members of the Supervisory Board to temporarily perform the duties of a Management Board member, if such a Management Board member or the entire Management Board has been suspended or in those cases when the Management Board is incapable of action for other reasons,
- 6) approval of the By-Laws of the Company's Management Board,
- 7) determining the consolidated text of the amended Company's Statutes as well as introducing other amendments of editorial nature as specified in a resolution of the General Meeting,
- 8) selection of a licensed auditor to audit the Company's financial statements,
- 9) examination and approval of the quarterly reports concerning the Company's operations,

- 10) approval of the Company's development plans and strategies prepared by the Management Board as well as its annual budget (including annual capital expenditure and investment plans),
- 11) approval of plans relating to employee participation in the Company's profits, including plans relating to issue of options for the Company's shares as well as proposed material amendments to the collective employment agreement binding in the Company as well as major changes in social policy pursued by the Company,
- 12) giving opinions on motions put forward by the Management Board to the General Meeting as well as giving opinions and adopting resolutions on other matters brought forward by the Company's Management Board.

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

Supervisory Board Committees

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

- **Audit Committee** - its tasks comprise, among others: monitoring the process of financial reporting in Orbis S.A., preparing draft evaluations and reports of the Supervisory Board connected with the closing of a financial year, monitoring efficiency of internal control systems, internal audit and risk management in the Company, monitoring the independence of the entity licensed to audit financial statements. In connection with the entry into force, on June 6, 2017, of the Act on Licensed Auditors and Their Self-Government, Firms Licensed to Audit Financial Statements and Public Oversight from May 11, 2017 (official journal "Dz.U." of 2017, item 1089), the principles of operation and scope of powers of the Audit Committee were modified to a certain extent in order to adjust the internal regulations to the requirements of the aforementioned Act. Specifically, these modifications included the adjustment of the composition of the Audit Committee to the independent members majority requirement (the function of the Audit Committee Chairman was also taken by an independent Member) and adoption, by the Supervisory Board of Orbis S.A., of the new By-Laws of the Audit Committee of the Orbis S.A. Supervisory Board, adoption by the Audit Committee of the "Policy and procedure of appointment of a licenced audit firm to audit the financial statements of "Orbis" S.A." and the "Policy on provision of additional services by the Audit Firm, an entity affiliated with the Audit Firm or a firm belonging to the Audit Firm's group of companies". These changes extended the powers of the Audit Committee, specifically in the areas provided for in the abovementioned Act, increased and formalised the Audit Committee's participation in the process of selecting the entity authorised to audit the financial statements as well as controlling and overseeing the activities the said entity in the area of auditing the financial statements and providing additional services, if such services will be provided (more information about the Audit Committee is available under Section 6.12).
- **Remuneration Committee** - the Committee is tasked with preparing recommendations for the Supervisory Board as regards the annual bonus and remuneration policy for members of the Management Board.
- **Corporate Social Responsibility Committee** – the CSR Committee was established to ensure supervision and evaluation of proper pursuance of the strategy and actions implemented by the Company in the area of corporate governance, human rights, practices related to employment, natural environment, protection of consumer rights and the Company's involvement in the local communities.

6.12 Information on the Audit Committee

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

a) Independence of members

In 2018, the following members of the Orbis S.A. Audit Committee were independent members who meet the conditions of independence specified in Article 129 section 3 of the Act of May 11, 2017, on statutory auditors, audit firms and public supervision (official journal "Dz.U." 2017, item 1089) ("The Act on Auditors"):

- Chairman of the Audit Committee– Mr. Jacek Kseń;
- Member of the Audit Committee - Pan Artur Gabor.

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

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

- Mr. Jacek Kseń

Mr. Kseń is a graduate of the Faculty of Foreign Trade of the Poznań University of Economics. In 1977, Mr. Kseń received his Ph.D. for a thesis on international financial markets from the Warsaw School of Planning and Statistics in Warsaw (currently the Warsaw School of Economics (SGH)). At present, Mr. Kseń is a member of Supervisory Boards in the following companies: Orbis S.A., Sygnity S.A., Amrest, Caspar Asset Management S.A and the brokerage house Dom Maklerski NWA. Mr. Kseń is a sole business owner of Jacek Kseń Consulting company as well as operations advisor and partner in Advent International. Mr. Kseń gained his experience as a member of Supervisory Boards as the Chairman of the Supervisory Board of the brokerage house Dom Maklerski BZWBK S.A. (1996 - 2007), Member of the Supervisory Board of Commercial Union PTE BPH CU WBK (2001-2007), Chairman of the Supervisory Board of BZWBK Asset Management and TFI Arka (2007-2009), Member of the Supervisory Board of MCI Management (2007-2008), Chairman of the Supervisory Board of PLL LOT (2008-2009), Deputy Chairman of the Supervisory Board of PBG (2007-2010), Member of the Scientific Council of the Institute for Western Affairs in Poznań (2007-2010), Chairman of the Supervisory Board of WSIP (2010-2011) and Deputy Chairman of the Supervisory Board of Polimex-Mostostal (2010-2012). Mr. Kseń is also an active social activist and the Dean of the Partners' Club of the Poznań University of Economics.

During the years 1975-2007, Mr. Kseń held the function of a foreign currency market operator in the Bank Handlowy in Warsaw, Vice-Director of the Foreign Currency Department and Attorney-in-Fact for the Bank Polska Kasa Opieki S.A. in Paris, Vice-Director of the Bank, supervising transactions on international financial markets for Lyonnaise de Banque in Paris, Member of top management in charge of the foreign currency cash market in Caisse National de Credit Agricole in Paris, and the President of the Management Board in Wielkopolski Bank Kredytowy S.A. and Bank Zachodni WBK S.A.

- Mr. Artur Gabor

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

- Mr. Jean-Jacques Morin

Jean-Jacques Morin was appointed Group Chief Financial Officer of AccorHotels in November 2015. Prior to joining AccorHotels, he was the Group CFO of Alstom where he had spent 10 years, notably as Sector CFO for Transport and Power Service. Jean-Jacques Morin started his career with Deloitte in Audit and Management Consulting based in France and Canada. He then spent 13 years in the semiconductor industry, notably with Motorola in France, Switzerland, Germany and USA. Jean-Jacques holds a M.Sc. in Aeronautics from SUP'AERO (Ecole Nationale Supérieure de l'Aéronautique et de l'Espace) and an MBA from Arizona State University (Thunderbird). He is a French CPA.

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

- Mr. Jacek Kseń

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

- Mr. Artur Gabor

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

- Mr. Jean-Jacques Morin

Mr. Jean-Jacques Morin has been the Chief Financial Officer of the AccorHotels Group since November 2015.

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

Companies of the KPMG Group did not provide any permitted non-audit services other than those provided to the Hungarian subsidiary. In the case of Accor Pannonia Hotels Zrt., in 2018 companies belonging to the KPMG Group continued to provide non-audit services commenced in the previous year. These services were approved by the Audit Committee.

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

The Policy and Procedure for appointment of the firm authorised to audit financial statements of Orbis S.A., developed and adopted by the Audit Committee in 2017, was applied in Orbis S.A. in 2018. The Policy and Procedure sets out guidelines and principles for the Audit Committee to be followed at the stage of preparing recommendations and the Supervisory Board while selecting the entity authorised to audit financial statements of Orbis S.A. These guidelines and principles take into account the requirements of the Act on Statutory Auditors and the nature, type and scope (including the territorial scope) of the business pursued by Orbis S.A. and companies belonging to the Orbis Group, including the following elements:

- the price quoted by the authorised audit firm;
- the capacity to provide a full range of services as specified by Orbis S.A. (audits of separate financial statements, audits of consolidated financial statements, reviews, etc.);
- experience of the audit firm in auditing financial statements of companies with a similar business profile;
- experience of the audit firm in auditing reports of public interest entities (PIE) within the meaning of the Act;
- professional qualifications and experience of persons directly involved in the audit in the Orbis Group;
- number of persons available for audits in companies belonging to the Orbis S.A. Group;
- availability of qualified specialists in the fields covered under the financial statements, such as measurement of actuarial provisions, valuation of financial instruments, tax aspects analysis;

- guaranteeing that the audit is conducted in accordance with the International Standards on Auditing and Assurance and compliance with the International Standard on Quality Control 1;
- capacity for conducting the audit on the dates set by Orbis S.A.;
- good reputation in financial markets and compliance with ethical principles by the authorised audit firm;
- possibility of cooperating with auditors of the majority shareholder, Accor S.A., and meeting the reporting deadlines of Accor S.A.;
- confirmed independence of the authorised audit firm in relation to the Orbis Group and the Accor Group;
- the possibility for companies operating in the international network of the given auditor firm to audit companies belonging to the Orbis Group and operating beyond the territory of the Republic of Poland

The Policy and Procedure for appointment of the firm authorised to audit financial statements of Orbis S.A. also lays down a detailed procedure for selecting the audit firm to audit financial statements with the cooperation of a Member of the Management Board, i.e. the Financial Director of Orbis S.A., the Audit Committee and the Supervisory Board. The purpose of the Procedure is to efficiently and effectively collect audit firms' offers, which are then analysed by the Audit Committee, in order to submit a proper recommendation to the Supervisory Board for the selection of the authorised audit entities, including at least two audit firms, together with a reasoned preference of the Audit Committee for one of these entities. The final decision on the selection of the audit firm is made by the Supervisory Board, however, if the Supervisory Board decides to select an entity other than the one recommended by the Audit Committee, the Supervisory Board should provide the reasons for diverging from the recommendation of the Audit Committee.

In addition, the "Policy for the provision of additional services by the Audit Firm, an entity affiliated with the Audit Firm or a member of its network", developed and adopted by the Audit Committee in 2017, was applied in Orbis S.A. in 2018. In accordance with the basic principles of this Policy, neither the statutory auditor or the audit firm auditing financial statements of Orbis S.A. or an entity affiliated with the audit firm nor any member of the statutory auditor or audit firm's network should provide any prohibited non-audit or non-revision services, either directly or indirectly, to the audited entity, its parent undertaking or entities controlled by it within the European Union. The only exception are the services specified under Article 136 section 2 of the Act on Statutory Auditors, which can be provided only to the extent unrelated with the tax policy of Orbis S.A., following an assessment of threats and safeguards of independence conducted by the Audit Committee and the Audit Committee's consent. In justified cases, the Audit Committee issues guidelines on the provision of these additional services. Furthermore, if a statutory auditor or audit firm provides the permitted services referred to above, these entities must comply with Articles 69-73 of the Act on Statutory Auditors that lay down solutions aimed at ensuring the independence and objectivity of the statutory auditor and audit firm.

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

In 2018, Orbis S.A. changed its to-date auditor and appointed KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. as its new audit firm. The selection of the new entity authorised to audit financial statements was conducted on the basis of the Policy and Procedure for appointment of the firm authorised to audit financial statements of Orbis S.A. applicable in Orbis S.A., which in particular sets out the requirements and criteria for the selection of the auditor under the Act on Statutory Auditors and the nature, type and scope (including the territorial scope) of the business pursued by Orbis S.A. and companies belonging to the Orbis Group (described above in the section outlining the basic assumptions of the auditor appointment policy). The procedure in question involved primarily the analysis, carried out by the Audit Committee, of the collected offers in terms of the requirements under the Act on Statutory Auditors as well as the criteria and guidelines set out in the above-mentioned Policy. Following an analysis and comparison of offers, the Audit Committee recommended two audit companies to the Supervisory Board, pointing to the offer of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. as the preferred auditor. Following an analysis of the recommendation, the Supervisory Board selected the entity preferred by the Audit Committee.

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

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

In 2018, the Audit Committee of Orbis S.A. held 6 meetings.

6.13 Diversity Policy

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

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

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

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

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

Orbis at the Great Integration Gala 2018

The Great Integration Gala is the largest festival of the disabled persons in Poland, organized on the occasion of the International Day of People with Disability to recap annual activities to integrate people with disabilities.

For 22 years now it has been an opportunity to meet with people suffering from different disabilities from all over the country as well as with public figures, politicians, media representatives, companies engaged in activities for the benefit of persons with disabilities and representatives of non-governmental organizations. Therefore, Orbis was amongst the main sponsors of the Gala in 2018.

Women at AccorHotels Generation (WAAG)

The Women at AccorHotels Generation network (WAAG) connects women working in the AccorHotels and Orbis S.A. and supports their professional development. It brings together nearly two hundred women and several dozen men from the Orbis S.A. and its subsidiaries in Poland and in the Eastern Europe. In Orbis S.A. and its subsidiaries, as many as 40% of hotel General Managers are women, which is the highest percentage in the overall worldwide AccorHotels community. The aim of the network is to develop leadership skills, build greater work comfort and mutual inspiration. The "WAAG Empowerment" program which is a series of workshops for women working in Orbis S.A. and its subsidiaries was built around that perspective. Since January 2015, Orbis S.A. offers to WAAG network members a mentoring program, within a framework of which several mentoring pairs have been brought together not only in Poland but also in Romania, the Czech Republic and Hungary. At the end of 2018, the network changed its name to RiiSE and expanded the scope of its activities to support people with disabilities. The RiiSE corporate network is intended to assist every employee who can be helped in fulfilment and professional career development.

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

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

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

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

The most important social and environmental projects of Orbis S.A. in 2018 include:

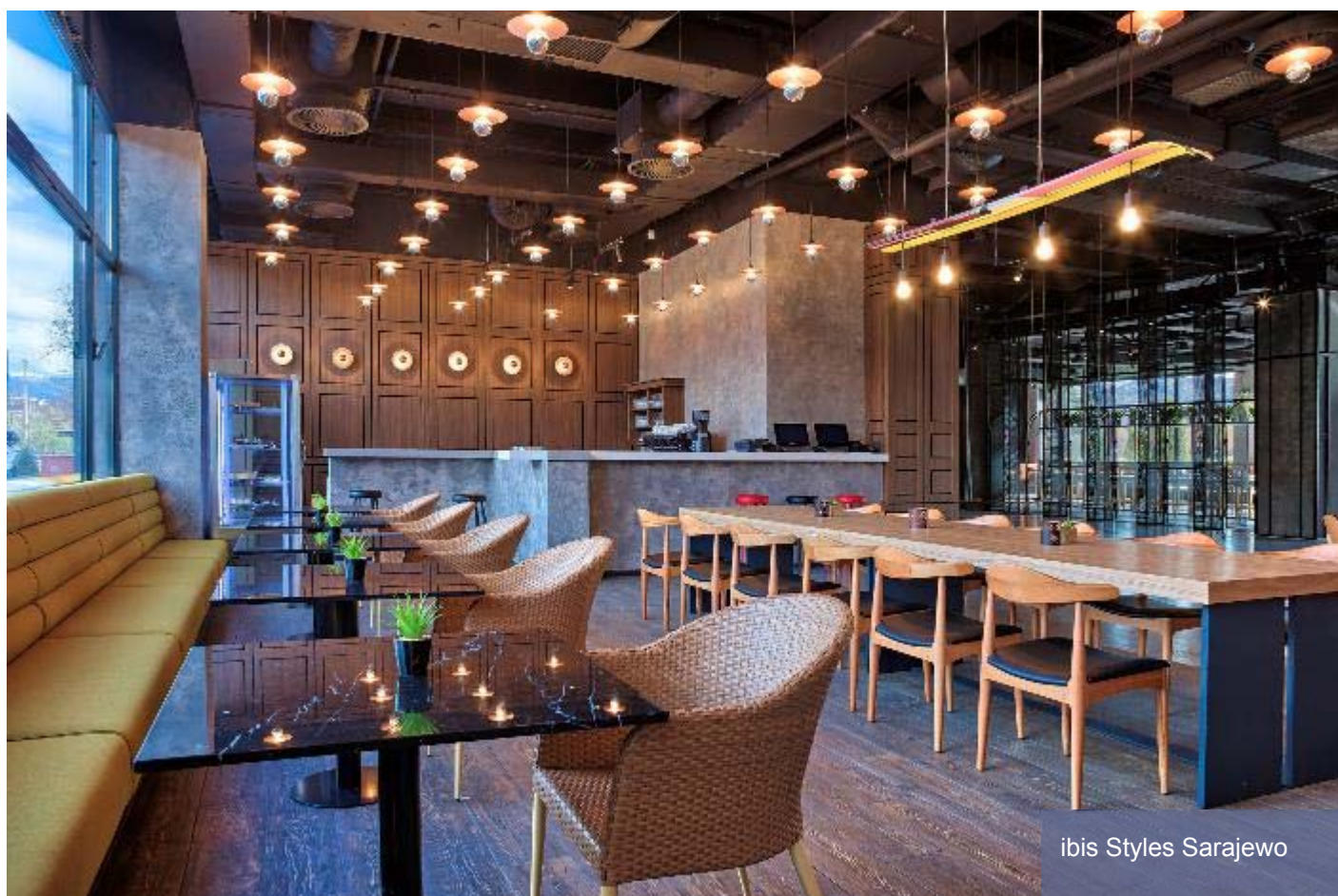
- The "Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism" – a prevention program raising awareness of negative social phenomena, carried out together with the Empowering Children Foundation in Poland and the ECPAT Association in Poland, Bulgaria, Hungary, , Lithuania and Romania. Under the minors protection scheme, the Orbis Group trains approx. 500 AccorHotels employees every year;
- The "Women At AccorHotels Generation" corporate network of women working in Orbis S.A. The aim of the program is to boost leadership and empowerment of women and to enhance work environment and mutual inspiration. The WAAG network brings together more than 300 members and operates in countries of Eastern Europe, where the Company pursues its business. Since October 2018, the network changed its name to RiiSE and expanded the scope of its activities to support not only women, but everyone who wants to develop and pursue a professional career in the AccorHotels network in the Eastern and Central Europe;
- "Chamber of Commerce of the Polish Hotel Industry" (IGHP) - support for the local self-governing organization of the hotel and restaurant industry in Poland in contacts with government administration at the local, regional, national and EU level;
- The "Plant for the Planet" program aimed at transferring 50% of the savings generated due to optimization of towel use in hotels of the Orbis Group and AccorHotels for the creation and development of traditional fruit orchards in Poland and reforestation program in the Transylvania region in Romania. The program is implemented thanks to involvement of hotel guests and in co-operation with the Pur Proiect SARL, the AgriNatura Foundation in Poland and the Mihai Eminescu Trust Foundation in Romania;
- "Poland Business Run 2018" - the Orbis Group was the co-organiser of the largest charity relay run in Poland. In Warsaw, Wrocław and Gdańsk, hotels of the Orbis Group and AccorHotels not only provided all regeneration meals for nearly 7 000 runners in these three locations, but also helped to organise the event;

- In Hungary, the Orbis Group and AccorHotels together with the Suhanj! Foundation actively support the Hungarian Food Bank, the Red Cross and the Vivicitta and Spar Marthon events by providing the funding and the needed assistance for the beneficiaries of these organizations;
- Furthermore, in 2018 the Company was the co-organizer and/or sponsor of selected industry conferences (the hospitality and tourism sectors) in the countries in which it operates.

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

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

ADDITIONAL INFORMATION



ibis Styles Sarajewo

7 ADDITIONAL INFORMATION

7.1 Human Resources

During the period of 12 months of 2018, the average employment in the Orbis Group stood at 3 974 full-time equivalents, having decreased by 1.3% as compared to the same period of last year.

| Average employment (in full-time equivalents) | 2018 | 2017 | % change |
|--|--------------|--------------|--------------|
| Poland | 2 550 | 2 576 | -1.0% |
| Hungary | 857 | 944 | -9.2% |
| Czech Republic | 225 | 232 | -3.2% |
| Other countries | 342 | 275 | 24.4% |
| Total | 3 974 | 4 027 | -1.3% |

The growth in average employment in other countries is attributable to the purchase of the Mercure Bucharest Unirii hotel in 2018 and the opening of the ibis Vilnius Centre, while the drop in employment in Hungary was caused by the sale of the Sofitel Budapest Chain Bridge and Novotel Szeged hotels.

In 2018, more than 6 300 man-days of training for 2 411 persons (more than 7 460 participants) were conducted, both in a traditional form as well as via e-learning method.

The leading themes included Leadership training focused on improvement of competencies and skills at all levels of hotels and Head Office organisational structure. The following trainings were also provided for the management: trainings and workshops on Friendly Recruitment, Time Management for Managers, Multiculturalism and Motivational Training and "How to conduct effective assessment talks?"

The Fast Track programme for department managers with the potential to cover new development challenges and Fast Track Junior for future managers was continued as part of the development programmes. Trainings for managers and in-house trainers have been resumed and will also continue throughout 2019.

Hotel employees participated in many sales and service training courses, including the Heartist workshops for all employees to consolidate a modern and creative approach to guest service, training for reception and hotel sales, among others: Guest Services, How to Handle Overbooking, Effective Sales Techniques, Skillful Influencing, Upselling at the Reception and Booking Departments.

Pro-active sales was supported by the Sales Campus training developed as part of the Accor Business Campus, which was attended by central sales staff. The next step is the Sales Campus training for Hotel Sales Employees to be held in 2019.

In 2018, the Conscious Autocreation Workshops for Reception Staff were organised in response to the business demand related to mobile Fols, i.e. abandonment of the traditional reception desk in favour of direct contact with clients.

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

The food & beverage activities included, among others, the Appleasure (a new approach to breakfast at ibis hotels), Midscale Hotel Breakfast Service Standards Workshops, as well as Modern Restaurant Management, Suggestive Selling at the Restaurant, The Art of Presentation and Trainings for Chefs and HACCP Workshops. Classes for chefs, at which participants learn modern cooking and food preparation techniques have also been launched.

In 2018 the Orbis-Segafredo Barista Championships were held. 18 best Orbis baristas competed in two categories: Latte Art and Non-Alcoholic Coffee Drink. The winner of the competition participated in barista training in Italy and won the "White Mug" title.

An important event in 2018 was the advanced training for the sommeliers. The best of the sommeliers took part in international Wine & Spirit Education Trust testing. Eleven sommeliers from Sofitel, Novotel and Mercure hotels obtained the WSET2 degree, and the highest WSET3 degree was received by an employee of the Mercure Grand Old Town hotel.

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

Language classes for hotel staff from different departments, including "Corridor Talks with Guests" for the floor service employees, is an important element of the trainings.

In addition, trainings on hotel taxes, invoice circulation and material control have been conducted for specialists in the Head Office and Hotels in 2018.

7.2 Entity Authorised to Audit the Financial Statements

On February 7, 2018 the Supervisory Board of Orbis S.A. decided to appoint KPMG Audyt Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw as the entity authorised to audit its financial statements and to entrust KPMG Audyt with the task of review of semi-annual separate and consolidated financial statements and audit of the financial statements of Orbis S.A. and consolidated financial statements of the Orbis Group in 2018-2019. Orbis S.A. has not employed the appointed entity authorised to audit financial statements in the past. The agreement with KPMG Audyt Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (registered as authorised entity under the registration number 3546 on the list kept by the National Council of Statutory Auditors) was executed on March 30, 2018. The auditor that audited the statements for the past year was Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa, registered as authorised entity under the registration number 73.

| Contractual fee under the agreement with the entity authorised to audit the financial statements | Audit firm | 2018 | 2017 |
|--|---|--------------|--------------|
| Orbis S.A. | | | |
| Audit of the annual financial statements and other assurance services, including review of the financial statements: | KPMG | 869 | 0 |
| | Deloitte | 0 | 755 |
| Tax advice and other services: | Deloitte | 0 | 69 |
| Orbis S.A. subtotal | | 869 | 824 |
| Subsidiaries | | | |
| Audit of the annual financial statements and other assurance services, including review of the financial statements: | KPMG | 669 | 0 |
| | Deloitte | 13 | 647 |
| | PKF Slovensko s.r.o. | 51 | 76 |
| | Revision-Rzeszów Józef Król Sp. z o.o. sp. K. | 8 | 8 |
| Tax advice and other services: | KPMG (2018), Deloitte (2017) | 165 | 53 |
| Subsidiaries subtotal | | 906 | 784 |
| Total | | 1 775 | 1 608 |

7.3 Legal Claims

Information about proceedings pending before court, arbitration or public administration authorities is provided in the additional notes to the Consolidated Financial Statements of the Orbis Group for 2018 (Note 30.4).

7.4 Related party transactions

The Group executes transactions with related parties at arm's length. Information about transactions with related parties is provided in the additional notes to the Consolidated Financial Statements of the Orbis Group for 2018 (Note 33).

7.5 Contingent Assets and Liabilities

Information on contingent assets and liabilities, including issued or received sureties and guarantees, is provided in the additional notes to the Consolidated Financial Statements of the Orbis Group for 2018 (Note 30).

7.6 Events after the End of the Reporting Period

On February 1, 2019, performing the conditional sale agreement of December 20, 2018, Orbis S.A. transferred the right of perpetual usufruct of non-hotel property located in Wrocław, having a total area of 7 919 square meters, to a developer company for the originally agreed net price of PLN 44 000 thousand.

Moreover, in February 2019 Orbis S.A. and Cube Sp. z o.o. resumed negotiations aimed at finalizing the sale of the ibis budget Toruń hotel, which was suspended in October 2018.

APPENDIX 1: OPERATING RATIOS OF THE ORBIS GROUP

Owned Hotels²

| Operating ratios of owned hotels by main category | 2018 | 2017 | change (%) | 2018 | 2017 | change (%) |
|--|-------------|-------|---------------|---------------|-------|---------------|
| | as reported | | | like-for-like | | |
| Orbis Hotel Group | | | | | | |
| Occupancy Rate (%) | 73.2 | 74.0 | -0.8 p.p. | 73.4 | 74.4 | -1.0 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 259.2 | 249.6 | 3.8% | 259.5 | 246.9 | 5.1% |
| Revenue per Available Room (RevPAR) in PLN | 189.8 | 184.8 | 2.7% | 190.6 | 183.6 | 3.8% |
| Economy Hotels | | | | | | |
| Occupancy Rate (%) | 74.5 | 75.7 | -1.2 p.p. | 75.1 | 76.3 | -1.2 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 186.9 | 178.2 | 4.9% | 187.0 | 180.1 | 3.8% |
| Revenue per Available Room (RevPAR) in PLN | 139.2 | 135.0 | 3.1% | 140.4 | 137.5 | 2.1% |
| Up&Midscale Hotels (3-star and more) | | | | | | |
| Occupancy Rate (%) | 72.5 | 73.2 | -0.7 p.p. | 72.6 | 73.3 | -0.7 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 299.4 | 288.7 | 3.7% | 299.8 | 284.1 | 5.5% |
| Revenue per Available Room (RevPAR) in PLN | 217.1 | 211.2 | 2.8% | 217.5 | 208.3 | 4.4% |

| Operating ratios of owned hotels by main category | 4th quarter of 2018 | 4th quarter of 2017 | change (%) | 4th quarter of 2018 | 4th quarter of 2017 | change (%) |
|--|---------------------------|---------------------------|---------------|---------------------------|---------------------------|---------------|
| | as reported | | | like-for-like | | |
| Orbis Hotel Group | | | | | | |
| Occupancy Rate (%) | 71.6 | 72.0 | -0.4 p.p. | 72.2 | 72.6 | -0.4 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 255.7 | 245.2 | 4.3% | 256.4 | 239.4 | 7.1% |
| Revenue per Available Room (RevPAR) in PLN | 183.0 | 176.6 | 3.6% | 185.2 | 173.8 | 6.6% |
| Economy Hotels | | | | | | |
| Occupancy Rate (%) | 73.4 | 74.5 | -1.1 p.p. | 75.3 | 75.6 | -0.3 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 187.6 | 176.8 | 6.1% | 188.0 | 178.4 | 5.4% |
| Revenue per Available Room (RevPAR) in PLN | 137.8 | 131.7 | 4.6% | 141.6 | 134.9 | 5.0% |
| Up&Midscale Hotels (3-star and more) | | | | | | |
| Occupancy Rate (%) | 70.6 | 70.8 | -0.2 p.p. | 70.6 | 71.0 | -0.4 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 294.8 | 283.3 | 4.1% | 295.3 | 274.0 | 7.8% |
| Revenue per Available Room (RevPAR) in PLN | 208.0 | 200.4 | 3.8% | 208.5 | 194.5 | 7.2% |

² Include results of owned and leased hotels of the following companies: Orbis S.A., UAB Hekon, Katerinska Hotel s.r.o., Accor Pannonia Hotels Zrt., Accor Pannonia Slovakia s.r.o., Accor Hotels Romania s.r.l.

| Operating ratios of owned hotels by geographical segment | 2018 | 2017 | change (%) | 2018 | 2017 | change (%) |
|---|-------------|-------|---------------|---------------|-------|---------------|
| | as reported | | | like-for-like | | |
| | | | | | | |
| Poland | | | | | | |
| Occupancy Rate (%) | 71.4 | 72.3 | -0.9 p.p. | 71.5 | 72.8 | -1.3 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 252.2 | 238.6 | 5.7% | 252.2 | 241.9 | 4.3% |
| Revenue per Available Room (RevPAR) in PLN | 180.1 | 172.5 | 4.4% | 180.4 | 176.0 | 2.5% |
| Hungary | | | | | | |
| Occupancy Rate (%) | 77.1 | 76.0 | 1.1 p.p. | 77.2 | 75.9 | 1.3 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 263.5 | 269.7 | -2.3% | 263.6 | 246.4 | 7.0% |
| Revenue per Available Room (RevPAR) in PLN | 203.3 | 205.1 | -0.9% | 203.4 | 187.0 | 8.8% |
| Czech Republic | | | | | | |
| Occupancy Rate (%) | 75.6 | 77.8 | -2.2 p.p. | 75.6 | 78.7 | -3.1 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 289.5 | 264.6 | 9.4% | 289.5 | 268.2 | 7.9% |
| Revenue per Available Room (RevPAR) in PLN | 218.9 | 205.9 | 6.3% | 218.9 | 211.0 | 3.7% |
| Other countries | | | | | | |
| Occupancy Rate (%) | 75.9 | 82.1 | -6.2 p.p. | 79.6 | 82.1 | -2.5 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 274.8 | 271.9 | 1.1% | 281.4 | 271.9 | 3.5% |
| Revenue per Available Room (RevPAR) in PLN | 208.5 | 223.2 | -6.6% | 223.9 | 223.2 | 0.3% |

| Operating ratios of owned hotels by geographical segment | 4th quarter of 2018 | 4th quarter of 2017 | change (%) | 4th quarter of 2018 | 4th quarter of 2017 | change (%) |
|---|---------------------------|---------------------------|---------------|---------------------------|---------------------------|---------------|
| | as reported | | | like-for-like | | |
| | | | | | | |
| Poland | | | | | | |
| Occupancy Rate (%) | 69.7 | 70.4 | -0.7 p.p. | 70.1 | 70.9 | -0.8 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 250.8 | 235.2 | 6.6% | 251.0 | 237.2 | 5.8% |
| Revenue per Available Room (RevPAR) in PLN | 174.9 | 165.7 | 5.6% | 175.9 | 168.3 | 4.5% |
| Hungary | | | | | | |
| Occupancy Rate (%) | 76.2 | 72.9 | 3.3 p.p. | 76.2 | 73.3 | 2.9 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 248.3 | 257.4 | -3.5% | 248.3 | 220.1 | 12.8% |
| Revenue per Available Room (RevPAR) in PLN | 189.2 | 187.7 | 0.8% | 189.2 | 161.4 | 17.2% |
| Czech Republic | | | | | | |
| Occupancy Rate (%) | 76.1 | 77.0 | -0.9 p.p. | 76.1 | 79.5 | -3.4 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 297.8 | 265.3 | 12.3% | 297.8 | 273.3 | 9.0% |
| Revenue per Available Room (RevPAR) in PLN | 226.7 | 204.4 | 10.9% | 226.7 | 217.3 | 4.3% |
| Other countries | | | | | | |
| Occupancy Rate (%) | 71.0 | 80.2 | -9.2 p.p. | 78.6 | 80.2 | -1.5 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 269.9 | 277.4 | -2.7% | 284.8 | 277.4 | 2.7% |
| Revenue per Available Room (RevPAR) in PLN | 191.6 | 222.6 | -13.9% | 223.8 | 228.6 | -2.1% |

Managed and Franchised Hotels

| Operating ratios of managed and franchised hotels by main category | 2018 | 2017 | change (%) | 2018 | 2017 | change (%) |
|--|---------------------|---------------------|------------|---------------------|---------------------|------------|
| | as reported | | | like-for-like | | |
| Orbis Hotel Group | | | | | | |
| Occupancy Rate (%) | 64.0 | 62.8 | 1.2 p.p. | 65.4 | 63.4 | 2.0 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 216.7 | 188.8 | 14.8% | 193.2 | 189.6 | 1.9% |
| Revenue per Available Room (RevPAR) in PLN | 138.6 | 118.5 | 17.0% | 126.3 | 120.1 | 5.2% |
| Economy Hotels | | | | | | |
| Occupancy Rate (%) | 66.8 | 65.4 | 1.4 p.p. | 68.3 | 65.4 | 2.9 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 172.7 | 149.8 | 15.3% | 154.8 | 149.7 | 3.4% |
| Revenue per Available Room (RevPAR) in PLN | 115.4 | 97.9 | 17.9% | 105.7 | 97.9 | 8.0% |
| Up&Midscale Hotels (3-star and more) | | | | | | |
| Occupancy Rate (%) | 61.4 | 60.3 | 1.1 p.p. | 62.5 | 61.4 | 1.1 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 260.9 | 229.3 | 13.8% | 234.1 | 231.0 | 1.3% |
| Revenue per Available Room (RevPAR) in PLN | 160.1 | 138.3 | 15.8% | 146.3 | 141.8 | 3.2% |
| | | | | | | |
| Operating ratios of managed and franchised hotels by main category | 4th quarter of 2018 | 4th quarter of 2017 | change (%) | 4th quarter of 2018 | 4th quarter of 2017 | change (%) |
| | as reported | | | like-for-like | | |
| Orbis Hotel Group | | | | | | |
| Occupancy Rate (%) | 60.9 | 58.5 | 2.4 p.p. | 61.2 | 60.2 | 1.0 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 222.2 | 185.1 | 20.0% | 192.9 | 186.3 | 3.5% |
| Revenue per Available Room (RevPAR) in PLN | 135.3 | 108.3 | 24.9% | 118.2 | 112.1 | 5.4% |
| Economy Hotels | | | | | | |
| Occupancy Rate (%) | 62.9 | 63.2 | -0.3 p.p. | 64.5 | 63.5 | 1.0 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 171.8 | 143.9 | 19.4% | 153.8 | 143.5 | 7.2% |
| Revenue per Available Room (RevPAR) in PLN | 108.1 | 90.9 | 18.9% | 99.3 | 91.2 | 8.9% |
| Up&Midscale Hotels (3-star and more) | | | | | | |
| Occupancy Rate (%) | 58.9 | 54.4 | 4.5 p.p. | 58.2 | 57.0 | 1.2 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 276.1 | 226.3 | 22.0% | 233.4 | 230.9 | 1.1% |
| Revenue per Available Room (RevPAR) in PLN | 162.6 | 123.2 | 32.0% | 135.7 | 131.6 | 3.1% |

| Operating ratios of managed and franchised hotels by geographical segment | 2018 | 2017 | change (%) | 2018 | 2017 | change (%) |
|---|-------------|-------|------------|---------------|-------|------------|
| | as reported | | | like-for-like | | |
| Poland | | | | | | |
| Occupancy Rate (%) | 57.2 | 52.8 | 4.4 p.p. | 55.9 | 53.5 | 2.4 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 180.0 | 181.3 | -0.7% | 180.1 | 181.8 | -0.9% |
| Revenue per Available Room (RevPAR) in PLN | 102.9 | 95.7 | 7.5% | 100.7 | 97.3 | 3.5% |
| Hungary | | | | | | |
| Occupancy Rate (%) | 77.9 | 75.3 | 2.6 p.p. | 79.1 | 75.3 | 3.8 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 456.0 | 338.9 | 34.6% | 336.7 | 338.9 | -0.7% |
| Revenue per Available Room (RevPAR) in PLN | 355.2 | 255.3 | 39.1% | 266.2 | 255.3 | 4.3% |
| Czech Republic | | | | | | |
| Occupancy Rate (%) | 55.9 | 63.5 | -7.6 p.p. | 47.6 | 56.5 | -8.9 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 167.3 | 150.4 | 11.2% | 166.3 | 143.2 | 16.1% |
| Revenue per Available Room (RevPAR) in PLN | 93.5 | 95.4 | -2.0% | 79.2 | 81.0 | -2.2% |
| Other countries | | | | | | |
| Occupancy Rate (%) | 68.2 | 72.3 | -4.1 p.p. | 74.2 | 72.5 | 1.7 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 201.3 | 190.5 | 5.7% | 197.8 | 190.3 | 3.9% |
| Revenue per Available Room (RevPAR) in PLN | 137.3 | 137.7 | -0.3% | 146.7 | 138.0 | 6.3% |

| Operating ratios of managed and franchised hotels by geographical segment | 4th quarter of 2018 | 4th quarter of 2017 | change (%) | 4th quarter of 2018 | 4th quarter of 2017 | change (%) |
|---|---------------------|---------------------|------------|---------------------|---------------------|------------|
| | as reported | | | like-for-like | | |
| Poland | | | | | | |
| Occupancy Rate (%) | 54.8 | 50.0 | 4.8 p.p. | 53.7 | 52.2 | 1.5 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 182.4 | 173.1 | 5.4% | 178.8 | 175.1 | 2.1% |
| Revenue per Available Room (RevPAR) in PLN | 100.0 | 86.6 | 15.5% | 96.0 | 91.4 | 5.0% |
| Hungary | | | | | | |
| Occupancy Rate (%) | 73.3 | 77.0 | -3.7 p.p. | 85.1 | 77.0 | 8.1 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 429.2 | 318.3 | 34.8% | 301.5 | 318.3 | -5.3% |
| Revenue per Available Room (RevPAR) in PLN | 314.7 | 245.2 | 28.3% | 256.5 | 245.2 | 4.6% |
| Czech Republic | | | | | | |
| Occupancy Rate (%) | 49.5 | 55.7 | -6.2 p.p. | - | - | - |
| Average Room Rate (ARR) in PLN (net of VAT) | 171.9 | 157.2 | 9.4% | - | - | - |
| Revenue per Available Room (RevPAR) in PLN | 85.1 | 87.5 | -2.7% | - | - | - |
| Other countries | | | | | | |
| Occupancy Rate (%) | 64.0 | 66.4 | -2.4 pp | 67.4 | 67.0 | 0.4 p.p. |
| Average Room Rate (ARR) in PLN (net of VAT) | 199.3 | 190.4 | 4.7% | 199.3 | 189.9 | 4.9% |
| Revenue per Available Room (RevPAR) in PLN | 127.6 | 126.5 | 0.9% | 134.4 | 127.2 | 5.7% |

* The cooperation under a franchise agreement with the ibis Olomouc hotel in the Czech Republic was discontinued as of the end of March 2018.

APPENDIX 2: GLOSSARY OF TERMS

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

CAPEX – Capital Expenditure

CSR – Corporate Social Responsibility

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

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

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

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

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

NOVO² – combination of a bar and a restaurant in Novotel hotels. NOVO² is based on three values: Vitality (health) entails the selection of environmentally-friendly products and a balanced diet; Connect-ainment (entertainment) to ensure that each guest will feel at ease thanks to international interior design and cuisine; Imagination (inspirations) is reflected in the presentation of the most intriguing culinary trends from all around the world

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

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

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

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

| Date | Name and surname | Position/Function | Signature |
|---------------|----------------------------|--|---|
| Feb. 20, 2019 | Gilles Stephane Clavie | President of the Management Board | <i>Signed with a qualified electronic signature</i> |
| Feb. 20, 2019 | Ireneusz Andrzej Węglowski | Vice-President of the Management Board | <i>Signed with a qualified electronic signature</i> |
| Feb. 20, 2019 | Dominik Sołtysik | Member of the Management Board | <i>Signed with a qualified electronic signature</i> |
| Feb. 20, 2019 | Marcin Szewczykowski | Member of the Management Board | <i>Signed with a qualified electronic signature</i> |