



# Orbis Group

## DIRECTORS' REPORT ON THE OPERATIONS FOR THE FIRST HALF OF 2018



## Table of contents

<b>1</b>	<b>PRESIDENT'S COMMENT TO THE FIRST HALF OF 2018</b>	<b>3</b>
<b>2</b>	<b>PRESENTATION OF THE ORBIS GROUP</b>	<b>6</b>
2.1	ORBIS GROUP AT A GLANCE	6
2.2	STRUCTURE OF THE ORBIS GROUP	10
2.3	COMPANIES OF THE ORBIS GROUP	11
2.4	HOTEL PORTFOLIO OF THE ORBIS GROUP	12
2.5	DIRECTIONS OF THE ORBIS GROUP'S DEVELOPMENT	14
<b>3</b>	<b>FACTORS IMPACTING THE GROUP'S OPERATIONS</b>	<b>17</b>
3.1	MACROECONOMIC ENVIRONMENT	17
3.2	HOTEL MARKET – FURTHER AVERAGE ROOM RATE GROWTH	19
3.3	PEOPLE AND SOCIAL RESPONSIBILITY (CSR)	20
3.4	HUMAN RESOURCES	22
3.5	FACTORS TO AFFECT THE ORBIS HOTEL GROUP'S OPERATIONS IN THE SECOND HALF OF 2018	22
<b>4</b>	<b>FINANCIAL RESULTS OF ORBIS GROUP</b>	<b>25</b>
4.1	IMPORTANT EVENTS OF THE FIRST HALF OF 2018	25
4.2	FINANCIAL RESULTS OF THE ORBIS GROUP	26
4.3	GEOGRAPHICAL INFORMATION	29
4.4	FINANCIAL RESULTS PER OPERATING SEGMENTS	33
4.5	STATEMENT OF FINANCIAL POSITION	34
4.6	STATEMENT OF CHANGES IN EQUITY	35
4.7	STATEMENT OF CASH FLOWS	36
4.8	CAPITAL EXPENDITURE	37
4.9	FINANCIAL RATIOS	39
4.10	PROJECTIONS OF EBITDA FOR 2018	39
<b>5</b>	<b>RISK AREAS</b>	<b>41</b>
5.1	BUSINESS RISK	41
5.1.1	RISK RELATED TO THE MACROECONOMIC SITUATION AND CONDITION OF THE HOSPITALITY SECTOR	41
5.1.2	COMPETITION RISK	41
5.1.3	RISK RELATED TO COOPERATION WITH TRAVEL AGENTS	41
5.2	FINANCIAL RISK	41
5.2.1	CURRENCY RISK	42
5.2.2	INTEREST RATE RISK	42
5.2.3	CREDIT RISK	42
5.2.4	LIQUIDITY RISK	43
5.2.5	PRICE RISK	43
5.3	LEGAL RISK	43
5.4	REPUTATIONAL RISK	44
5.5	RISK FACTORS RELATED TO THE BONDS	44
5.5.1	RISK OF EARLIER REDEMPTION OF THE BONDS FOR REASONS OTHER THAN ON THE BONDHOLDER'S REQUEST	44
5.5.2	RISK OF EARLIER REDEMPTION OF THE BONDS ON THE BONDHOLDER'S REQUEST	44
<b>6</b>	<b>ADDITIONAL INFORMATION</b>	<b>46</b>
6.1	SHARE PRICE	46
6.2	SHAREHOLDER STRUCTURE	46
6.3	STATUTORY BODIES OF THE ISSUER	48
6.4	ENTITY AUTHORISED TO AUDIT THE FINANCIAL STATEMENTS	49
6.5	INVESTOR RELATIONS	49
	<b>APPENDIX 1: OPERATING RATIOS OF THE ORBIS GROUP</b>	<b>50</b>
	OWNED HOTELS	50
	MANAGED AND FRANCHISED HOTELS	52
	<b>APPENDIX 2 : GLOSSARY OF TERMS</b>	<b>54</b>
	<b>DECLARATIONS OF THE MANAGEMENT BOARD</b>	<b>57</b>

## PRESIDENT'S COMMENT TO THE FIRST HALF OF 2018



Mercure Budapest City Center

## 1 PRESIDENT'S COMMENT TO THE FIRST HALF OF 2018

- Solid growth of the operating indicators (+5.3% RevPAR increase in the region)
- Robustness of Orbis strategy with PLN 205 million operating EBITDA (+4.0% like-for-like growth)
- Acceleration of new asset light development - 12 hotels signed (almost 1 500 new rooms)
- 5 subsidiary hotels in progress (over 800 new rooms)
- Aon Hewitt certifies Orbis the "Best Employer in Poland"

### PERFORMANCE

Our business remains strong in the 1H 2018 and despite high comparison base in 2017 Orbis can boast +5.3% like-for-like RevPAR growth. The good performance was driven essentially by the average daily rate ARR +5.2% like-for-like compared to 1H 2017. Occupancy rate remains broadly stable. I would like to highlight that RevPAR growth stays strong in all our key markets: Poland (+4.6%), Hungary (+8.4%) and Czech Republic (+4.8%), benefiting from resilient environment in the EE region.

Solid operating indicators in 1H 2018 translate into good financial performance. Certainly, one of the factors that impact our results is the growing labour cost, which developed into a trend across the whole region as a result of historically low unemployment rates. Therefore, to be more resistant, we keep our focus on the top line maximization. Having in mind that with fast development of digital technology, guest behaviours and expectations have been changing, we concentrate on delivering enhanced customer experience through personalization of our services. Our efforts are confirmed by +4.8% like-for-like total revenue growth (up to PLN 690 million). Operating EBITDA amounts to PLN 205 million, which represents 4.0% like-for-like growth compared to last year. Based on the 1H 2018 results and outlook for the following months, we expect operating EBITDA for the whole year in the range of (PLN 465-480 million).

### Portfolio

Orbis is continuing its development at a rapid pace. In the first half of 2018, the Group signed 12 new asset light agreements in 6 countries of the region. Thanks to these franchise and management contracts, 1 500 new rooms will join Orbis portfolio starting from September this year. That will make the Group more balanced in terms of its operating mode and diversified in geographical terms. Amongst these agreements, I would like to highlight the first contract signed for a hotel under our new brand, Adagio, to be built in Cracow. On top of that, in 1H 2018 we have opened 5 new franchised and managed hotels based on the previously signed agreements, adding over 600 new rooms to our network in 4 countries of the region: Poland, Hungary, Slovenia, and Macedonia. At the same time, we are continuing our own investment in 5 new hotels (over 800 rooms in total), two of which: ibis Styles Warszawa (179 rooms) and ibis Vilnius (164 rooms), will be opened in the second half of this year. All in all, our pipeline is secured with 44 projects, i.e. over 6 000 rooms. This pipeline ensures the future strength of Orbis for the years to come. On the asset management side, the Group has finalized the sale and management back of the Sofitel Budapest Chain Bridge and the Novotel Szeged hotels. In line with our strategy and the 2018-2022 investment plan, we will allocate earned cash to profitable M&A projects to raise Orbis EBITDA and value of the Company in the future, such as the acquisition of the Mercure Bucharest Unirii in early July.



## **People**

The third pillar of our strategy, People, is gaining on importance in the times of challenging labour market. We concentrate our efforts on strengthening the employees' engagement and the results of the assessment by Aon Hewitt that conducted the "Employee Engagement Survey" demonstrated how efficient our work was as Orbis has been recognized the "Best Employer in Poland". To remain competitive on the labour market, we have rolled out a salary plan in all the countries of the region and an increased number of trainings for our employees. Thanks to these actions and the continuing corporate culture change, we managed to reduce the employee turnover rate (a key indicator in our industry) on our main markets: in Poland and in Czech Republic.

Looking forward, I am convinced that Orbis will follow the growth path, giving its shareholders further returns. In a long-term horizon I expect several growth motors for the Company: on the one hand, enhanced organic development, thanks to operational excellence and effective cost management; and on the other hand, further network expansion through development projects and M&A activities. Orbis has the means of its ambition and this approach reinforces further strengthening of the Group in key areas of focus: Performance, Portfolio and People.

## PRESENTATION OF THE ORBIS GROUP



Mercure Budapest Korona

## 2 PRESENTATION OF THE ORBIS GROUP

### 2.1 Orbis Group at a Glance

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

We create shareholder value shaped by the imperatives: 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 execute the network development strategy both through franchise and management contracts as well as own investment projects. We want to create an efficient, modern and dynamic organisation delivering solid growth in profitability.

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

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

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

**Employees play a key role in the hospitality industry. We put a special focus on management culture and human capital...**

#### 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

The 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 Accor brands in 16 countries, including Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.



### Highlights of the first half of 2018

**PLN 690.3 m (+1.6%)**  
net sales

**PLN 245.4 m (+134.1%)**  
profit before tax

**5.9%** RevPAR growth

Financial performance is discussed on pp. 24-39 of the Report.



## Our brands



**In the Orbis Group: 4 hotels,  
1.0 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,  
310 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: 35 hotels,  
5.8 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.

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

### **The place to stay in major city centres**

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

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**In the Orbis Group: 33 hotels,  
5.0 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.

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**In the Orbis Group: 18 hotels,  
2.0 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.

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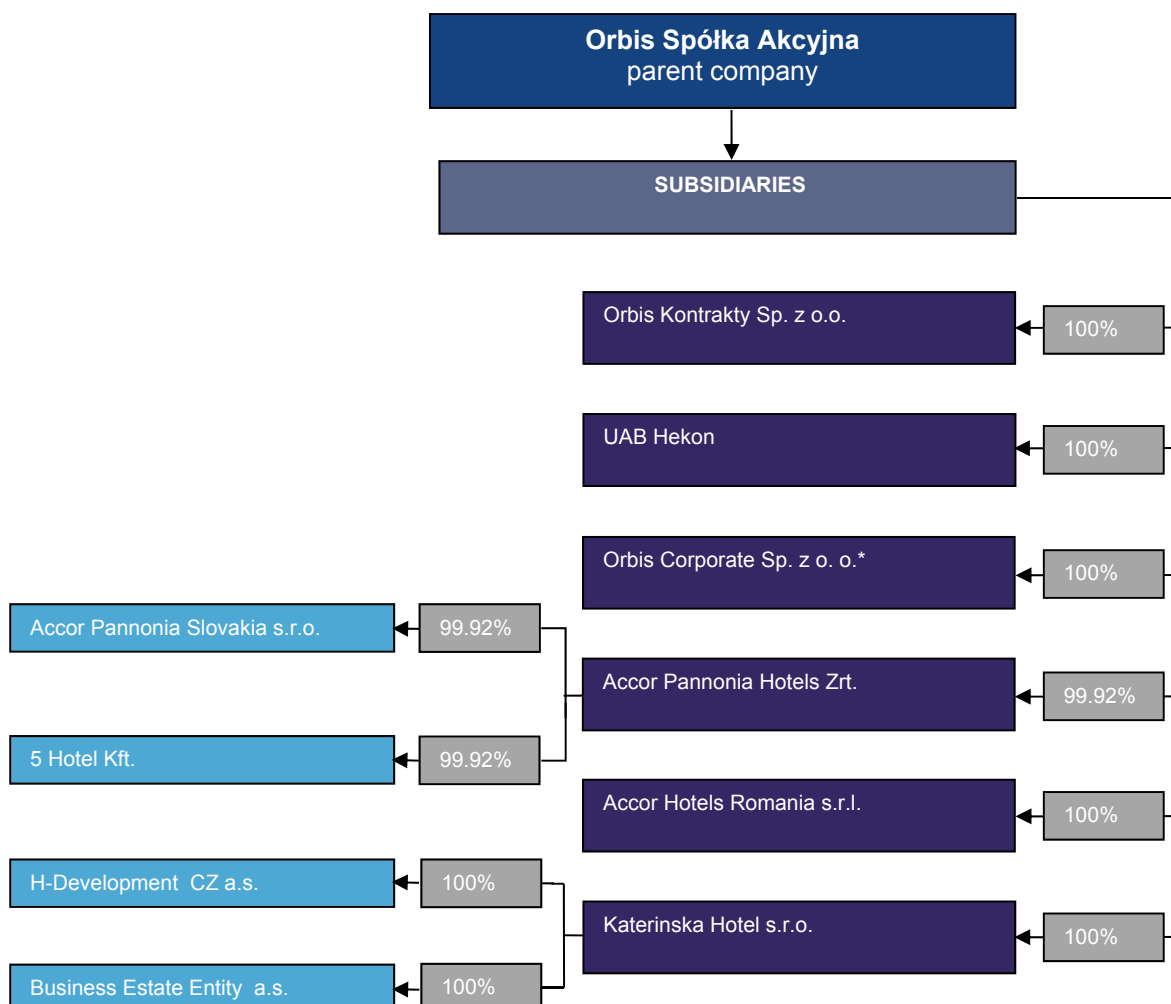
**In the Orbis Group: 9 hotels,  
1.2 thousand rooms**

### **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.

## 2.2 Structure of the Orbis Group

As at June 30, 2018, the structure of the Orbis Group was as follows:



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

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.

## 2.3 Companies of the Orbis Group

### Operations in Poland

In Poland, the hotel business is pursued by Orbis S.A.

As at June 30, 2018, the Group had 71 hotels with 12 312 rooms on the Polish market. Cities with the largest number of hotels included:

- Warsaw – 13
- Wrocław – 8
- Kraków – 7

Moreover, the company Orbis Kontrakty Sp. z o.o. operates on the Polish market. Its core business is the organisation of purchasing for the Group's hotels.

### Operations in Hungary

As at June 30, 2018, the Orbis Group has two subsidiaries in Hungary:

- Accor Pannonia Hotels Zrt.
- 5 Hotel Kft.

The first of these companies is a hotel operator. As at June 30, 2018, it operated 18 hotels with 3 427 rooms, including 15 hotels in Budapest.

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

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

The Orbis Group has three subsidiaries in the Czech Republic:

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

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

As at June 30, 2018, the Group had 7 hotels with 1 261 rooms on the Czech market. 5 hotels operate in Prague.

### Operations in other countries

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

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

As at June 30, 2018, the network of Orbis hotels located in other countries of the region comprised:

- Romania: ten hotels offering 1 554 rooms in total; six hotels, including a Pullman hotel, operated in Bucharest,
- Lithuania: five hotels, including two in Vilnius, with a total of 567 rooms,
- Latvia: four hotels in Riga with 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 hotel in Skopje with 258 rooms,
- Serbia: one hotel in Belgrade with 73 rooms,
- Bosnia and Herzegovina: two hotels with 250 rooms including one in Sarajevo,
- Slovenia: two hotels in Maribor with 147 rooms.

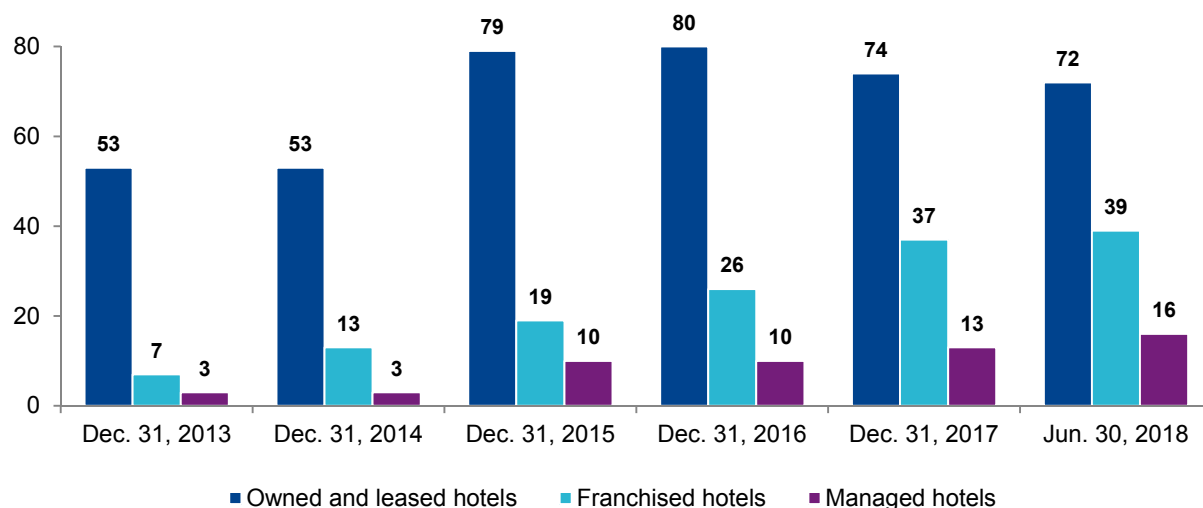
Financial results and operating ratios of individual countries are presented in Section 4.3.



## 2.4 Hotel portfolio of the Orbis Group

The Orbis Group is the largest hotel operator in Poland and in the Central & Eastern Europe. As at the end of June 2018, the Group's network comprised a total of 127 hotels with 20.9 thousand rooms. The majority of these hotels (71 establishments) operate in Poland.

**Number of hotels of the Orbis Group**



Hotel portfolio	Jun. 30, 2018	Dec. 31, 2017	Jun. 30, 2017	Jun. 30, 2018 / Dec. 31, 2017	Jun. 30, 2018 / Jun. 30, 2017
<b>Number of hotels, of which:</b>	<b>127</b>	<b>124</b>	<b>117</b>	<b>2.4%</b>	<b>8.5%</b>
Owned and leased hotels	72	74	76	-2.7%	-5.3%
Managed hotels	16	13	10	23.1%	60.0%
Franchised hotels	39	37	31	5.4%	25.8%
<b>Number of rooms, of which:</b>	<b>20 904</b>	<b>20 420</b>	<b>19 831</b>	<b>2.4%</b>	<b>5.4%</b>
Owned and leased hotels	14 050	14 527	14 752	-3.3%	-4.8%
Managed hotels	2 429	1 791	1 571	35.6%	54.6%
Franchised hotels	4 425	4 102	3 508	7.9%	26.1%

Change in the number of managed hotels in the first half of 2018 is the result of opening of the ibis Styles Budapest Airport in January 2018 as well as sale and signing a management agreement covering the Sofitel Budapest Chain Bridge hotel (June 2018) and the Novotel Szeged (May 2018), while the change in the number of franchised hotels was caused by launch of operations of the following hotels operating based on franchise agreements:

- 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),

and termination of cooperation under the franchise agreement with the Mercure Zamość Stare Miasto hotel (at the end of 2017) and ibis Olomouc in Czech Republic (at the end of March 2018).

Change in the number of hotels as compared to June 30, 2017, was additionally caused by:

a) sale and franchise-back transactions relating to the following hotels:

- Mercure Toruń (operates as a franchised hotel as of October 2017),
- ibis Zabrze (operates as a franchised hotel as of October 2017),

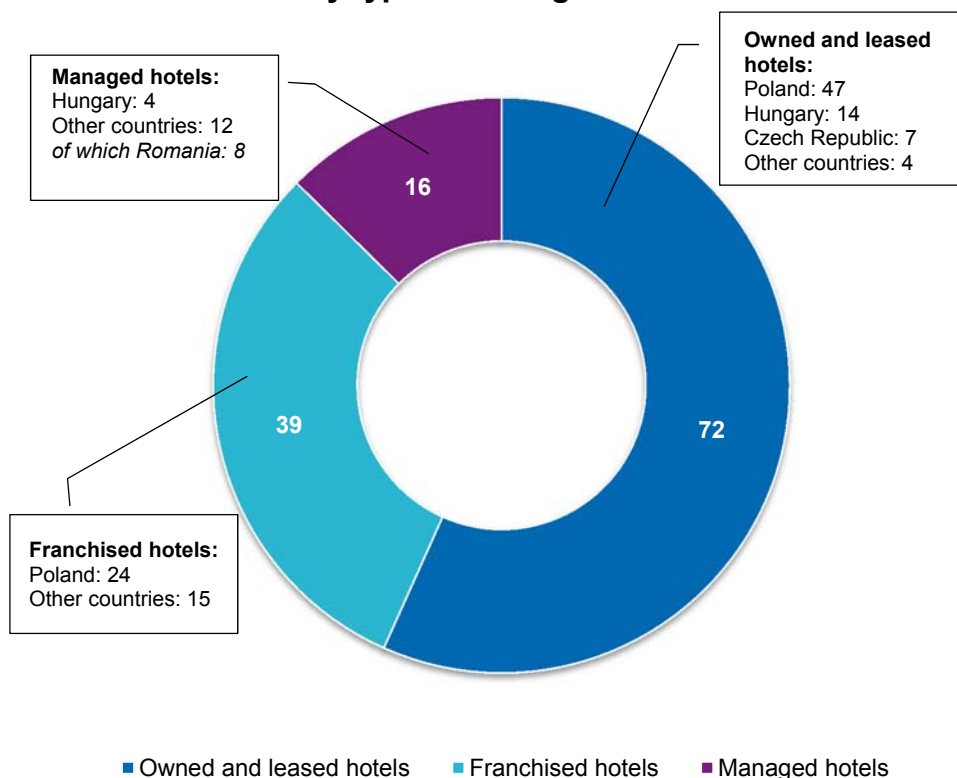
b) opening of new hotels based on management agreements:

- Mercure Sighisoara Binderbubi in Romania (September 2017),
- Mercure Belgrade Excelsior in Serbia (September 2017),
- Mercure Bucharest in Romania (October 2017),

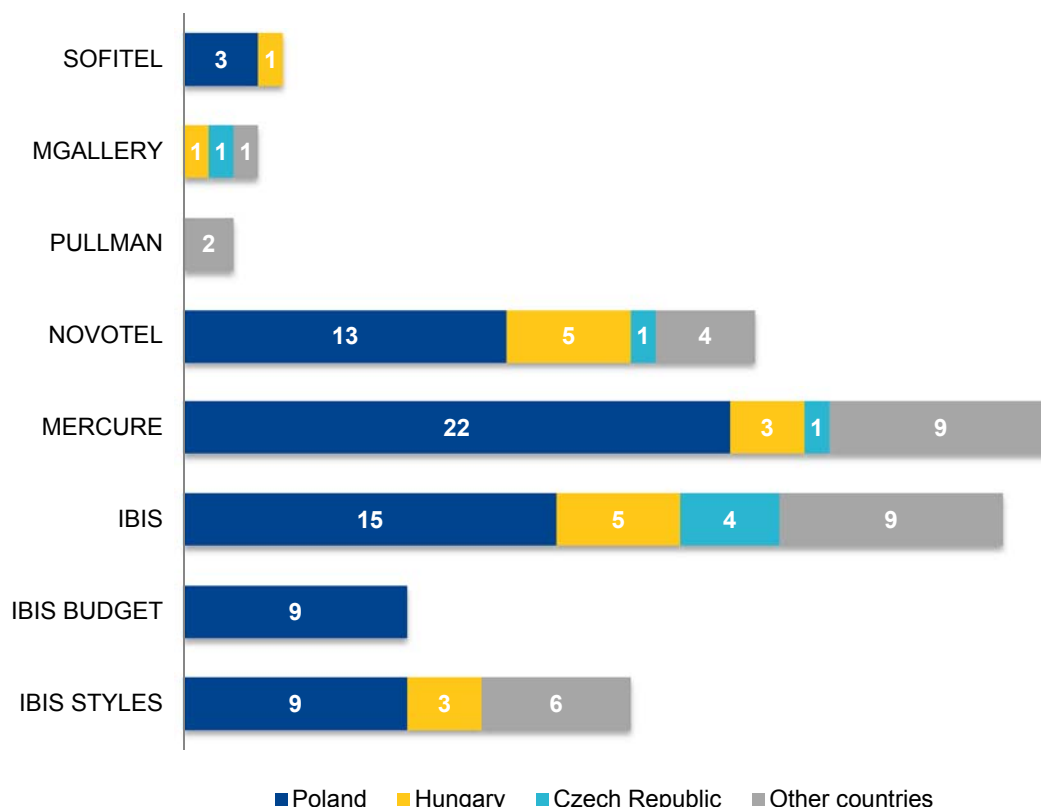
c) launch of operations of the following hotels under a franchise agreement:

- Novotel Sarajevo in Bosnia and Herzegovina (operates as a franchised hotel as of September 2017),
- ibis Styles Skopje in Macedonia (operates as a franchised hotel as of November 2017),
- MGallery Tarcin Forest Resort & SPA in Bosnia and Herzegovina (operates as a franchised hotel as of November 2017),
- ibis Styles Arad in Romania (operates as a franchised hotel as of December 2017).

**Number of hotels in the Orbis Group  
by type of management**



### Number of hotels in the Orbis Group per brand



## 2.5 Directions of the Orbis Group's development

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

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

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

### Master Licence Agreement in countries of the Eastern Europe: a new era in the Group's development

The takeover of 38 hotels in the Central and Eastern Europe in 2015 was perfectly in line with the Group's strategy and has contributed to the Group's growth in the region gathering momentum. Orbis has significantly expanded the scale of its operations from less than 70 hotels located mainly in Poland and partly in the Baltic States at the end of 2014 to 127 hotels across Eastern Europe at the end of June 2018. Based on the Master Licence Agreement, the Orbis Group has the right to operate hotels under AccorHotels brands in 16 countries until 2035, i.e. in Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia. Orbis will hold this right on an exclusive basis for at least 10 years.

### **Direction: optimisation of capital employed**

In line with the adopted strategy, the Orbis Group expands by both entering into franchise and management agreements and by deploying own investment projects in business hubs and capital cities of the Eastern Europe. Presently, the Orbis network comprises 127 hotels that operate in 12 countries of Eastern Europe. As the sole licensor of all AccorHotels brands in 16 countries of the region, Orbis has a great potential to expand further, including markets in 4 countries where AccorHotels brands are not present yet.

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

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

### **Direction: operational excellence**

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

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

- Service personalization, which is the key to meeting guests' expectations (Top Line 360),
- Deployment of modern technologies and integration with the innovation ecosystem (selected partnerships with The Heart startupflow, Kadromierz),
- Promoting loyalty programmes, such as Le Club AccorHotels, the programme with over 1 million members in Eastern Europe (Le Club AccorHotels is a 100% Internet-based programme with all the benefits available on-line; each member may manage his/her preferences, check bookings, select rewards and take advantage of personalised offers at preferential prices),
- Implementing best practices and solutions in the area of Revenue Management, joint order management system, reporting system and internal control system,
- Promoting the latest food&beverage concepts (Orbis has innovated the WineStone, NOVO<sup>2</sup> and wiseCafe restaurant networks, concepts based on dynamically evolving trends in interior design and menu).

### **Direction: CSR leader in the region**

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

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

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

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



## FACTORS IMPACTING THE GROUP'S OPERATIONS

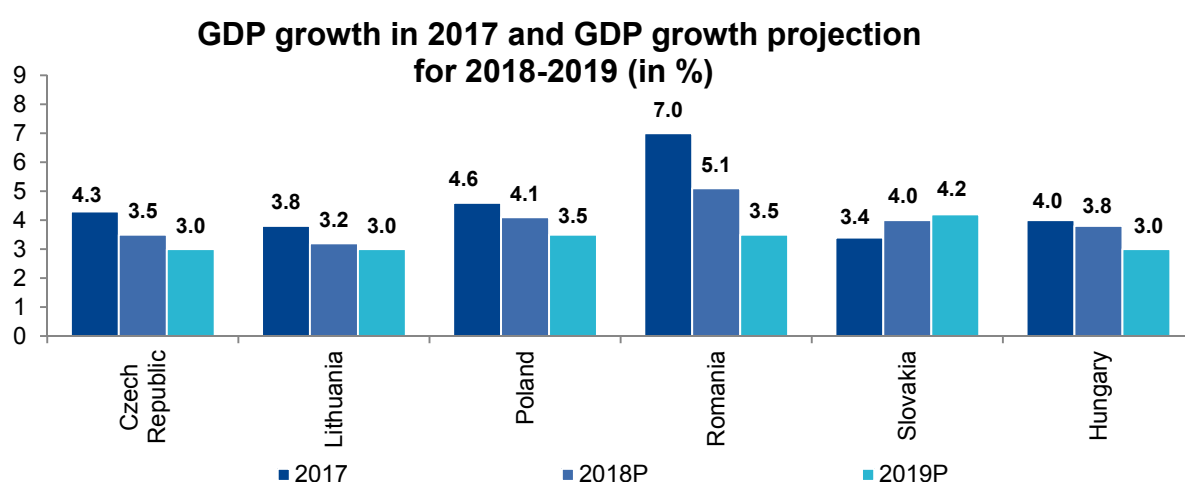


### 3 FACTORS IMPACTING THE GROUP'S OPERATIONS

#### 3.1 Macroeconomic Environment

##### Decline in external demand

In the first half of 2018, the economic growth in the countries of Central and Eastern Europe (CEE) slowed down after robust growths in previous periods. Nonetheless, growth driven by consumer spending was observable in most countries of the region. In addition, increased use of EU development funds led to an investment boom in a greater part of the region. On the other hand, the slowdown in the Euroland undercut demand for goods originating from the Central and Eastern Europe. Poland, the largest economy in the region, recorded one of the highest results in the last decade, while its strong labour market contributed to significant wage increases. The average 2018 GDP growth forecast for the countries where Orbis operates remains high, i.e. 3.8%.



Source: International Monetary Fund, World Economic Outlook, July 2018 (2018 – 2019 projection)

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

The PMI index that measures the economic trend remains significantly above 50 points. In Poland the PMI index was at 54.2 at the end of June, 2018. Additionally, on the key markets for Orbis, i.e. in the Czech Republic and Hungary, the PMI index remains at high level of 56.8 and 53.0, respectively), indicating a major increase in industrial turnover. The economic trends in Europe are also high (the PMI index in Euroland remains at 55.2).

##### Strong labour market

One of the main challenges for future economic environment is the demanding situation at the labour market, i.e. shortage of employees and the growing salaries and wages. In most countries of the region, the unemployment rate decreased solidly as compared to the corresponding period of the past year, which translates into single-digit unemployment rates. In some economies, the unemployment rate in recent months reached its lowest level in history (5.9% in Poland, 3% in the Czech Republic, 3.6% in Romania and 3.7% in Hungary). Low unemployment and employee shortages mean that employers are forced to raise salaries in order to attract and retain employees, which results in shrinkage of the margins.

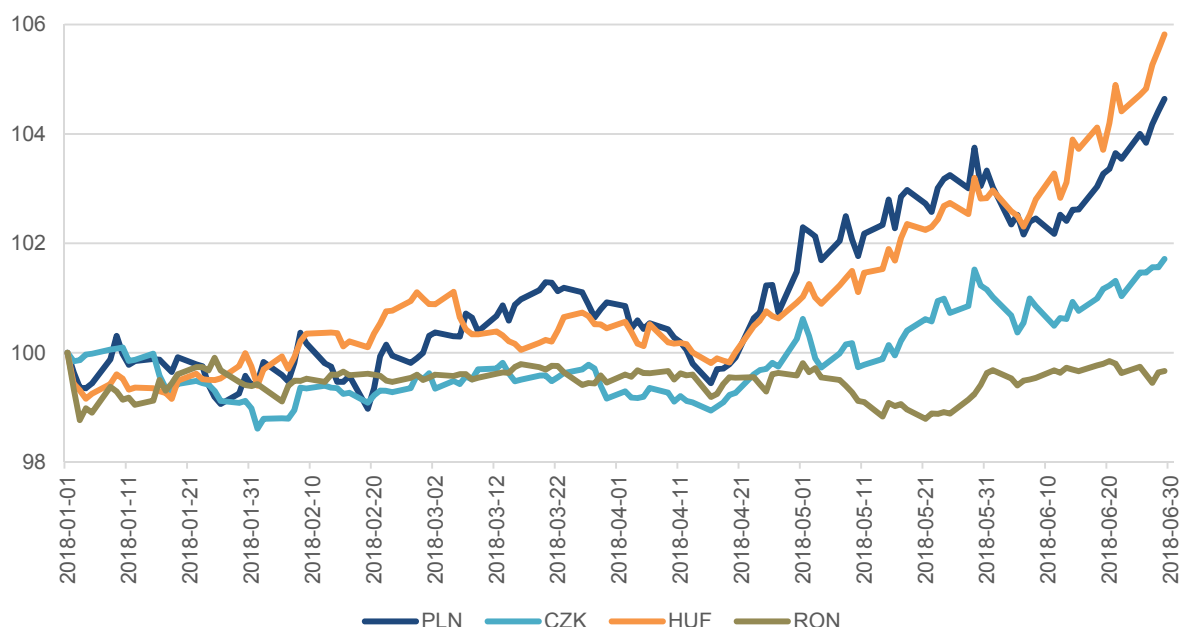
## Inflation at a stable level

The inflation remains surprisingly benign, not only in Poland but also abroad (averaging below 2%). Despite rapid growth and tightening on labour markets in Europe, the year 2018 started with inflation drop in most countries. The ECB has just lowered its inflation forecasts for the Euroland. The inflation rate in Poland rose to 1.9% at the end of the second quarter, i.e. still remains below the inflation target (2.5%). Similar low CPI levels of, respectively, 0.9% and 2.2% were reported in Hungary and the Czech Republic. Economic growth, wage pressure and higher commodity prices will drive inflationary pressure in 2018.

## Weakening at the currency market versus the euro in recent months

Political tensions in Italy and the risk of commercial wars weakened the currencies in the region against the EUR. In the last two months, the Polish zloty and the Hungarian forint have suffered the most. At the end of June 2018, the PLN/EUR rate fluctuated around PLN 4.35, the CZK/EUR rate around CZK 25.90 and the rate of the Hungarian forint was around HUF 325. Numerous geopolitical risk factors may limit the room for growth of currency value.

**Currency quotations against the euro  
(rates as at January 1st, 2018 = 100,0%)**



Source: Thomson Reuters

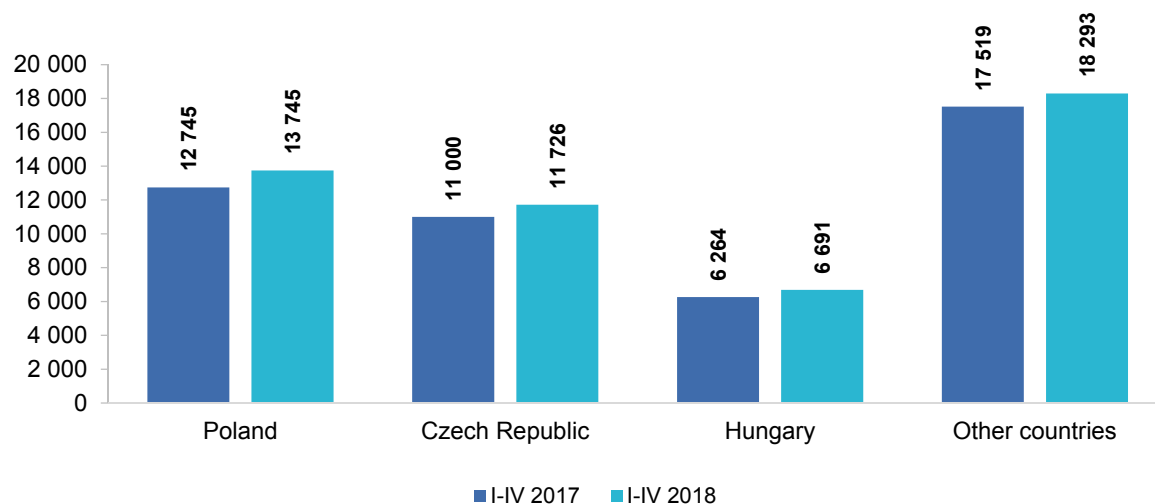
## Forecasts reveal stabilized economic growth

Low unemployment, rising wages and ongoing investment growth are expected to bring another year of growth to the economies of the Central and Eastern Europe. On the other hand, the dwindling demand from the Euroland, the region's largest trading partner, may undercut the growth momentum. Furthermore, the positive impact of the earlier fiscal stimuli will weaken, while the rising inflation may reduce consumption, which has so far robustly driven the economy. GDP growth forecasts of 3.8% on average in the coming years remain positive for the countries where the Orbis Group operates. A GDP growth of 3.3% is expected in 2019.

### 3.2 Hotel market – further Average Room Rate growth

The operating ratios of hotels operating in the major cities of Central and Eastern Europe improved in the first half of 2018 despite a last year's high base.

**Number of rooms and nights spent in hotels and similar establishments (in thousand)**



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

Source: Eurostat

In most capitals of the countries where the Orbis Group operates, the growth was driven by the Average Room Rate (ARR). The Occupancy Rate was around the last year's level. 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 (+21.5%), Riga (+10.1%) and Poznań (+7%). Poznań also achieved the highest (+16.3%) RevPAR increase among all Polish cities. On the other hand, Warsaw and the Tri-City recorded a RevPAR decrease by -1.9% and -1.2%, respectively, resulting from a significant number of new room openings on these markets in recent months. Among the Eastern European cities where the Group operates, hotels in Sofia, Riga and Budapest recorded a high Revenue per Available Room (RevPAR).



### 3.3 People and Social Responsibility (CSR)

#### Data Protection & IT

Following the new EU regulation on data protection requirements effective from May 25, 2018, in the second quarter of 2018 the Company focused on full alignment of Orbis procedures and proper implementation of the new General Data Protection Regulation (GDPR) in all Orbis' operational and corporate processes. The Orbis Data Protection Officer is overseeing the Group's data protection strategy and ensures its compliance with GDPR requirements. The Data Protection Officer reports directly to the Management Board of the Company.

The work related to the GDPR program of the Orbis Group in the first half of 2018 was focused on:

- development of Orbis Privacy Policy,
- up-dating of Orbis Security Policy,
- verification and deployment of the Joint Data Controllorship Agreement;
- final mapping of data flows processes,
- Orbis data protection awareness program & workshops – in the first half of 2018, all in all more than 800 hotel employees and managers were trained,
- final tests of GDPR implementation.

At the moment, the final work on implementation of IT security policy in terms of the GDPR are pending. The GDPR programme is being implemented in Orbis through the Ethics & CSR Committee of the Orbis Supervisory Board with the support of the Orbis Sustainable Development Operational Committee.

#### Extension of the Compliance program and combating corruption

In addition to the Gift Acceptance and Giving Policy applicable in the Orbis Group, and taking into consideration the potential new legal regulations introducing a whistle-blower mechanism in the Polish law, a management system is being developed to prevent corruption and bribery. Furthermore, the Company is working on an awareness & education campaign in this field and is carrying out preparatory works for the implementation of a platform for reporting cases of non-compliance with the principles set forth in the Orbis Ethics and Social Corporate Responsibility Charter.

#### Low-carbon hotels – green constructions and food waste reduction

The carbon footprint of Orbis hotels is related to energy consumption as well as food produced and waste generated as part of regular hotel operations. Therefore, we reduce our impact on the climate change by deploying low-carbon investments and BREEAM green certification for all new Orbis constructions, such as for example the ibis Vilnius in Lithuania and ibis Styles Warszawa Centrum.

Furthermore, nearly 100% of hotels operating in the Orbis Group are covered under the food waste reduction program. We deploy the Healthy and Sustainable Food Charter to tackle the issue of food sustainability (i.e. downsizing the food waste) and to protect agricultural biodiversity. Research is underway regarding a decision to discontinue the use of disposable plastics in hotels of the Orbis Group. Work is conducted on preparing the Company for the new waste regulations planned in Europe and promoting a closed-loop economy. Low-carbon hotels are one of the priorities of the Orbis sustainable development strategy.

In addition, 68% of Orbis Group hotels donate 50% of their savings generated by reusing towels for the Planet for the Planet program. The funding is allocated to two projects in the region - the Kosztela project implemented together with the AgriNatura Foundation in Poland and afforestation of Transylvania in Romania carried out together with the Mihai Eminescu Trust Foundation.

### **Orbis – a responsible employer**

On January 26, 2018, during the Gala Evening organized at the Exhibition and Convention Centre in Gdańsk by Pomeranian Employers (Pracodawcy Pomorza), an association grouping more than 1 000 companies from the north of Poland, the region's best employers were awarded. Orbis won the trophy in the "Responsible & Socially Sensitive Employer" category for its strong commitment in implementing Planet 21 program and for providing good working conditions and opportunities of development for Orbis talents. Seven Orbis hotels in the north of Poland were awarded: the Sofitel Grand Sopot hotel, the Mercure Gdansk Old Town hotel, the Novotel Gdansk Marina hotel, the Novotel Gdansk Centrum hotel, the Mercure Gdansk Posejdon hotel, the Mercure Gdynia Centrum hotel & the ibis Gdansk Old Town hotel.

As Orbis attaches great importance to respecting the rights of our employees, including promoting their diversity, the Women at AccorHotels Generation corporate network (WAAG) has initiated an empowerment program focused on avoiding burn-out for mature women-employees in Poland. Almost 20 employees have completed an intensive series of professional workshops to prevent burnout (24 hours of courses) while 15 young people from Hungary have completed a programme to empower women on managerial positions. Furthermore, on June 18 to 19, 2018, we co-organized a two-day seminar in Budapest on diversity and how to be an even better employer for nearly 80 managers working for the Orbis Group. The seminar resulted in an action plan being developed for the Orbis Group to maintain a high proportion of women amongst the Company's management and increasing employment of people with disabilities. As at the end of June 2018, the corporate WAAG network in Orbis comprised more than 300 employees from nearly 12 countries where Orbis operates. Women account for 40% of all hotel general managers in the Orbis Group.

As part of our awareness campaign, at the turn of April and May, nearly 2 000 hotel and head office employees took part in Planet 21 Day, an awareness day that focuses on environmental protection, healthy food, health, reducing food waste and helping local communities. In addition, more than 90% of hotels in the Orbis Group support local communities and foundations that offer assistance to people in need due to very difficult life situations.

Although the labour market in Eastern Europe remains very challenging and competitive, we continue to deploy the Heartist™ project aimed at assuring that Orbis talents are natural and authentic while serving guests. The ongoing cultural change in all the hotels operating under AccorHotels brands across the region brings positive effects, i.e. an increase in the employee commitment and a positive impact on client satisfaction level measured by the Reputation Performance Score.

We are also extremely proud that in the first half of 2018 Aon Hewitt which carried out the 2017 Employee Satisfaction & Engagement Survey in 120 companies across Poland pronounced Orbis the Aon Best Employer in Poland. Under the Aon Global Best Employers program, Orbis results were benchmarked against other employers. To achieve recognition through the Aon Best Employers programme, Orbis was assessed on 4 measures: engagement index, leadership index, performance culture index and employer brand index. The information campaign in Poland will be conducted in the second quarter of 2018.

### **Human Rights – combating child and youth abuse in tourism**

In close cooperation with the Empowering Children Foundation (Fundacja Dajemy Dzieciom Siłę), in the second quarter of 2018 more than 400 employees of hotels of the Orbis Group were trained in the policy of child and youth protection against sexual abuse. The trainings were held in Kraków, Katowice, Szczecin, Wrocław, the Tri-City, Łódź, Warsaw, Poznań, Budapest and Prague. Since 2012, the Orbis Group has been the only hospitality group in Poland and in this part of Europe to not only have signed the Code of Conduct for the protection of minors promoted by the international ECPAT organisation, but to also put in place procedures aimed at protecting the youngest.

### **Reputation – the effect of sustainable strategy of the Company**

In addition, in the first half of this year, in a ranking prepared jointly by the TMS Brokers Brokerage House, the Individual Investors Association and the Harvard Business Review Poland, Orbis was qualified to participate in the prestigious ranking of 20 Warsaw Stock Exchange companies titled. The Most Effective Presidents of the WSE. The 14th score in the ranking was determined by investigating four areas, namely the rate of return, capitalisation, financial ratios and communication with components on social responsibility and ethics.

### 3.4 Human resources

In the first half of 2018, the average employment in the Orbis Group stood at 4 006 full time equivalents, having risen by 0.1% compared to the same period of last year.

Average employment (in full-time equivalents)	1st half of 2018	1st half of 2017	% change
Poland	2 569	2 592	-0.9%
Hungary	945	928	1.8%
Czech Republic	226	221	2.3%
Other countries	266	259	2.7%
<b>Total</b>	<b>4 006</b>	<b>4 000</b>	<b>0.1%</b>

In the first half of 2018, the Orbis Hotel Group completed over 4 699 training days for nearly 2 542 employees (5 276 participants) in the form of both traditional and e-learning training courses.

### 3.5 Factors to affect the Orbis Hotel Group's operations in the second half of 2018

The hotel market is strongly correlated with the business cycles. Thanks to a stable growth of the economy in recent years, both in Poland and in other countries of Central and Eastern Europe where the Group operates, the hospitality industry ratios which depict the condition of the hospitality market, such as the Occupancy Rate, the Average Room Rate, and the Revenue per Available Room, are observed to be on the rise. Macroeconomic forecasts for the coming months continue to be optimistic for the hospitality industry. Due to very good results achieved in 2017, both in connection with the high Occupancy Rate (the average for the entire Group was 74.0%) and the Revenue per Available Room (PLN 249.6), it is expected that the latter factor will remain the main driver of growth in 2018.

#### Macroeconomic factors

The stable economic growth and favourable economic conditions are expected to continue in the region of Central and Eastern Europe in 2018. The GDP is forecasted to grow in 2018 in the majority of the countries, in which the Group operates its hotels, however, the GDP growth dynamics will be lower than in 2017. According to the International Monetary Fund projections (IMF, World Economic Outlook, July 2018), the real Gross Domestic Product in 2018 will be as follows: 4.1% in Poland, 3.8% in Hungary, 3.5% in the Czech Republic, 5.1% in Romania, 4.0% in Slovakia and 3.2% in Lithuania.

One of the major challenges which the hotel industry faces at present (and not only) is low unemployment rate which translates into shortages of qualified staff on the labour market. For many months now the unemployment rate has remained low, both in Poland and other regions of the Central and Eastern Europe (presently the unemployment rate in Poland equals 3.8% according to EUROSTAT April 2018 data) and is the factor which makes finding the right employee quite difficult. In the current conditions which are turning into employees' market, it is a challenge for employers to retain employees and reinforce their loyalty so that they would want to continue to be part of the organization as high supply of jobs makes switching employers easy.

The factor that has a positive impact on the performance of the hospitality industry is a visible improvement of the prosperity of the region's population which translates into their purchasing power. It also makes people more inclined to travel. At the same time, guests' expectations as to the level of service offered and the standards of accommodation are rising. This poses another challenge for the industry, if it is to be competitive.

Poland and other countries of the Central and Eastern Europe are an attractive destination for Western European tourists. This is due to several factors: relatively low prices in these countries (a significant strengthening of the euro against the local currencies of countries in the Central and Eastern Europe is observable since May 2018), improving level of service offered, improvement of transportation infrastructure (i.e. new roads, railway connections and low-cost airline connections) as well as the whole region being perceived as safe in comparison to Western and Southern Europe.

The propensity to travel will also be impacted by a range of cultural and sporting events. Poland and other countries of the Central and Eastern Europe more and more often host a number of European or international events that attract international guests, thus directly contributing to growth of the hospitality industry.

### **Portfolio management**

Asset management and development of the Group's hotel portfolio is an important pillar of its strategy. In 2018, the Group will continue its efforts to increase its market share. In mid-July 2018, the Group completed the construction of the ibis Vilnius hotel in Lithuania; the opening of the hotel is scheduled for the third quarter of 2018. At the start of July 2018, the Group purchased the Mercure Unirii hotel in Bucharest (prior to the transaction, the hotel was managed by a Romanian company Accor Hotels Romania s.r.l. which belongs to the Group). Furthermore, the construction of the ibis Styles Warszawa Centrum hotel continued during the first half of the year, with its opening scheduled for the end of 2018. Upgrading works are successively carried out in the remaining hotels to adapt the hotel space to the requirements of present-day tourists.

To develop its business in the fast-growing aparthotel market, the Group signed a Master Franchise Agreement at the end of 2017, thus expanding its portfolio by adding Adagio, the no. 1 modern aparthotels brand in Europe that offers the service of apartment rental in a hotel system (per night). In the first half of 2018, the Orbis Group signed the first management agreement for an Adagio Aparthotel in Kraków. The opening of the hotel is scheduled for 2021.

In order to optimize the hotel portfolio, the Group focuses on high-return investments, at the same time executing sale and franchise-back transactions of hotels of non-strategic importance for the Group. As at the end of June 2018, preliminary sale agreements were signed for the ibis budget Toruń hotel, the Mercure Cieszyn hotel and the ibis Styles Bielsko-Biała hotel. The sale and franchise-back transactions of these hotels are scheduled to take place during the second half of 2018.

In addition, in order to eliminate the lease-related costs, the Group plans a buy-out of the Century Old Town Prague MGallery by Sofitel hotel located in the Czech Republic in 2018.

The Group also continues its expansion based on the asset light model. In the first half of 2018 the Group signed another 12 franchise and management agreements of hotels located in 6 countries (1 500 rooms in total). Agreements of this type boost the presence of our hotel brands across countries of the Central and Eastern Europe without the need to invest capital in the hotel construction and maintenance.

### **Competition in the hospitality market**

The hospitality market in Poland is still a developing market. At the same time, our country is perceived as attractive destination for tourists and the demand for hospitality services in Poland is on the rise. Statistics reveal that the number of visitors to our country continues to grow, which translates into the rise in the number of people staying in hotels. In 2018, the number of hotels in the market will continue to grow robustly which will contribute to intensifying competitive struggle, especially in terms of price. Warsaw and Budapest continue to offer high investment potential (despite numerous new hotels being built in these cities).

According to analysts, Warsaw alone will have more than 5 000 new rooms within the coming 3 years. Many new hotel facilities are built in Poland and other countries in the region, including hotels to operate under well-known international brands. Hotels to be operated by local operators are also being built. Moreover, venues that combine the function of an office building or a commercial facility with a hotel are gaining in popularity. To effectively compete with the long-blooming private apartment rental market, operating amongst others via the AirBnB reservation platform, hotel operators more and more often decide to enter the aparthotel segment (the segment of apartments rented like hotels, i.e. per night).

To attract guests, hotels will have to stand out against their competition and offer more attractions, amenities and will need to provide different types of personalized service. Being competitive implies the need to invest in new state-of-the-art technologies, adapting public space in hotels to new requirements as well as applying environmentally-friendly solutions in many areas.

Basic risks and threats viewed as factors of significance for the development of the Group are described in Section 5.



## FINANCIAL RESULTS OF ORBIS GROUP



Novotel Poznań Centrum

## 4 FINANCIAL RESULTS OF ORBIS GROUP

### 4.1 Important events of the first half of 2018

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

#### **Executing a preliminary sale agreement of the Mercure Cieszyn and the ibis Styles Bielsko-Biala hotels**

On February 8, 2018, Orbis S.A. entered into a preliminary sale agreement of 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 8 100 thousand, where:

- 10% of the net sale price, i.e. PLN 810 thousand was paid in as earnest money prior to the signing of the preliminary sale agreement,
- the remaining 90% of the net sale price, i.e. PLN 7 290 thousand will be paid no later than within 5 business days after the execution of the final sale agreement.

According to the preliminary agreement, the final sale agreement is scheduled to be executed before July 31, 2018, provided that the General Shareholders Meeting of Orbis S.A. will grant its consent for the sale of the hotels (this condition was met on April 4, 2018).

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

#### **Exercise of hotel acquisition option by a subsidiary Katerinska Hotel s.r.o.**

On February 13, 2018, the subsidiary, Katerinska Hotel s.r.o. with its registered address in Prague, notified the owners of the Century Old Town Prague MGallery by Sofitel located in Prague about the exercise of its right to acquire the hotel under the current leasing agreement of that hotel.

The hotel acquisition option will be exercised on August 30, 2018, for a purchase price of EUR 15.5 million. The option will be exercised either by purchase of shares in the company that owns the hotel or through direct purchase of the real property (the hotel).

#### **Transaction of real property purchase for new hotel construction in Cracow**

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 Worcella Street, for a net price of PLN 13 000 thousand. The property was purchased in order to implement an investment project (hotel construction), and now Orbis is conducting an analysis of the technical and operational details of the investment, which will determine the choice of the optimum economy brand under which the hotel will operate. The above transaction is in line with the Group's strategy assuming concentrating its subsidiary properties in the region's key cities, which offer long-term value growth and attractive return on investment.

#### **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 will continue to operate under the Novotel brand based on a management agreement executed for a term of at least 10 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 (a minor adjustment of the price is possible as a result of the final reconciliation). 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.

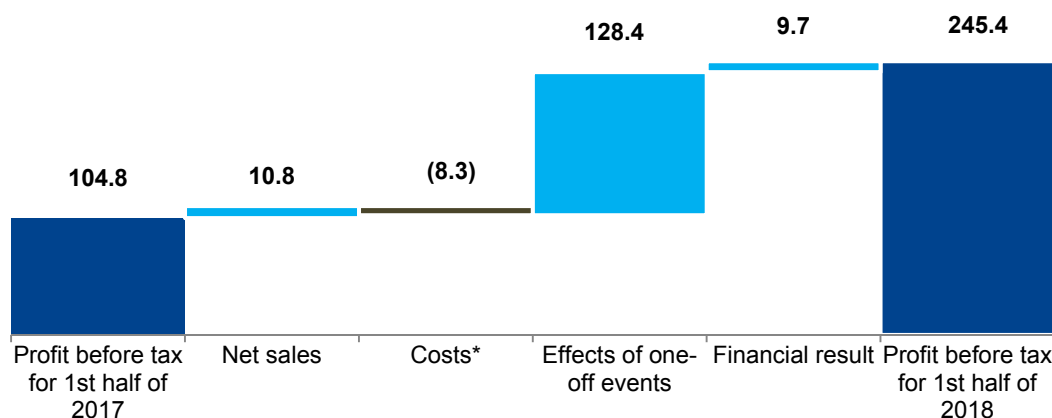
### Signing of the sale and management agreement of the ibis Pilsen hotel in the Czech Republic

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. A hotel management agreement for a term of 10 years was signed together with the hotel sale agreement. The possession of the hotel is planned to be transferred to the new owner at the turn of July and August 2018.

## 4.2 Financial results of the Orbis Group

In the first half of 2018, the Orbis Group generated profit before tax amounting to PLN 245.4 million, i.e. 134.1% higher as compared to the figures for the first half of 2017.

### Sources of creation of profit before tax in the 1st half of 2018



\*Costs including the result from other operating activities

Income statement – analytical approach	1st half of 2018	1st half of 2017	change (%)
Net sales	690 312	679 530	1.6%
Net sales „like-for-like”	690 312	658 823	4.8%
EBITDAR	233 087	237 101	-1.7%
Operating EBITDA	204 805	202 171	1.3%
EBITDA „like-for-like”	204 805	196 962	4.0%
Operating profit (EBIT) without the effects of one-off events	122 483	119 985	2.1%
Operating profit (EBIT)	251 934	121 069	108.1%
Net result from financing activities	(6 571)	(16 252)	59.6%
Profit before tax	245 363	104 817	134.1%

Income statement – analytical approach	2nd quarter of 2018	2nd quarter of 2017	change (%)
Net sales	418 847	413 579	1.3%
Net sales „like-for-like”	418 847	400 359	4.6%
EBITDAR	179 379	180 196	-0.5%
Operating EBITDA	164 418	164 043	0.2%
EBITDA „like-for-like”	164 418	159 463	3.1%
Operating profit (EBIT) without the effects of one-off events	124 012	123 459	0.4%
Operating profit (EBIT)	253 322	121 434	108.6%
Net result from financing activities	(3 018)	(4 460)	32.3%
Profit before tax	250 304	116 974	114.0%

In the first half of 2018, the Group's net sales were at the level of PLN 690.3 million, i.e. rose by 1.6% as compared to figures for the first half of 2017.

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 Occupancy Rate being somewhat above the past year's level) and, consequently, the Revenue per Available Room (RevPAR) in the Group's hotels.

During 6 months of 2018, the Revenue per Available Room (RevPAR) in owned hotels<sup>1</sup> of the Orbis Group stood at PLN 180.9, i.e. was by 5.3% higher compared to the like-for-like figures for the first half of 2017. In the second quarter of 2018, the Revenue per Available Room in owned hotels of the Orbis Group reached PLN 226.1, i.e. it grew by 5.2% as compared to corresponding period of the past year.

Operating ratios of owned hotels	1st half of 2018	1st half of 2017	change (%)	1st half of 2018	1st half of 2017	change (%)
	as reported			like-for-like		
<b>Orbis Group*</b>						
Occupancy Rate (%)	70.2	69.9	0.3 p.p.	70.3	70.2	0.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	257.4	244.1	5.4%	257.5	244.7	5.2%
Revenue per Available Room (RevPAR) in PLN	180.8	170.7	5.9%	180.9	171.8	5.3%

Operating ratios of owned hotels	2nd quarter of 2018	2nd quarter of 2017	change (%)	2nd quarter of 2018	2nd quarter of 2017	change (%)
	as reported			like-for-like		
<b>Orbis Group*</b>						
Occupancy Rate (%)	79.5	80.5	-1.0 p.p.	79.5	80.5	-1.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	284.4	267.4	6.4%	284.4	266.8	6.6%
Revenue per Available Room (RevPAR) in PLN	226.0	215.3	5.0%	226.1	214.9	5.2%

A detailed list of the Orbis Group's operational ratios for the 1st half of 2018 and for Q2 2018 from various angles was attached as Appendix No. 1 to this Report.

<sup>1</sup> 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.

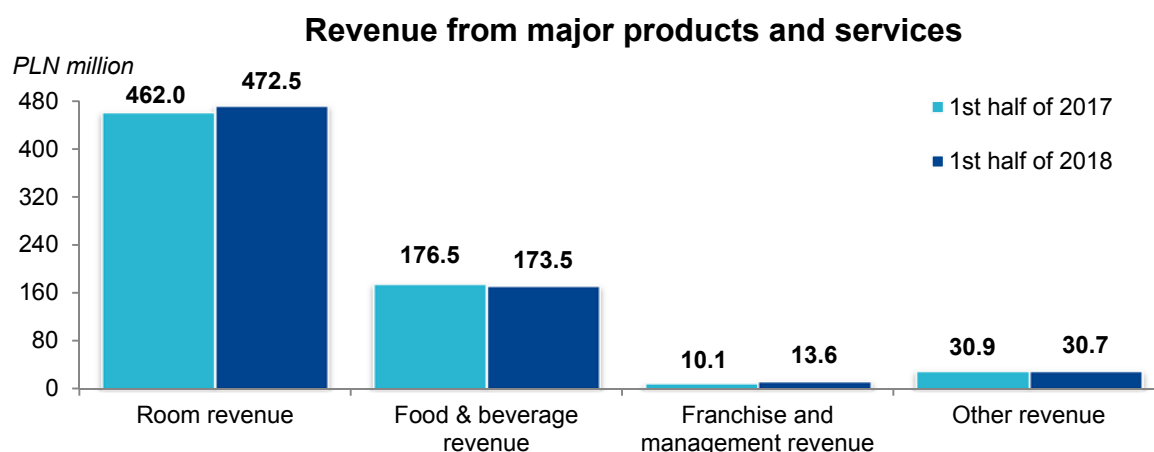
There were no significant changes in the **structure of Group's revenue from major products and services** versus the first half of 2017. In the first half of 2018, room revenue totalled PLN 472.5 million, which accounted for 68.4% of all the Group's revenues. The room revenue increased by 2.3% as compared to the first half of the past year.

Food and beverage revenue in the first half of 2018 stood at PLN 173.5 million and accounted for 25.1% of consolidated revenues. As compared to the data for the first half of 2017, the food&beverage revenue decreased insignificantly by 1.7%.

Revenue from franchise and management contributed 2.0% to the Group's revenue. As compared to the figures for the first half of the past year, revenues from franchise and management grew by 34.3%. It is particularly attributable to the expansion of the Group's hotel portfolio from 31 franchised hotels and 10 managed hotels as at June 30, 2017, to 39 and 16 hotels respectively at the end of the first half of 2018.

Other revenue, comprising chiefly proceeds from real property and car park rentals, were similar to the past year's level and accounted for 4.5% of consolidated revenue.

In the first half of 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 569.7 million, i.e. grew insignificantly, by 1.6%, as compared to first half of 2017. Increase of sales as compared to the first half of 2017 translated into the increase of direct operating costs, although the share of individual types of costs in net sales remained unchanged as compared to the past year. The greatest increase was reported in the employee benefits' expenses also increased as a result of salary and wage increases, increase of bonuses correlated with achieved results and costs related to staff turnover. Compared to the first quarter of 2017, the costs of outsourced services also increased, including mainly the costs of sales services, which cover, among others, provision of reservation systems, costs of loyalty programs, and commissions for sales agents. In addition, some component costs of outsourced services such as the costs of maintenance services, advertising services, outsourcing of staff, cleaning services and security increased. Drop in the expense of raw materials and energy used is attributable to energy savings.

In the reporting period, the rental expenses went down as a result of buyout of the formerly leased Sofitel Budapest Chain Bridge hotel. At the same time, depreciation and amortisation remained at a similar level.

Despite increase in operating expenses, the **operating EBITDA grew by 1.3% up to PLN 204.8 million**, while the **operating result excluding one-off events amounted to PLN 122.5 million**, i.e. improved by 2.1% against the corresponding period of 2017.

In the reporting period, the Orbis Group generated a positive result of PLN 129.5 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 126.2 million. Furthermore, one-off events include the profit on sale of the Novotel Szeged hotel (PLN +2.2 million) and hotel real property located in Karpacz (PLN +0.9 million). As a result, the Group generated **operating profit (EBIT) in the amount of PLN 251.9 million** as compared to PLN 121.1 million in the past year.

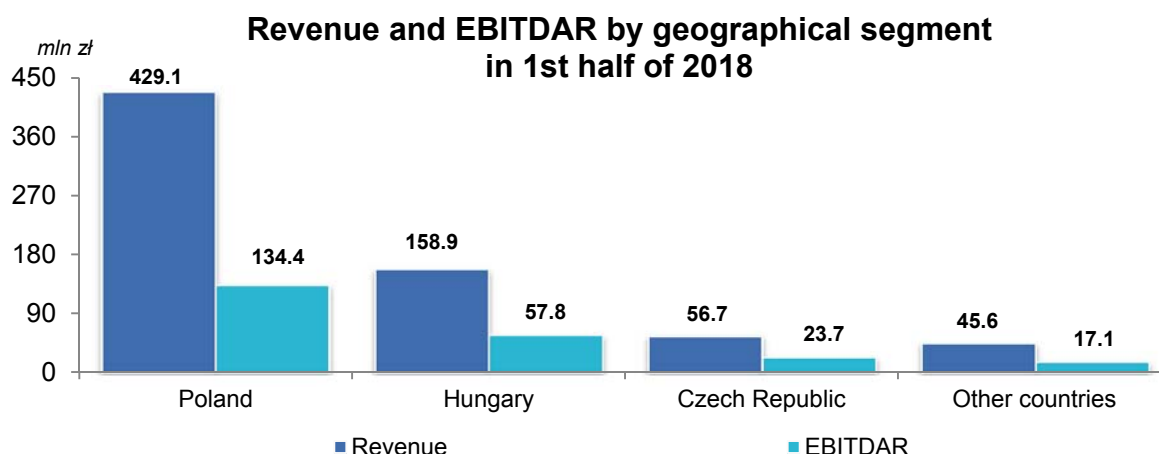


During 6 months of 2018, the Group generated by PLN 9.7 million higher result on financing activities than in the first half of the past year, which was mainly attributable to exchange rate gains on the balance of cash held and transactions in foreign currencies (in the first half of 2017, the group reported exchange rate losses). In addition, the Group incurred higher (by PLN 1.8 million) costs of service of borrowings.

The Orbis Group ended the first half of 2018 with a **net profit of PLN 215.0 million**, comparing to a net profit of PLN 82.3 million in corresponding period of 2017.

### 4.3 Geographical information

In geographic terms, the highest share to the Group's net sales was contributed by hotels located in Poland (62.2%) and in Hungary (23.0%). Net sales generated by hotels in the Czech Republic and in other countries accounted for, respectively, 8.2% and 6.6% of consolidated sales.



#### Poland

Financial results (in PLN million) and operating ratios of owned hotels located in Poland	1st half of 2018	1st half of 2017	% change
Net sales	429.1	421.7	1.8%
EBITDAR	134.4	138.6	-3.0%
Operating EBITDA	130.7	134.6	-2.9%
EBIT without the effects of one-off events	68.1	71.7	-5.0%
Capital expenditure	63.2	30.7	105.9%
Occupancy Rate (%)	69.1	68.3	0.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	249.5	236.2	5.6%
Revenue per Available Room (RevPAR) in PLN	172.3	161.2	6.9%
Clients: Business	64.0%	66.4%	-2.4 p.p.
Clients: Leisure	36.0%	33.6%	2.4 p.p.

**Hotels operating in Poland generated net sales of PLN 429.1 million, which constitutes 62.2% of the consolidated sales for the first half of 2018.**

Room revenue was higher than in the corresponding period of the past year both due to both higher Occupancy Rate and the Average Room Rate.



Taking into account the comparable hotels' parameter, the highest increase in the number of rooms sold was reported in the individual guest segment, with a predominance of guests staying for tourism purposes, which was possible thanks to a flexible pricing policy adjusted to the conditions on particular markets. The highest sales growth in this segment occurred on the Warsaw, Cracow and Tri-City markets. The number of rooms sold also increased in the tourist group segment. The highest growth momentum was reported on the Kraków and Wrocław markets.

A decrease was reported in the corporate guests segment which was mainly attributable to the completion of projects implemented last year. The MICE segment also experienced a declining growth dynamics due to a smaller number of business groups, which was caused, among other things, by absence of one-off large events and conferences, which were held mainly in the first quarter of the past year, as well as by a lower demand. On the other hand, in the second quarter 2018 alone, the downward trend halted and a larger number of business groups was served, particularly in hotels in Poznań, Tricity and Łódź. However, it was not sufficient to compensate for the decline in the first quarter. In the segment of corporate guests alike, the downward trend was halted in the second quarter, however the number of guests served was still lower than in the past year.

## Hungary

Financial results (in PLN million) and operating ratios of owned hotels located in Hungary	1st half of 2018	1st half of 2017	% change
Net sales	158.9	158.5	0.3%
EBITDAR	57.8	56.3	2.7%
Operating EBITDA	49.2	40.4	21.8%
EBIT without the effects of one-off events	36.5	28.0	30.4%
Capital expenditure	23.4	480.6	-95.1%
Occupancy Rate (%)	71.6	71.3	0.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	267.9	257.2	4.2%
Revenue per Available Room (RevPAR) in PLN	191.9	183.3	4.7%
Clients: Business	47.3%	47.3%	0.0 p.p.
Clients: Leisure	52.7%	52.7%	0.0 p.p.

**Hotels in Hungary generated operating revenues of PLN 158.9 million, accounting for 23.0% of the Orbis Group's revenue.** Higher than last year's results in the rooms segment, were achieved due to higher Occupancy Rates and Average Room Rates as compared to the past year.

The highest increase in the number of rooms sold, taking into account the comparable hotels' parameter, took place in the segment of individual guests staying both for tourism and for business purposes, thanks to a high demand for accommodation services in Budapest. The performance of most hotels in this market improved, with the biggest growth reported by the Novotel and Mercure brands. The number of rooms sold also increased in the MICE segment, especially in the first quarter of 2018, thanks to a larger number of business groups and conferences. The biggest increase was reported by the ibis brand. On the other hand, the corporate guest segment decreased because of a number of long-term projects implemented by key customers in the past year. The number of rooms sold in the tourist group segment also decreased.

In the second quarter 2018 alone, the downward trend in the corporate guests segment was halted, the number of individual guests was slightly higher than in the second quarter of the past year, and a decrease in the number of rooms sold was reported other segments.

## The Czech Republic

Financial results (in PLN million) and operating ratios of owned hotels located in the Czech Republic	1st half of 2018	1st half of 2017	% change
Net sales	56.7	55.2	2.7%
EBITDAR	23.7	24.4	2.9%
Operating EBITDA	16.7	17.7	-5.6%
EBIT without the effects of one-off events	10.4	11.6	-10.3%
Capital expenditure	2.5	6.0	-58.3%
Occupancy Rate (%)	71.1	73.7	-2.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	274.6	253.0	8.5%
Revenue per Available Room (RevPAR) in PLN	195.3	186.4	4.8%
Clients: Business	45.7%	42.5%	3.2 p.p.
Clients: Leisure	54.3%	57.5%	-3.2 p.p.

**In the first half of 2018, revenues generated by hotels located in the Czech Republic amounted to PLN 56.7 million (8.2% of the total revenues of the Group).**

Room revenue was slightly higher than in the corresponding period of the previous year due to the Average Room Rate. The Occupancy Rate in the first half of 2018 was lower than in the past year.

An increase in the number of rooms sold was reported only in the corporate guest segment, predominantly in the Mercure and MGallery brands. Other segments experienced a decline, which was the largest in the segment of business groups mainly due to a much smaller number of business clients in the ibis brand (many one-off projects were completed last year). The number of rooms sold also decreased in the segment of individual guests, which was influenced by a lower demand in the second quarter of this year; fewer tourist groups were served as well.

In the second quarter, the growth trend in the segment of corporate guests continued, while the other segments experienced a declining dynamics due to lower demand and one-off events that took place in the past year.

## Other countries

Financial results (in PLN million) and operating ratios of owned hotels located in other countries	1st half of 2018	1st half of 2017	% change
Net sales	45.6	44.1	3.4%
EBITDAR	17.1	17.8	-3.9%
Operating EBITDA	8.2	9.5	-13.7%
EBIT without the effects of one-off events	7.5	8.7	-13.8%
Capital expenditure	4.4	1.2	266.7%
Occupancy Rate (%)	78.1	80.0	-1.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	280.5	270.1	3.9%
Revenue per Available Room (RevPAR) in PLN	219.1	216.0	1.4%
Clients: Business	58.2%	59.0%	-0.8 p.p.
Clients: Leisure	41.8%	41.0%	0.8 p.p.

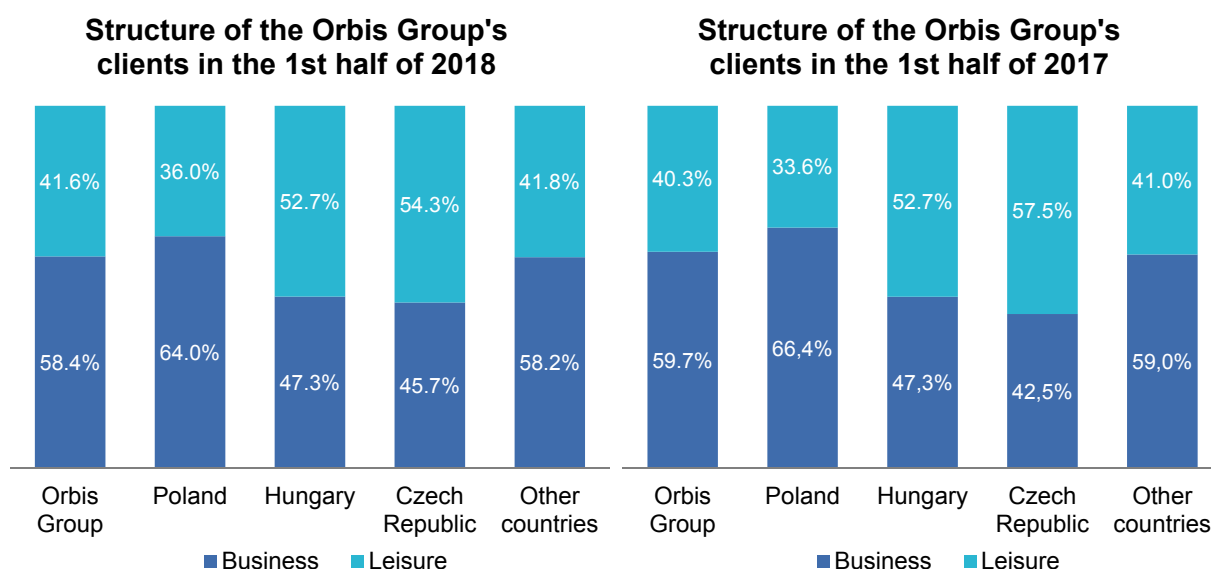
**Revenues for the period of 6 months of 2018 generated in other countries where the hotels of the Group are located reached the level of PLN 45.6 million, i.e. 6.6% of consolidated revenues.** Hotels located in Lithuania, Slovakia and Romania reported sales revenues higher by 3.4% than in the corresponding period of the past year.

The Novotel in Vilnius achieved slightly higher room revenues as compared to the first half of the past year thanks to higher Average Room Rate, with the Occupancy Rates being slightly below the past year's level. 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), where the growth trend continued also in the second quarter of 2018. On the other hand, a significant drop was reported in the segment of individual guests staying both for both business and leisure and in the MICE segment (due to a smaller number of business groups).

Slovakia is represented by two hotels located in Bratislava: Mercure and ibis. Room revenues were somewhat higher than in the first half of 2017 thanks to higher Occupancy Rate in ibis and higher Average Room Rate in both these hotels. During the reporting period, the increase in the number of rooms sold was mainly attributable to the corporate segment thanks to key client stays, the business group segment where the increase was driven by a greater number of both local and regional meetings, particularly in the second quarter of 2018, and the tourist group segment. The number of rooms sold in the individual guest segment went down.

The Novotel in Bucharest achieved a growth in operating revenues thanks to higher Average Room Rate in spite of the Occupancy Rate being slightly below the past year's level. Increase in the number of rooms sold was reported in the business groups and tourist groups segments. The segment of corporate guests performed slightly better than in the past year. On the other hand, the number of rooms sold in the individual guest segment went down. However, the change in the segmentation of guests had a positive impact on the Average Room Rate, which resulted in higher room revenue. The number of tourist groups increased in the second quarter of 2018. In other segments the growth trend was halted/

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



## 4.4 Financial results per operating segments

The Orbis Group distinguishes two reportable operating segments:

- Up & Midscale hotels that comprise hotels of the Sofitel, Pullman, 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 tables below present figures pertaining to revenue, results as well as capital expenditure of the individual 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 the first half of 2018.

Operating segments – analytical approach (in PLN million)	1st half of 2018	1st half of 2017	% change
<b>Up&amp;Midscale Hotels</b>			
Net sales	519.9	516.6	0.6%
EBITDAR	202.9	206.5	-1.7%
Operating EBITDA	180.1	176.3	2.2%
EBIT without the effects of one-off events	120.1	118.3	1.5%
Capital expenditure	56.5	416.2	-86.4%
Occupancy Rate (%)	69.5	68.9	0.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	299.4	283.0	5.8%
Revenue per Available Room (RevPAR) in PLN	208.1	195.1	6.7%
<b>Economy Hotels</b>			
Net sales	149.6	147.0	1.8%
EBITDAR	70.5	71.3	-1.1%
Operating EBITDA	65.9	66.8	-1.3%
EBIT without the effects of one-off events	45.8	45.0	1.8%
Capital expenditure	35.4	101.6	-65.2%
Occupancy Rate (%)	71.6	71.8	-0.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	181.1	173.2	4.6%
Revenue per Available Room (RevPAR) in PLN	129.7	124.3	4.3%

During 6 months of 2018, the Up&Midscale segment revenue amounted PLN 519.9 million and was by 0.6% higher as compared to the revenues of this segment in the first half of 2017. On the other hand, revenue of the economy hotel segment amounted PLN 149.6 million in the first half of 2018, i.e. rose by 1.8%.

The average Revenue per Available Room ranged from PLN 129.7 in economy hotels to PLN 208.1 in hotels of the Up&Midscale segment in the first half of 2018 and from PLN 124.3 to PLN 195.1 respectively in the corresponding period of 2017. The RevPAR growth is attributable in particular to higher Average Room Rates (ARR growth rate in economy hotels by 4.6% and by 5.8% in hotels of the Up&Midscale segment).

## 4.5 Statement of financial position

Statement of financial position – analytical approach	Jun. 30, 2018	Share in total assets / equity & liabilities	Dec. 31, 2017	Share in total assets / equity & liabilities	Jun. 30, 2018/ Dec. 31, 2017
Non-current assets	2 369 525	76.0%	2 392 340	81.9%	-1.0%
Current assets	705 848	22.6%	325 869	11.2%	116.6%
Assets classified as held for sale	42 102	1.4%	201 093	6.9%	-79.0%
<b>TOTAL ASSETS</b>	<b>3 117 475</b>	<b>100.0%</b>	<b>2 919 302</b>	<b>100.0%</b>	<b>6.8%</b>
Equity	2 237 033	71.8%	2 080 877	71.3%	7.5%
Non-current liabilities	547 755	17.6%	548 571	18.8%	-0.1%
Current liabilities	332 687	10.6%	289 854	9.9%	14.8%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3 117 475</b>	<b>100.0%</b>	<b>2 919 302</b>	<b>100.0%</b>	<b>6.8%</b>

On June 30, 2018, Orbis Group's assets totalled PLN 3 117.5 million, i.e. increased by PLN 198.2 million as compared to December 31, 2017.

The major component of the Group's assets are non-current assets, accounting for 76.0% of total assets. The predominant item of non-current assets are property, plant and equipment valued at PLN 2 232.3 million, accounting for 71.6% 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. The value of property, plant and equipment remained at a level similar to that of December 31, 2017, however, capital expenditures totalling PLN 93.5 million were reduced by accrued depreciation (PLN 80.9 million), deductions resulting from the sale of the Novotel Szeged hotel (PLN 10.2 million) and reclassification of the ibis Pilsen hotel in the Czech Republic and the non-hotel property in Wrocław to assets held for sale (PLN 18.4 million).

Intangible assets (mainly goodwill) valued at PLN 110.4 million also constitute a major item of non-current assets. The contribution of intangible assets to the Group's assets was at 3.5% at the end of June 2018.

Under the current assets item, the most important sub-item are cash and cash equivalents of PLN 582.0 million, accounting for 18.7% of total assets. The increase in the balance of cash and cash equivalents by PLN 367.2 million as compared to December 2017 is primarily attributable to the receipt of payment in the amount of EUR 81.3 million plus VAT (approx. PLN 347.5 million) for the sale of the Sofitel Budapest Chain Bridge hotel and HUF 773.1 million (approx. PLN 10.4 million) for the sale of the Novotel Szeged hotel.

Increase of trade receivables by 21.3% as compared to December 31, 2017, is the result of a significant growth in the volume of rooms sold in first half of 2018 against first half of 2017.

A major item of current assets as at June 30, 2018, were other current receivables (PLN 32.6 million). This item comprises predominantly of receivables from sale of tangible assets, VAT receivables and prepayments. As at June 30, 2018, the Group held receivables of PLN 4.0 million (12.3% of other current receivables) from the sale of tangible assets, i.e. from the sale of the Mercure Mrągowo Resort & SPA hotel. As 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 (it was credited to the Orbis bank account at the beginning of January 2018).

At the end of 2017, the Group reported other VAT receivables in the amount of PLN 12.6 million (35.8% of the balance) under Other current receivables. At the end of June 2018, the balance decreased to PLN 1.7 million.

As at June 30, 2018, the Groups reported higher prepayments as compared to December 31, 2017, (PLN 20.1 million as compared to PLN 7.9 million) as a This is a result of the prepayments for perpetual usufruct of land made at the beginning of the year, costs of insurance, costs of radio and television and other types of costs.

Moreover, as at June 30, 2018, Orbis Group reported assets of PLN 42.1 million classified as assets held for sale, which include the non-current assets of the Mercure Cieszyń hotel, the ibis Styles Bielsko-Biała hotel, the ibis budget Toruń hotel, a real property in Toruń with an unfinished building that was originally planned to operate as an ibis hotel, a non-hotel real property located in Poznań, as well as the ibis Pilsen hotel and non-hotel real properties in Warsaw and Wrocław (reclassified as assets held for sale in the first half of 2018).

As at 31 December 2017, the assets held for sale item included the Sofitel Budapest Chain Bridge hotel (sold at the end of May 2018) as well as the non-hotel property located in Karpacz (sold at the end of March).

Orbis Group financed its operations predominantly from its own cash. As at June 30, 2018, the Group's equity accounted for 71.8% of the total equity and liabilities (PLN 2 237.0 million). As at the balance-sheet date, cash and cash equivalents in the Group exceed its liabilities under bonds issued (by PLN 80.1 million).

As at June 30, 2018, Orbis Group had non-current liabilities bearing interest liabilities under the bond issue of PLN 501.9 million (16.1% of liabilities). The maturity date of the bonds are in 2020 and 2021.

As at June 30, 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.

As at June 30, 2018, the predominant item of the Group's current liabilities was other current liabilities (46.3%), including mainly tax and social security liabilities (including VAT), public imposts (including liabilities under the disputed fees for perpetual usufruct of land), accrued expenses of employee benefits (including bonuses and unused leaves), and liabilities of Orbis S.A. of PLN 73.8 million under the declared dividend. The dividend payment date was scheduled for August 3, 2018. The reduction of tax and social security liabilities in the first half of 2018 is attributable to payment of tax on hotels acquired last year by Accor Pannonia Hotels Zrt.

An important item of current liabilities is trade liabilities (30.9%), which remained at a level similar to the end of 2017 (PLN 102.9 million as at June 30, 2018).

A much higher level of current deferred revenue as at June 30, 2018, as compared to December 31, 2017, results predominantly from prepayments received for accommodation services during the summer period and is associated with seasonality of the hotel business.

Decline of liabilities associated with tangible assets in the first half of 2018 as compared to the end of 2017, results in particular from recognition of capital expenditure incurred for the modernisation of the following hotels: the Novotel Poznań Centrum hotel, the ibis Styles Warszawa Centrum hotel, the Novotel Warszawa Airport hotel, the Sofitel Warszawa Victoria hotel and the Novotel Warszawa Centrum hotel.

## **4.6 Statement of changes in equity**

As at June 30, 2018, equity amounted to PLN 2 237.0 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 214.9 million for the first half of 2018. The dividend for 2017 amounting to PLN 73.7 million had an adverse impact upon the value of retained earnings as at the end of June 2018.

The retained earnings' opening balance was adjusted by PLN -1 163 thousand due to implementation of IFRS 15 (for a more detailed description see Note 1.3.1 to the Consolidated Financial Statements of the Orbis Group for the first half of 2018).

On the other hand, the foreign currency translation reserve of the Group increased from PLN -10.7 million at the end of 2017 up to PLN 5.2 million at the end of June of 2018. This change is attributable to translation of foreign operations into the currency of presentation (PLN). The positive level of the foreign currency translation reserve was greatly impacted by the increase of average rates of exchange of foreign currencies as at the end of June 2018 as compared to December 31, 2017 (foreign currency applied for translation of financial statements of foreign subsidiaries is present in Note 1 of the Consolidated Financial Statements of the Orbis Group for the First Half of 2018).



## 4.7 Statement of cash flows

Statement of cash flow	1st half of 2018	1st half of 2017	% change
Cash generated by operating activities	175 413	172 180	1.9%
Net cash used in investing activities	232 157	(493 382)	-
Net cash generated by financing activities	(48 220)	27 742	-
<b>Total net cash</b>	<b>359 350</b>	<b>(293 460)</b>	<b>-</b>
<b>Cash and cash equivalents at the end of period</b>	<b>582 020</b>	<b>242 619</b>	<b>139.9%</b>

During the first six months of 2018, the net cash flows of the Orbis Group amounted to PLN 359.4 million (PLN -293.5 million in the first half of 2017). Cash flows comprised:

- **Cash flows from operating activities**

The cash flows generated from operating activities in both the reporting periods are at a similar level. Increase of sales in the first half of 2018, attained mainly thanks to higher prices combined with a lower growth of operating costs, directly contributed to net cash inflows from operating activities in the amount of PLN 175.4 million.

- **Cash flows from investing activities**

Positive cash flows in the first half 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 75.2 million net, i.e. approx. PLN 320.9 million) and the Novotel Szeged hotel (net sum of HUF 757.6 million, i.e. approx. PLN 10.2 million). In addition, the Group generated inflows of PLN 1.8 million from investing activities from the sale of non-hotel real property in Karpacz.

Cash flows from investing activities were negatively affected by expenditures for property, plant and equipment (PLN 106.2 million).

On the other hand, the main reason for the cash outflow of PLN 493.4 million in the first quarter of 2017 was the expenses of PLN 468.1 million incurred on the buyback of six leased hotels (the Mercure Budapest Korona, the ibis Styles Budapest Center, the ibis Budapest City, the ibis Budapest Centrum, the Mercure Budapest Buda and the Sofitel Budapest Chain Bridge) by Accor Pannonia Hotels Zrt. Under the first five hotels buy back transaction, the Hungarian subsidiary made a payment of EUR 65.9 million (approx. PLN 291.2 million). On the other hand, under the Sofitel Budapest Chain Bridge hotel buy back transaction, Accor Pannonia Hotels Zrt. paid EUR 42.3 million (approx. PLN 176.9 million).

In the first half of 2017 the Group generated inflows from investing activities resulting from sale agreement of the Mercure Jelenia Góra hotel and the Mercure Karpacz Resort hotel (PLN 26.5 million) and from payment of a part of the price as a result of sale of non-hotel real property located at Łopuszańska Street in Warsaw (PLN 5.1 million).

Moreover, in the first half of 2017, the Group generated other cash inflows from investing activities in the amount of PLN 10.3 million, including the advance payment of PLN 9.5 million received in April 2017 against the sale of the Giewont hotel in Zakopane.

- **Cash flows from financing activities**

The Group's cash flows from financing activities during the period of six months of 2018 amounted to PLN -48.2 million and included repayment of an overdraft facility plus interest by a subsidiary Accor Pannonia Hotels Zrt. in Hungary and the repayment of interest on bonds made by Orbis S.A.

Positive cash flows during the period of 6 months of 2017 were mainly attributable to an overdraft taken out by a Hungarian company Accor Pannonia Hotels Zrt., the value of which exceeded the total value of financial expenses that included the repayment of a principal amount of loan by Orbis S.A. as well as payment of interest on loans and bonds.

## 4.8 Capital expenditure

In the first half of 2018, the capital expenditure of the Orbis Group amounted to PLN 93.5 million (PLN 518.5 million in the corresponding period of past year).

Capital expenditure of the Group	1st half of 2018	1st half of 2017
Leased hotels buyback	0	471 495
Development projects	71 403	30 595
Other expenditure	22 141	16 395
<b>Total</b>	<b>93 544</b>	<b>518 485</b>

A total sum of PLN 71.4 million was appropriated in the first half of 2018 for the following projects:

- **The ibis Styles Warszawa Centrum hotel.** The construction, launched in September 2017, of the Ibis Styles Warszawa Centrum hotel continues in the vicinity of the existing ibis budget Warszawa Centrum hotel. The structure of the building and works on detailed engineering design were finalised in the first half of 2018. During this period, 2 mock-up rooms and a corridor were also completed. Tenders for furniture, fixtures and equipment (FF&E) are now pending. The hotel is being built in accordance with BREEAM-certification standards (certification for green buildings) and will have 179 rooms, 4 conference rooms, a restaurant and a bar. The construction of this new hotel is now at the final phase of erecting the building structure. The total estimated expenditure for this hotel construction is above PLN 48 million, and the estimated deadline for completion of the hotel is Q4 2018.
- **The Novotel Poznań Centrum hotel.** In 2018, the modernization of the hotel scheduled for years 2016 - 2018, related to the split of the hotel and a partial rebranding into ibis, was continued. In the last year, the modernization of 246 rooms in the Novotel and 142 rooms in the ibis hotel was completed, while in the first half of 2018, another 128 rooms were renovated. Moreover, since the beginning of 2018, works related to rearrangement of public areas were carried out in the hotel, including large conference rooms, the restaurant and the bar; construction works were also commenced in the fitness area. The modernization of the hotel will also include installations and technical equipment of the hotel. The works are scheduled to be completed at the turn of 2018 and 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 12 rooms was completed in the first half of 2018. The next stage of room modernization was planned for the fourth quarter of 2018 (28 rooms with bathrooms and 12 rooms). During the analysed period, an outdoor gym was completed and works on the renovation of the swimming pool and the façade were continued. The work on new communication solutions in the vicinity of the hotel is close to completion. 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, which commenced in 2017, 107 rooms, corridors on the 3rd and 4th floors of the hotel and the SPA were modernized in the first half of 2018. Work on another 60 rooms was commenced in July. Modernisation of another 5 rooms, including the Opera Suite and the Presidential Suite, is scheduled for the end of 2018. 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 on all 7 floors of the building, which was commenced at the end of 2016, is carried out 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 first quarter of 2018, the works focused on modernisation of other hotel rooms and the lobby; 12 additional rooms and a fitness area. The total estimated expenditure for this investment project during the period 2016 - 2018 will come to approx. EUR 4.1 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 first half 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 Q2 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. In the first quarter of 2018, 101 new rooms have been renovated, and during the third quarter 2018, the conference rooms and public areas are scheduled to be renovated. 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.

Furthermore, in the first quarter of 2018, a plot of land was purchased in Cracow, at **Worcella Street**, for the purpose of building a new hotel in this location. Orbis is currently analysing technical and operational aspects of this investment, which will predetermine the selection of the best-suited brand in the economy segment for the hotel. Work on the construction design was launched during the reporting period. The total planned expenditure for the construction of this new hotel during the period between 2018 and 2020 will exceed PLN 47 million.

As regards the planned construction of the new **ibis Styles Stare Miasto Szczecin** hotel on the plot of land where the Orbis Arkona hotel was previously located, the utilities supply installation relocation was completed in the first half of 2018. The construction works are scheduled to start at the end of 2018. In 2017, a building permit was granted and a building design was completed. 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.

The construction of the new **ibis hotel in Vilnius** was also continued in the first half of 2018. In Q3 2016, UAB Hekon signed a preliminary agreement on acquisition of the hotel building together with parking spaces, the construction of which was assigned to the hotel's seller, UAB Merko Būstas with its registered office in Vilnius. In mid-July this year, both the companies finalised the sale transaction under which UAB Hekon acquired the newly built ibis hotel for a net price of EUR 8.7 million. The hotel has 164 rooms on 7 floors, 2 conference rooms, a bar and a restaurant and car park. Contracts for hotel furniture, fixtures and equipment (FF&E) were signed in the first half of 2018. The opening of the hotel is scheduled for Q3 2018. The total estimated expenditure for the construction of the hotel during the period 2016–2018 will exceed EUR 11 million.

Other expenditure incurred in the first half of 2018 (PLN 22.1 million) was allocated for upgrading the standard of hotels operating in the Group, increasing their security, fire safety and IT investments.

The most important investment projects implemented during the 6 months of 2018 include:

- rearrangement of 24 rooms and a corridor on the 25th floor of the **Novotel Warszawa Centrum** hotel,
- modernisation of 56 rooms and bathrooms in the **Novotel Katowice Centrum** hotel,
- renovation of 36 rooms (excluding bathrooms) in the **ibis budget Warszawa Centrum** hotel,
- replacement of 154 TV sets in the **Sofitel Grand Hotel in Sopot**,
- board room in the **Novotel Kraków Centrum** hotel,
- interior design of 67 rooms in the **Mercure Poznań Centrum** hotel,
- modernization of 20 rooms incl. bathrooms in the **ibis Warszawa Stare Miasto** hotel and 5 rooms in the **ibis Warszawa Centrum** hotel,
- rearrangement of 32 rooms with bathrooms in the **ibis Kraków Centrum** hotel,
- interior design and construction design for the extension of the WineStone restaurant in the **Mercure Gdańsk Stare Miasto** hotel,
- continued modernization of cooling sources in the **Sofitel Warszawa Victoria** hotel, the **Novotel Warszawa Centrum** hotel and the **Novotel Katowice Centrum** hotel,
- design work on rearrangement of the lobby and the reception desk in the **Mercure Warszawa Grand** hotel.

Moreover, as regards the IT & Digital Services expenditure, in the first half of 2018, Orbis completed the implementation of IT systems in the newly opened properties and actively supported the ownership change process, at the same time initiating partial infrastructure replacement. Additionally, IT infrastructure consolidation project has been initiated and part of the data migrated to a cloud. It is to increase data security in case of the major failure.

## 4.9 Financial ratios

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

Selected financial ratios of the Orbis Group	1st half of 2018	1st half of 2017
<b>Margin ratios</b>		
EBITDAR margin in %	33.8	34.9
EBITDA margin in %	29.7	29.8
EBIT margin in %	36.5	17.8
<b>Profitability ratios</b>		
Return on equity (ROE)	10.0%	4.2%
Return on assets (ROA)	7.1%	2.8%
Return on sales (ROS)	31.1%	12.1%
<b>Efficiency ratios</b>		
Receivables collection period	20	18
Payables deferral period	32	37
Inventory turnover	2	2
<b>Financing ratios</b>		
Net debt (in PLN million)	-	418.7
Debt-to-equity*	28.2%	34.9%
Non-current assets cover ratio	94.4%	79.9%
<b>Liquidity ratios</b>		
Current ratio	2.25	1.32

\* total liabilities/total equity and liabilities

## 4.10 Projections of EBITDA for 2018

The Management Board of Orbis S.A. took decision to prepare and publish, on July 26, 2018, the forecasted EBITDA of the Orbis Group for 2018. In the opinion of the Management Board, the forecasted EBITDA for 2018 should be in the range of PLN 465 and 480 million.

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

The projection has been prepared on the basis of financial results generated in the first half of 2018 and forecasted sales in hotels in the coming quarters of the current year.

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

The projection has not been reviewed by the licensed auditor.

## RISK AREAS



Mercure Bucharest City Center

## 5 RISK AREAS

### 5.1 Business risk

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

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

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

#### 5.1.2 Competition risk

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

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

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

#### 5.1.3 Risk related to cooperation with travel agents

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

### 5.2 Financial risk

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

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

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



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

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

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

### 5.2.1 Currency risk

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

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

As at June 30, 2018, none of the companies had an overdraft in a foreign currency.

### 5.2.2 Interest rate risk

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

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

As at June 30, 2018, Orbis S.A.'s liabilities with variable interest rates comprised liabilities arising from the bond issue in amount of PLN 500.0 million. The first tranche of bonds issued on June 26, 2015 (PLN 300.0 million) bears interest per annum at a variable interest rate equal to WIBOR for six-month deposits (WIBOR 6M), plus interest rate margin of 0.97 p.p. The second tranche of bonds issued on July 29, 2016 (PLN 200.0 million) bears interest per annum at a variable interest rate equal to WIBOR for six-month deposits (WIBOR 6M), plus interest rate margin of 1.05 p.p.

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

### 5.2.3 Credit risk

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

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

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

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

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

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

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

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

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

#### 5.2.4 Liquidity risk

The Orbis Group hedges liquidity through credit facilities and overdrafts.

The amount of unused credit lines under overdrafts of the Orbis Group as at June 30, 2018, was PLN 45.2 million, of which the credit lines unused by Orbis S.A. amounted to PLN 20.0 million and those of Katerinska Hotel s.r.o. - PLN 25.2 million (i.e. CZK 150.0 million). The remaining Group companies did not have unused credit lines under overdrafts.

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

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

#### 5.2.5 Price risk

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

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

Price risk is minimised by way of implementing a policy of active room availability and price management (yield management).

### 5.3 Legal risk

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

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

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

## 5.4 Reputational risk

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

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

## 5.5 Risk factors related to the Bonds

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

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

### 5.5.2 Risk of earlier redemption of the Bonds on the Bondholder's request

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

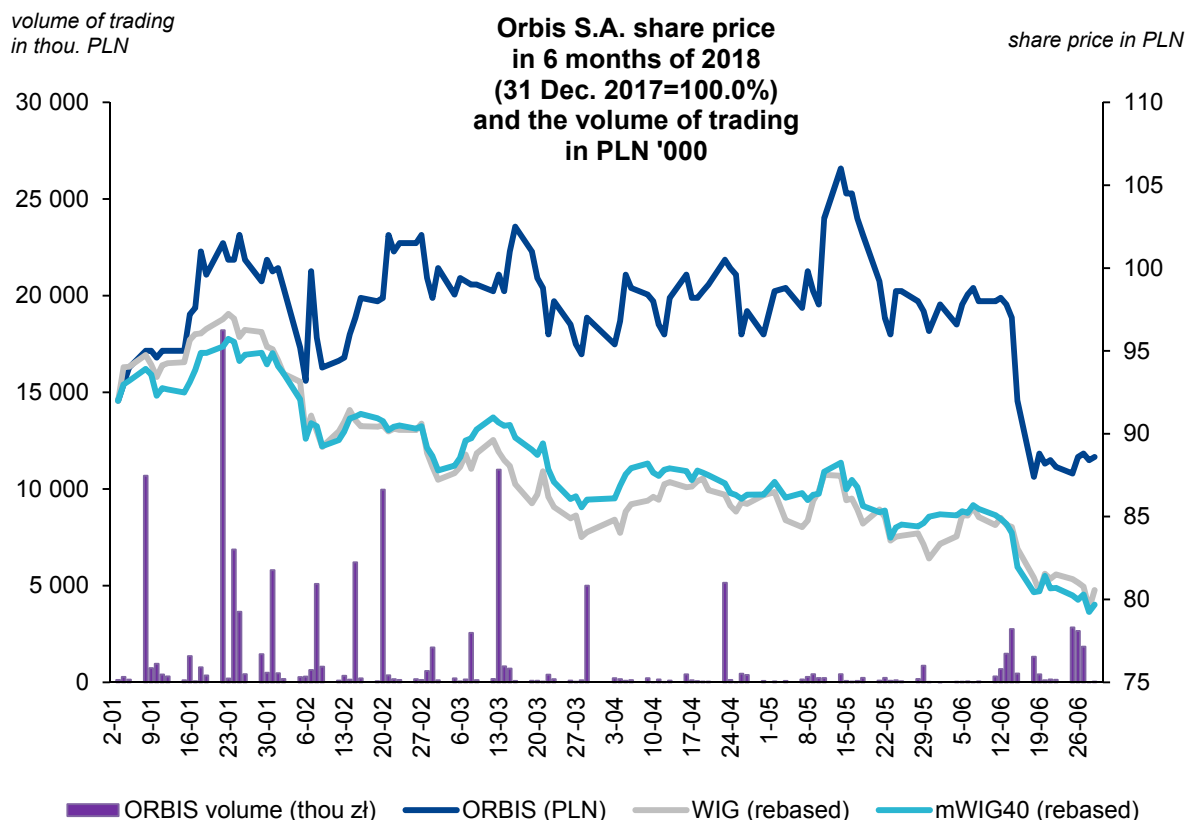
## ADDITIONAL INFORMATION



## 6 ADDITIONAL INFORMATION

### 6.1 Share price

From January 1 to June 30, 2018, the price of Orbis S.A. shares ranged from PLN 87.4 (as at June 18) to PLN 106.0 (during the stock exchange session on May 14). The spread between the highest and the lowest quotations was PLN 18.6, which accounted for 21.3% of the lowest price. The Orbis share closing price at the end of the first half of 2018 stood 8% above the WIG index and 9% above the mWIG40 index. On June 29, 2018, Orbis S.A. shares achieved the level of PLN 88.6, which represents an decrease by 3.9% as compared to PLN 92.5 as at the end of 2017. During the first half of 2018, the average trading volume in Orbis stocks equalled 11 000 shares.



### 6.2 Shareholder structure

As at June 30, 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 the Statutes of Orbis S.A.: PLN 92 154 thousand,
- Hyperinflation restatement of share capital: PLN 425 600 thousand,
- Carrying amount of share capital: PLN 517 754 thousand.

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

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

Shareholder (description)	Number of shares held and voting rights at the GM (based on notifications)	% of total number of shares and voting rights at the GM
Accor S.A.	24 276 415	52.69
<i>of which: Accor S.A. subsidiary – Accor Polska Sp. z o.o.</i>	<i>2 303 849</i>	<i>4.99</i>
Aviva Otworthy Fundusz Emerytalny Aviva BZ WBK	4 577 880	9.94
Metlife Otworthy Fundusz Emerytalny and Metlife Dobrowolny Fundusz Emerytalny managed by Metlife Powszechne Towarzystwo Emerytalne S.A.	2 357 156	5.12
Nationale-Nederlanden Otworthy Fundusz Emerytalny	2 391 368	5.19

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

The Orbis S.A. shareholding status determined based on notifications received (above) differs from the shareholding status of individual shareholders established on the basis of lists of shareholders entitled to participate in the Annual General Meeting of Shareholders.

The Annual General Meeting of Shareholders was held on June 12, 2018. The following shareholders holding at least 5% of the total number of votes had the right to participate in this Meeting:

- Accor S.A. 24 276 415 shares (52.69% of all the shares),  
*of which Accor Polska Sp. z o.o. 2 303 849 shares (4.99% of all the shares),*
- Aviva Otworthy Fundusz Emerytalny Aviva BZ WBK 4 605 000 shares (9.99% of all the shares),
- Nationale-Nederlanden Otworthy Fundusz Emerytalny 4 500 000 shares (9.77% of all the shares),
- Metlife Otworthy Fundusz Emerytalny 2 400 000 shares (5.21% of all the shares).

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

Orbis' strategic investor is AccorHotels - world-leading travel & lifestyle group offering unique experiences in more than 4.3 thousand hotels, resorts and residences, as well as in over 10.0 thousand private homes around the globe. AccorHotels is present in 100 countries where it operates under 25 brands, ranging from luxury to economy segments. AccorHotels employs approx. 250 thousand employees worldwide.

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 Director's Report, the Vice-President of the Management Board, Mr. Ireneusz Andrzej Węglowski, held 3 200 shares in Orbis S.A. The number of shares held by Mr. Węglowski increased from the date of publication of the last annual report by 200 shares acquired on June 19, 2018. Other members of the Management Board did not hold any Company shares.

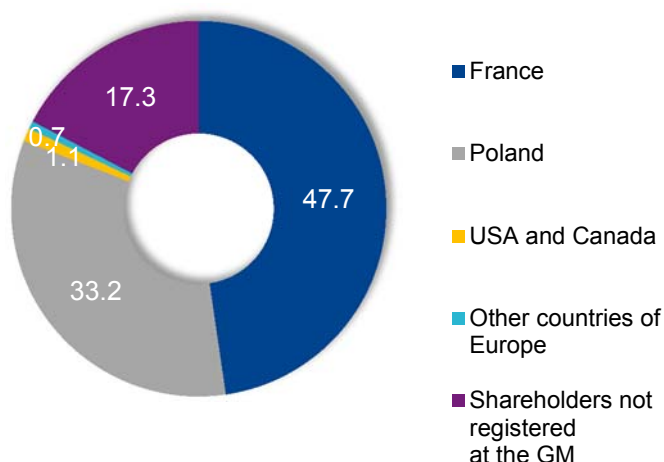
Among members of the Supervisory Board, only Mr. Jacek Kseń held 600 shares in Orbis S.A. as at December 31, 2017, which were sold on January 12, 2018 (300 shares) and January 16, 2018 (300 shares). As at the date of publication of this report, Mr. Jacek Kseń did not hold any shares in Orbis S.A.

No changes occurred in respect of the holding of Orbis S.A. shares by other members of the Management Board and the Supervisory Board in the first half of 2018.



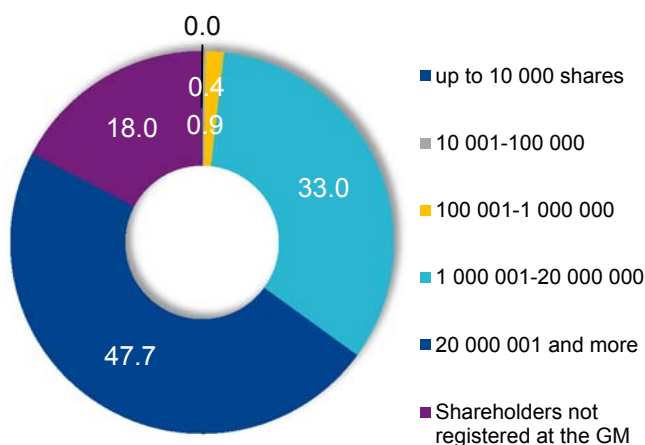
### Shareholders by country of origin\*

Countries	Total number of shares
France	21 996 066
Poland	15 210 470
USA and Canada	507 376
Other countries	58 844
Shareholders not registered at the GM	8 304 252
<b>Total</b>	<b>46 077 008</b>



### Shareholders according to the number of shares registered at the AGM\*

Number of registered shares	Total number of shares
up to 10 000 shares	13 593
10 001-100 000	167 028
100 001-1 000 000	411 300
1 000 001-20 000 000	15 208 269
20 000 001 and more	21 972 566
Shareholders not registered at the GM	8 304 252
<b>Total</b>	<b>46 077 008</b>



\*Simulation based on the list of shareholders empowered to attend the Annual General Meeting convened for June 12, 2018. The list comprised shareholders representing 81.98% of share capital (as at the day of compiling the list).

## 6.3 Statutory bodies of the Issuer

### The Management Board

During the period from January 1 till June 30, 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,
- Dominik Sołtysik - Member of the Management Board.

### The Supervisory Board

During the period from January 1, 2018, till June 30, 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.

## 6.4 Entity authorised to audit the financial statements

The financial statements of the Orbis Group and of Orbis S.A. for years 2018-2019 are audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością Spółka komandytowa, registered under the number 3546 on the list of licensed entities maintained by the National Chamber of Statutory Auditors. The auditor who audited the financial statements for the past year was Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa, registered under the number 73 on the list of licensed entities.

## 6.5 Investor relations

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

In the first half of 2018, Orbis S.A. held:

- meetings devoted to publication of 2017 results and Q1 2018 results,
- „investor day” in cooperation with the Erste Securities brokerage house,
- investor chat after publication of the annual results.

All financial data and information published by Orbis are available on the corporate website <http://www.orbis.pl/>. Corporate sections of the website are updated and expanded with new content in line with service users' requests. “Orbis TV” platform is available on the Company's website, allowing users to follow on-line videos of corporate events and browse the archives with films, reports and interviews about Orbis. To facilitate communication, particularly for individual investors, a live chat is held after the publication of quarterly results. The investor service meets the requirements set for issuers by the Warsaw Stock Exchange, allows to search archived current and interim reports that the Company sends via the ESPI system, and to follow the share price.

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

## APPENDIX 1: OPERATING RATIOS OF THE ORBIS GROUP

### Owned hotels<sup>2</sup>

Operating ratios of owned hotels by main category	1st half of 2018	1st half of 2017	change (%)	1st half of 2018	1st half of 2017	change (%)
	As reported			Like-for-like		
Orbis Group						
Occupancy Rate (%)	70.2	69.9	0.3 p.p.	70.3	70.2	0.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	257.4	244.1	5.4%	257.5	244.7	5.2%
Revenue per Available Room (RevPAR) in PLN	180.8	170.7	5.9%	180.9	171.8	5.3%
Economy Hotels						
Occupancy Rate (%)	71.6	71.8	-0.2 p.p.	71.6	72.1	-0.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	181.1	173.2	4.6%	181.1	174.6	3.7%
Revenue per Available Room (RevPAR) in PLN	129.7	124.3	4.3%	129.7	125.8	3.1%
Up & Midscale Hotels (3 stars and more)						
Occupancy Rate (%)	69.5	68.9	0.6 p.p.	69.5	69.2	0.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	299.4	283.0	5.8%	299.5	283.7	5.6%
Revenue per Available Room (RevPAR) in PLN	208.1	195.1	6.7%	208.2	196.3	6.1%

Operating ratios of owned hotels by main category	2nd quarter of 2018	2nd quarter of 2017	change (%)	2nd quarter of 2018	2nd quarter of 2017	change (%)
	As reported			Like-for-like		
Orbis Group						
Occupancy Rate (%)	79.5	80.5	-1.0 p.p.	79.5	80.5	-1.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	284.4	267.4	6.4%	284.4	266.8	6.6%
Revenue per Available Room (RevPAR) in PLN	226.0	215.3	5.0%	226.1	214.9	5.2%
Economy Hotels						
Occupancy Rate (%)	80.0	82.0	-2.0 p.p.	80.0	82.1	-2.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	203.2	192.3	5.7%	203.2	194.0	4.7%
Revenue per Available Room (RevPAR) in PLN	162.5	157.6	3.1%	162.5	159.4	1.9%
Up & Midscale Hotels (3 stars and more)						
Occupancy Rate (%)	79.2	79.7	-0.5 p.p.	79.2	79.7	-0.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	328.6	308.7	6.4%	328.7	307.4	6.9%
Revenue per Available Room (RevPAR) in PLN	260.2	246.1	5.7%	260.4	244.9	6.3%

<sup>2</sup> Incl. the results of hotels owned and leased by 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	1st half of 2018	1st half of 2017	change (%)	1st half of 2018	1st half of 2017	change (%)
	As reported			Like-for-like		
<b>Poland</b>						
Occupancy Rate (%)	69.1	68.3	0.8 p.p.	69.1	68.7	0.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	249.5	236.2	5.6%	249.5	239.6	4.1%
Revenue per Available Room (RevPAR) in PLN	172.3	161.2	6.9%	172.3	164.7	4.6%
<b>Hungary</b>						
Occupancy Rate (%)	71.6	71.3	0.3 p.p.	71.7	71.0	0.7 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	267.9	257.2	4.2%	268.0	249.6	7.4%
Revenue per Available Room (RevPAR) in PLN	191.9	183.3	4.7%	192.1	177.2	8.4%
<b>Czech Republic</b>						
Occupancy Rate (%)	71.1	73.7	-2.6 p.p.	71.1	73.7	-2.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	274.6	253.0	8.5%	274.6	253.0	8.5%
Revenue per Available Room (RevPAR) in PLN	195.3	186.4	4.8%	195.3	186.4	4.8%
<b>Other countries</b>						
Occupancy Rate (%)	78.1	80.0	-1.9 p.p.	78.1	80.0	-1.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	280.5	270.1	3.9%	280.5	270.1	3.9%
Revenue per Available Room (RevPAR) in PLN	219.1	216.0	1.4%	219.1	216.0	1.4%

Operating ratios of owned hotels by geographical segment	2nd quarter of 2018	2nd quarter of 2017	change (%)	2nd quarter of 2018	2nd quarter of 2017	change (%)
	As reported			Like-for-like		
<b>Poland</b>						
Occupancy Rate (%)	77.0	77.2	-0.2 p.p.	77.0	77.2	-0.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	273.4	255.9	6.8%	273.4	258.9	5.6%
Revenue per Available Room (RevPAR) in PLN	210.5	197.5	6.6%	210.5	199.8	5.4%
<b>Hungary</b>						
Occupancy Rate (%)	85.3	86.7	-1.4 p.p.	85.4	87.3	-1.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	297.7	283.5	5.0%	298.0	272.7	9.3%
Revenue per Available Room (RevPAR) in PLN	253.9	245.9	3.3%	254.6	238.0	7.0%
<b>Czech Republic</b>						
Occupancy Rate (%)	80.6	85.2	-4.6 p.p.	80.6	85.2	-4.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	320.7	299.9	6.9%	320.7	299.9	6.9%
Revenue per Available Room (RevPAR) in PLN	258.5	255.5	1.2%	258.5	255.5	1.2%
<b>Other countries</b>						
Occupancy Rate (%)	84.9	88.7	-3.8 p.p.	84.9	88.7	-3.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	298.7	277.1	7.8%	298.7	277.1	7.8%
Revenue per Available Room (RevPAR) in PLN	253.6	245.8	3.2%	253.6	245.8	3.2%

## Managed and franchised hotels

Operating ratios of managed and franchised hotels by main category	1st half of 2018	1st half of 2017	change (%)	1st half of 2018	1st half of 2017	change (%)
	As reported			Like-for-like		
Orbis Group						
Occupancy Rate (%)	60.1	59.5	0.6 p.p.	62.9	59.6	3.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	199.7	188.0	6.2%	191.4	188.5	1.5%
Revenue per Available Room (RevPAR) in PLN	120.1	111.8	7.4%	120.3	112.3	7.1%
Economy Hotels						
Occupancy Rate (%)	63.7	61.3	2.4 p.p.	65.5	61.0	4.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	157.3	145.4	8.2%	147.8	145.2	1.8%
Revenue per Available Room (RevPAR) in PLN	100.1	89.1	12.3%	96.8	88.6	9.3%
Up & Midscale Hotels (3 stars and more)						
Occupancy Rate (%)	57.0	57.6	-0.6 p.p.	60.2	58.0	2.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	242.3	234.6	3.3%	240.4	235.5	2.1%
Revenue per Available Room (RevPAR) in PLN	138.0	135.2	2.1%	144.6	136.6	5.9%

Operating ratios of managed and franchised hotels by main category	2nd quarter of 2018	2nd quarter of 2017	change (%)	2nd quarter of 2018	2nd quarter of 2017	change (%)
	As reported			Like-for-like		
Orbis Group						
Occupancy Rate (%)	66.7	64.8	1.9 p.p.	68.5	64.7	3.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	220.2	188.8	16.6%	192.4	189.5	1.5%
Revenue per Available Room (RevPAR) in PLN	146.9	122.3	20.1%	131.8	122.7	7.4%
Economy Hotels						
Occupancy Rate (%)	72.4	69.5	2.9 p.p.	74.4	69.3	5.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	191.0	151.4	26.2%	156.2	151.2	3.3%
Revenue per Available Room (RevPAR) in PLN	138.4	105.1	31.7%	116.2	104.9	10.8%
Up & Midscale Hotels (3 stars and more)						
Occupancy Rate (%)	61.6	60.2	1.4 p.p.	62.9	60.3	2.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	250.9	231.0	8.5%	233.8	231.7	0.9%
Revenue per Available Room (RevPAR) in PLN	154.6	139.0	11.2%	146.9	139.7	5.2%

Operating ratios of managed and franchised hotels by geographical segment	1st half of 2018	1st half of 2017	change (%)	1st half of 2018	1st half of 2017	change (%)
	As reported			Like-for-like		
<b>Poland</b>						
Occupancy Rate (%)	53.0	47.7	5.3 p.p.	52.0	47.9	4.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	183.5	187.8	-2.3%	187.1	188.0	-0.5%
Revenue per Available Room (RevPAR) in PLN	97.3	89.6	8.6%	97.3	90.0	8.1 %
<b>Hungary</b>						
Occupancy Rate (%)	74.4	71.0	3.4 p.p.	72.9	71.0	1.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	368.0	320.5	14.8%	335.5	320.5	4.7%
Revenue per Available Room (RevPAR) in PLN	273.7	227.6	20.3%	244.6	227.6	7.5%
<b>Czech Republic</b>						
Occupancy Rate (%)	47.6	64.7	-17.1 p.p.	47.6	56.5	-8.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	165.9	148.6	11.6%	165.9	140.7	17.9%
Revenue per Available Room (RevPAR) in PLN	79.0	96.1	-17.8%	79.0	79.5	-0.6%
<b>Other countries</b>						
Occupancy Rate (%)	65.4	70.3	-4.9 p.p.	73.2	70.3	2.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	193.8	185.0	4.8%	189.7	185.0	2.5%
Revenue per Available Room (RevPAR) in PLN	126.8	130.1	-2.5%	138.8	130.1	6.7%

Operating ratios of managed and franchised hotels by geographical segment	2nd quarter of 2018	2nd quarter of 2017	change (%)	2nd quarter of 2018	2nd quarter of 2017	change (%)
	As reported			Like-for-like		
<b>Poland</b>						
Occupancy Rate (%)	57.1	50.3	6.8 p.p.	55.1	50.1	5.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	178.1	179.1	-0.6%	171.9	178.8	-3.9%
Revenue per Available Room (RevPAR) in PLN	101.7	90.0	13.0%	94.7	89.6	5.7%
<b>Hungary</b>						
Occupancy Rate (%)	80.6	86.2	-5.6 p.p.	83.9	86.2	-2.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	525.3	362.2	45.0%	371.3	362.2	2.5%
Revenue per Available Room (RevPAR) in PLN	423.3	312.1	35.6%	311.6	312.1	-0.2%
<b>Czech Republic*</b>						
Occupancy Rate (%)	-	72.8	-	-	-	-
Average Room Rate (ARR) in PLN (net of VAT)	-	154.5	-	-	-	-
Revenue per Available Room (RevPAR) in PLN	-	112.4	-	-	-	-
<b>Other countries</b>						
Occupancy Rate (%)	73.8	79.4	-5.6 p.p.	82.2	79.4	2.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	206.3	190.3	8.4%	200.8	190.3	5.5%
Revenue per Available Room (RevPAR) in PLN	152.1	151.1	0.7%	165.1	151.1	9.3%

\* 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 accommodation services divided by the number of roomnights sold

**CAPEX** – Capital Expenditure

**CSR** – Corporate Social Responsibility

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

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

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

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

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

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

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

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

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

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

**Up & Midscale hotels** – one of the two reportable operating segments of the Orbis Group that comprises hotels of the following brands: Sofitel, Pullman, MGallery, Novotel 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
July 25, 2018	Gilles Stephane Clavie	President of the Management Board	
July 25, 2018	Ireneusz Andrzej Węglowski	Vice-President of the Management Board	
July 25, 2018	Dominik Sołtysik	Member of the Management Board	
July 25, 2018	Marcin Szewczykowski	Member of the Management Board	

## DECLARATIONS OF THE MANAGEMENT BOARD



Novotel Kraków City West

## **DECLARATIONS OF THE MANAGEMENT BOARD**

### **True and fair view of the financial statements**

The Management Board of Orbis S.A. hereby declares that according to its best knowledge the condensed interim consolidated financial statements of the Orbis Group for the first half of 2018 and comparative figures for the first half of 2017 and for the year 2017 have been prepared in accordance with the accounting principles applied by the Group and with the International Financial Reporting Standards and reflect, in a true, fair and transparent manner, the economic and financial standing of the Orbis Group and its financial result.

At the same time, the Management Board of Orbis S.A. declares that according to its best knowledge the attached condensed interim financial statements of Orbis S.A. for the first half of 2018 and comparative figures for the first half of 2017 and for the year 2017 have been prepared in accordance with the accounting policy applied by the Company and with the International Financial Reporting Standards and reflect, in a true, fair and transparent manner, the economic and financial standing and financial result of Orbis S.A.

The Directors' Report on the Operations of the Orbis Group for the first half of 2018 contained in this document depicts the true image of development and achievements as well as condition of the Orbis Group, including description of main threats and risks.

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

**Gilles Clavie**

President of the Management Board, Chief Executive Officer

**Ireneusz Węglowski**

Vice-President of the Management Board

**Dominik Sołtysik**

Member of the Management Board

**Marcin Szewczykowski**

Member of the Management Board, Finance Director

Warsaw, July 25, 2018