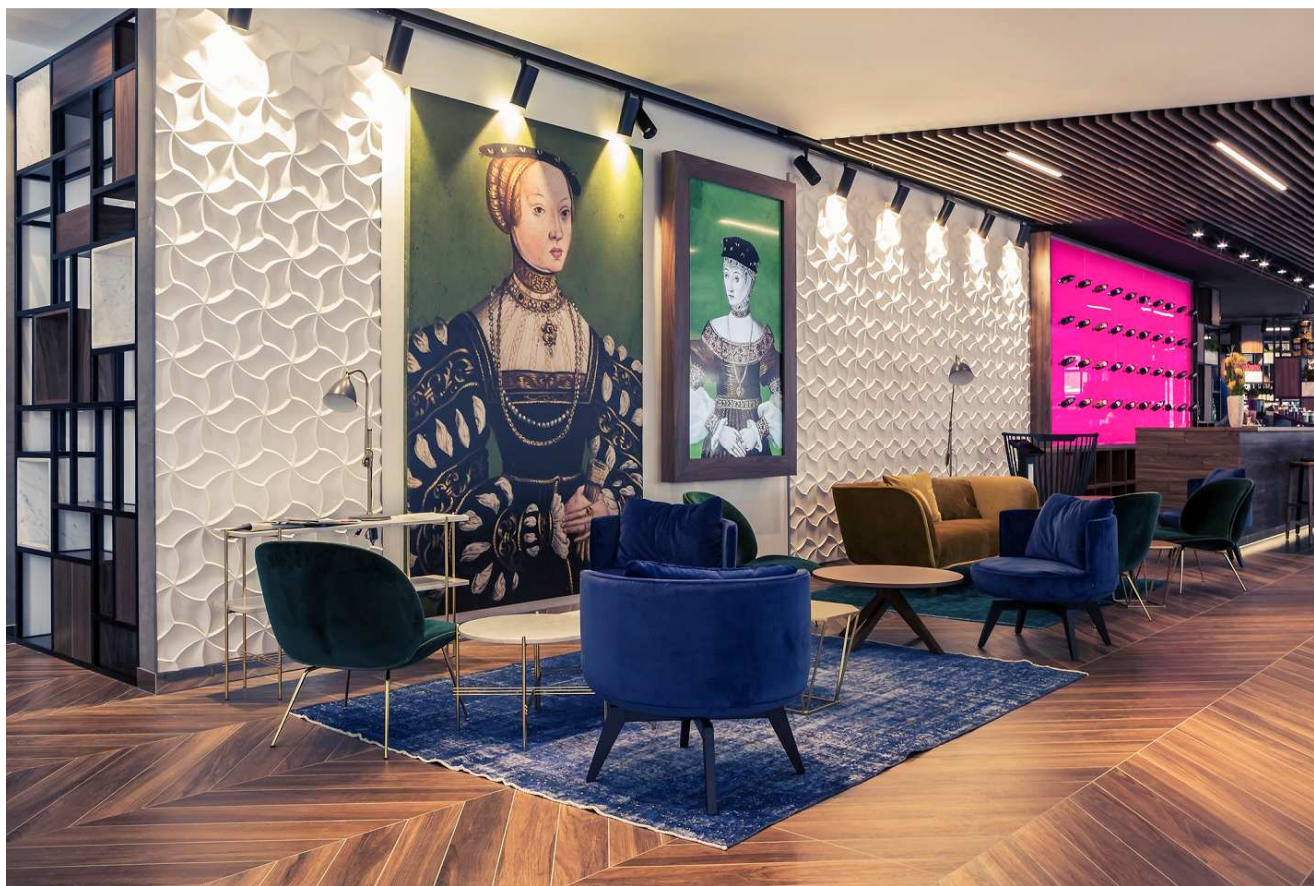




## **Orbis Group and Orbis S.A.**

### **DIRECTORS' REPORT ON THE OPERATIONS FOR 2016**



This Directors' Report on the Operations of the Orbis Group and Orbis S.A. for 2016 has been prepared in accordance with §91 and §92 of the Regulation of the Minister of Finance dated February 19, 2009, on current and periodic information published by issuers of securities and conditions for recognizing as equivalent the information required by laws of a non-member state (official journal "Dz.U." 2014, item 133).

According to §83.7 of the above Regulation, further amended by the Regulation of the Minister of Finance dated May 25, 2016, the Directors' Report on the Operations of the Orbis Group for 2016 and Directors' Report on the Operations of Orbis S.A. 2016 have been compiled in a single document.

Consolidated data is presented throughout this Report except Section 4 which contains financial information relating to Orbis S.A. for 2016. Given that Orbis S.A. is the parent company of the Group, the greater part of information contained in the remaining sections of the Report also apply to the business of Orbis S.A. Therefore, in order to fully comprehend the business of Orbis S.A., it is recommended to read the entire Report.

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## PRESENTATION OF THE ORBIS GROUP





## 1 PRESENTATION OF THE ORBIS GROUP

### 1.1 Orbis Group at a Glance

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

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

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

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

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

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

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

#### Our business model

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

#### Upscale and luxury hotels

SOFITEL  
HOTELS & RESORTS

PULLMAN  
HOTELS AND RESORTS



#### Midscale hotels

NOVOTEL  
HOTELS & RESORTS

Mercure  
HOTELS

#### Economy hotels



## Our markets

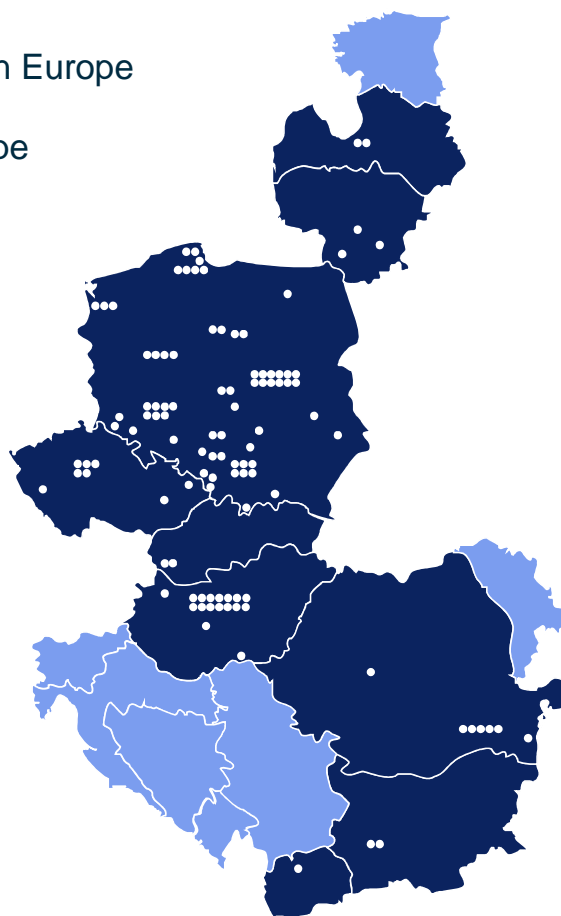
Orbis Group is the largest hotel operator in Eastern Europe, operating in 9 countries with a potential to expand into further 7 countries of the region. We are the sole licensor of Accorhotels brands in 16 countries including Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary,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

**97** hotels in Central & Eastern Europe

**10** hotels in South East Europe

**9** hotels in the Baltic States

**1/3** of our sales is  
generated outside  
Poland



## Highlights of 2016

**PLN 1 382.9 m (+9.5%)**  
*net sales*

**PLN 257.2 m (+21.2%)**  
*profit before tax*

**11.2%** *RevPAR growth*

*Financial performance is discussed on pages 25-42 of this Report.*

## Our brands



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

### **Authentic luxury hotels with a French soul**

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



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

### **Connecting performance with enjoyment**

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



**In the Orbis Group: 2 hotels,  
250 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: 22 hotels,  
5.1 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: 31 hotels,  
5.5 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.



**In the Orbis Group: 34 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 (770 hotels in the Accor Group are ISO 9001-certified) and the environment (417 hotels in the Accor Group with ISO 14001 certification).



**In the Orbis Group: 12 hotels,  
1.3 thousand rooms**

### **Comfort, unique design, all inclusive**

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



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

### **Essential comfort at a budget price**

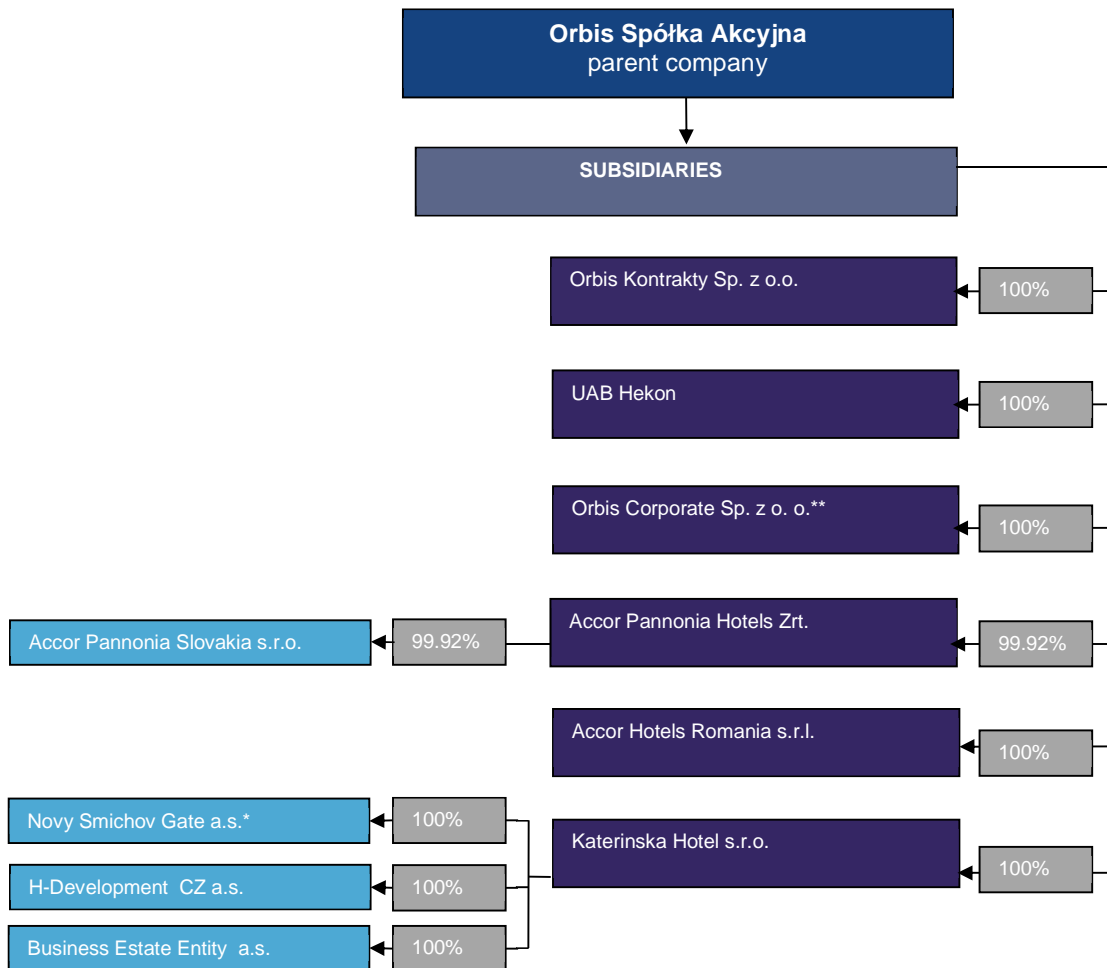
International standardised brand. Modern, simple design. Comfortable Cocoon rooms for 1-3 persons with shower and flat screen TV, Wi-Fi network and all-you-can-eat self-service breakfast buffet.

## 1.2 Structure of the Orbis Group and its Changes

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

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

On December 31, 2016, the structure of the Orbis Group was as follows:



\* On January 1, 2017, subsidiaries, i.e. Katerinska Hotel s.r.o. (the merging company) and Nový Smíchov Gate a.s. (the merged company in which the merging company held 100% of shares) merged

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

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

## **Changes in the structure of the Orbis Group**

The following changes in the structure of the Orbis Group took place in 2016:

### **Company mergers**

On September 1, 2016, the Orbis S.A. (the merging company) merged with its subsidiary Hekon-Hotele Ekonomiczne S.A. (the merged company in which Orbis S.A. held 100% of shares).

The merger took place pursuant to Article 492 § 1 point 1) of the Code of Commercial Companies and Partnerships, that is by way of transferring all the assets of the merged company to the merging company.

Given that Orbis S.A. held 100% of shares in the share capital of the merged company, under Article 515 § 1 of the Code of Commercial Companies and Partnerships, the merger took place without amending the statutes of the merging company and without increasing the share capital of the merging Company. Pursuant to Article 516 § 6 of the Code of Commercial Companies and Partnerships, the merger took place according to the so-called simplified procedure, without auditing the Merger Plan by a licensed auditor.

The objective of the merger was to simplify the organisational structure of the Orbis Group and reduce the costs of operations of companies forming the Group. The merger will also allow optimizing and centralizing tasks and functions, and in consequence improving the management process over the Group's operations.

As a result of the merger, Orbis S.A. became the direct holder of shares in UAB Hekon with its registered address in Lithuania and increased its direct share in the share capital of Orbis Kontrakty Sp. z o.o. from 80% to 100%.

More information about the merger of Orbis S.A. with Hekon-Hotele Ekonomiczne S.A. is presented in Note 12 to the Separate Financial Statements of Orbis S.A. for 2016.

### **Company disposal**

In December 2016 the subsidiary Accor Pannonia Hotels Zrt. Sold its non-controlling interest (44.46%) in Blaha Hotel Szállodaüzemeltető Kft. which owns the land on which the Nemzeti Budapest MGallery hotel stands for the sum of euro 3.6 million. The transaction was executed by way of exercise by the majority shareholder (Fernand Le Rachinel S.a.r.l.) of the right to buy out a minority interest and does not result in any change in the operations of the hotel, which will be continued on the same terms. As a result of the above-mentioned transaction, as at December 31, 2016, the Orbis Group no longer holds direct interest in Blaha Hotel Szállodaüzemeltető Kft. Until its disposal, Blaha Hotel Szállodaüzemeltető Kft. was recognized in the Consolidated Financial Statements of the Orbis Group using the equity method.

### **Company liquidation**

In 2016 the process of liquidation Orbis S.A. subsidiary, the World Trade Center Budapest Management Szolgáltató Kft. with its registered address in Budapest, was completed and in May 2016 the company was deleted from the register of business operators. The company was not consolidated.

### **Increase of company share capital**

In 2016 Orbis S.A. made additional payments to Orbis Corporate Sp. z o.o. in the amount of PLN 10 thousand to cover the costs of company operations. At the same time, impairment loss was recognised in respect of those additional payments.

## 1.3 Companies of the Orbis Group

### Operations in Poland

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

By the end of August 2016, the hotel business in Poland was also conducted by Hekon-Hotele Ekonomiczne S.A. On September 1, 2016 Orbis S.A. (the merging company) merged with Hekon-Hotele Ekonomiczne S.A. (the merged company) took place. More information about the merger is presented in the Note 12 to the Separate Financial Statements of Orbis S.A. for 2016.

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

As at December 31, 2016, the Group had 70 hotels with a total of 12 051 rooms on the Polish market. Cities with the largest number of hotels included:

- Warsaw – 12 hotels
- Wrocław – 8 hotels
- Kraków – 7 hotels

### Operations in Hungary

In Hungary the sole hotel operator belonging to the Orbis Group is Accor Pannonia Hotels Zrt.

Until December 2016, the Orbis Group also included Blaha Hotel Szállodaüzemeltető Kft., owner of the real property on which the Nemzeti Budapest MGallery hotel is located. As a result share sale transaction (described in Section 1.2), Blaha is no longer an associated company. The sale agreement did not affect the operations of the Nemzeti Budapest MGallery hotel, which is continued on the same terms under a management agreement.

As at December 31, 2016, Accor Pannonia Hotels Zrt. operated 17 hotels with 3 270 rooms, including 14 hotels in Budapest.

### Operations in the Czech Republic

In the Czech Republic, the Orbis Group has four subsidiaries:

- Katerinska Hotels s.r.o.,
- H-DEVELOPMENT CZ a.s.,
- Business Estate Entity a.s.,
- Nový Smíchov Gate a.s. (on January 1, 2017, it was merged with Katerinska Hotel s.r.o.).

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

As at December 31, 2016, the Group had 8 hotels with 1 353 rooms on the Czech market. Five hotels operate in Prague.

### Operations in other countries

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

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

As at December 31, 2016, the network of Orbis hotels located in other countries of the region comprised:

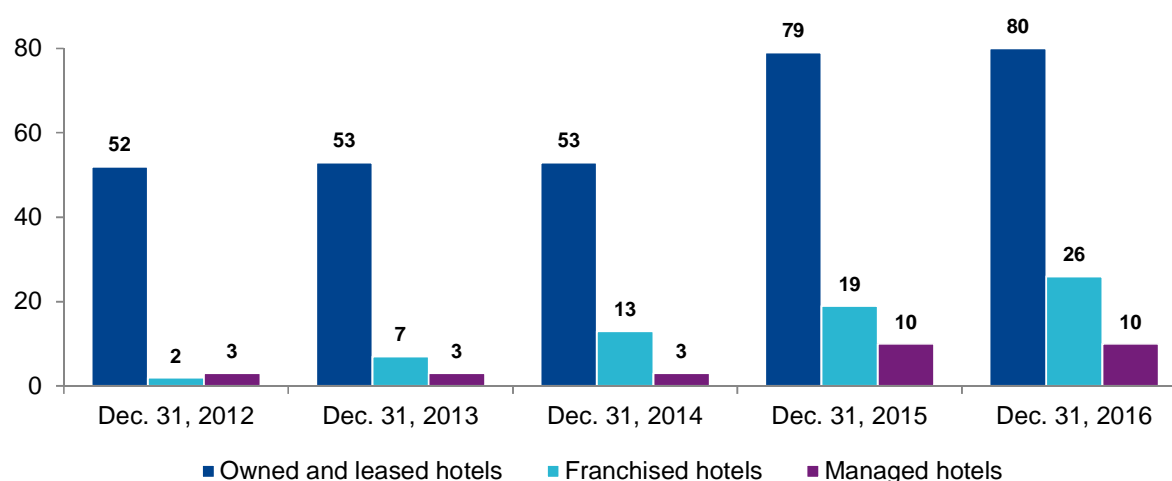
- Romania: seven hotels offering 1 335 rooms in total. Five of them, including a Pullman hotel, operated in Bucharest.
- Lithuania: five hotels, including two in Vilnius, with a total of 567 rooms.
- Latvia: four hotels in Riga, with 498 rooms in aggregate.
- Bulgaria: two hotels in Sofia, with 262 rooms.
- Slovakia: two hotels located in Bratislava, with a total of 295 rooms.
- Macedonia: one hotel in Skopje, with 110 rooms.

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

## 1.4 Hotel Portfolio of the Orbis Group

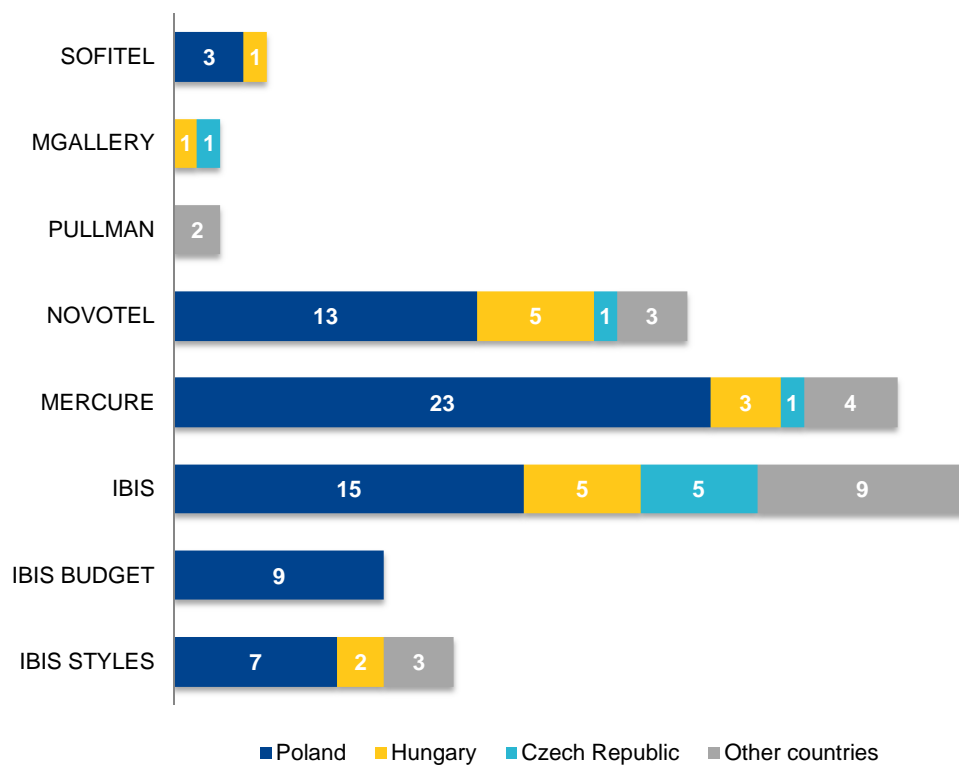
The Orbis Group is the largest hotel operator in Poland and in the Central & Eastern Europe. At the end of December 2016, the Group's network comprised a total of 116 hotels with nearly 19.7 thousand rooms. The majority of these hotels (70 hotels) operate in Poland.

Number of hotels of the Orbis Group

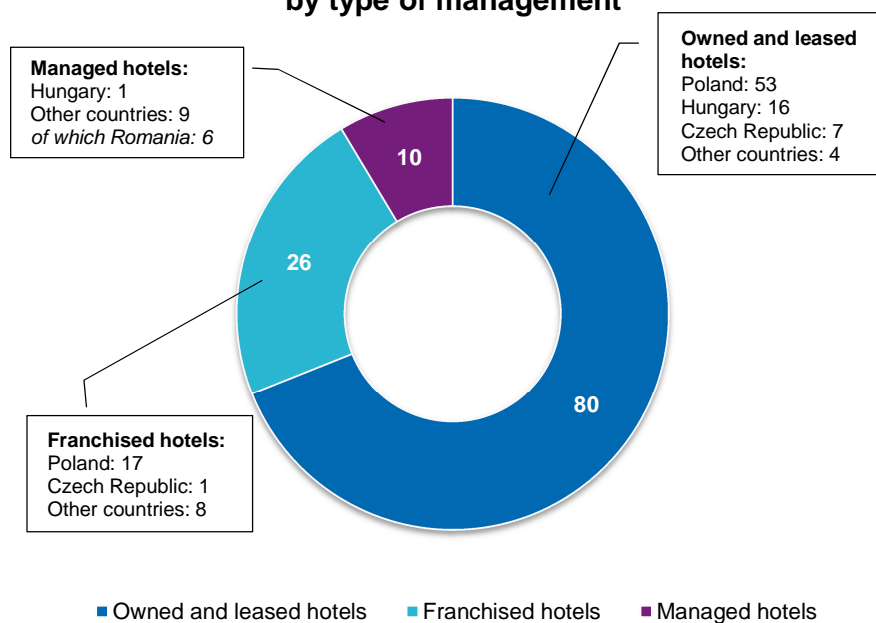


Hotel portfolio of the Orbis Group	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016/ Dec. 31, 2015
<b>Number of hotels, of which:</b>	<b>116</b>	<b>108</b>	<b>7.4%</b>
Owned and leased hotels	80	79	1.3%
Managed hotels	10	10	-
Franchised hotels	26	19	36.8%
<b>Number of rooms, of which in:</b>	<b>19 741</b>	<b>18 824</b>	<b>4.9%</b>
Owned and leased hotels	15 312	15 298	0.1%
Managed hotels	1 571	1 570	0.1%
Franchised hotels	2 858	1 956	46.1%

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



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





## 1.5 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
- 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.

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

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

This transaction fitted perfectly into the Group's strategy, contributing to a considerable intensification of its development in the region. Orbis markedly expanded the scope of its business activity: from nearly 70 hotels as at the end of 2014, located predominantly in Poland and partly in the Baltic countries, to over 120 hotels in the Eastern European region at the end of 2016.

### Direction: optimisation of capital employed

In line with the adopted strategy, the Orbis Group expands by both entering into franchise and management agreements and by deploying own development projects in business hubs and capital cities of the Eastern Europe. Presently, the Orbis network comprises almost 120 hotels that operate in 9 countries of Eastern Europe. As the sole licensor of all AccorHotels brands in 16 countries of the region, Orbis has a great potential to expand further, including markets in 7 countries where AccorHotels brands are not present yet.

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

The expansion of the hotel network through own projects and optimisation of the structure of assets, also in terms of type of ownership, creates a need to secure proper sources of financing 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 customers' expectations as regards services provided by the hotels, Orbis focuses its efforts on perfecting major areas of its business, all while putting guests' needs in the focus of its attention.

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

- Implementing state-of-the-art technologies and solutions such as e-check-in and e-check-out, virtual concierge and electronic check-in and check-out (Welcome project),
- Promoting loyalty programmes, such as Le Club AccorHotels, the programme with over 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 F&B concepts (Orbis has innovated the WineStone and NOVO<sup>2</sup> restaurant networks, concepts based on dynamically evolving trends in interior design and menu).

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

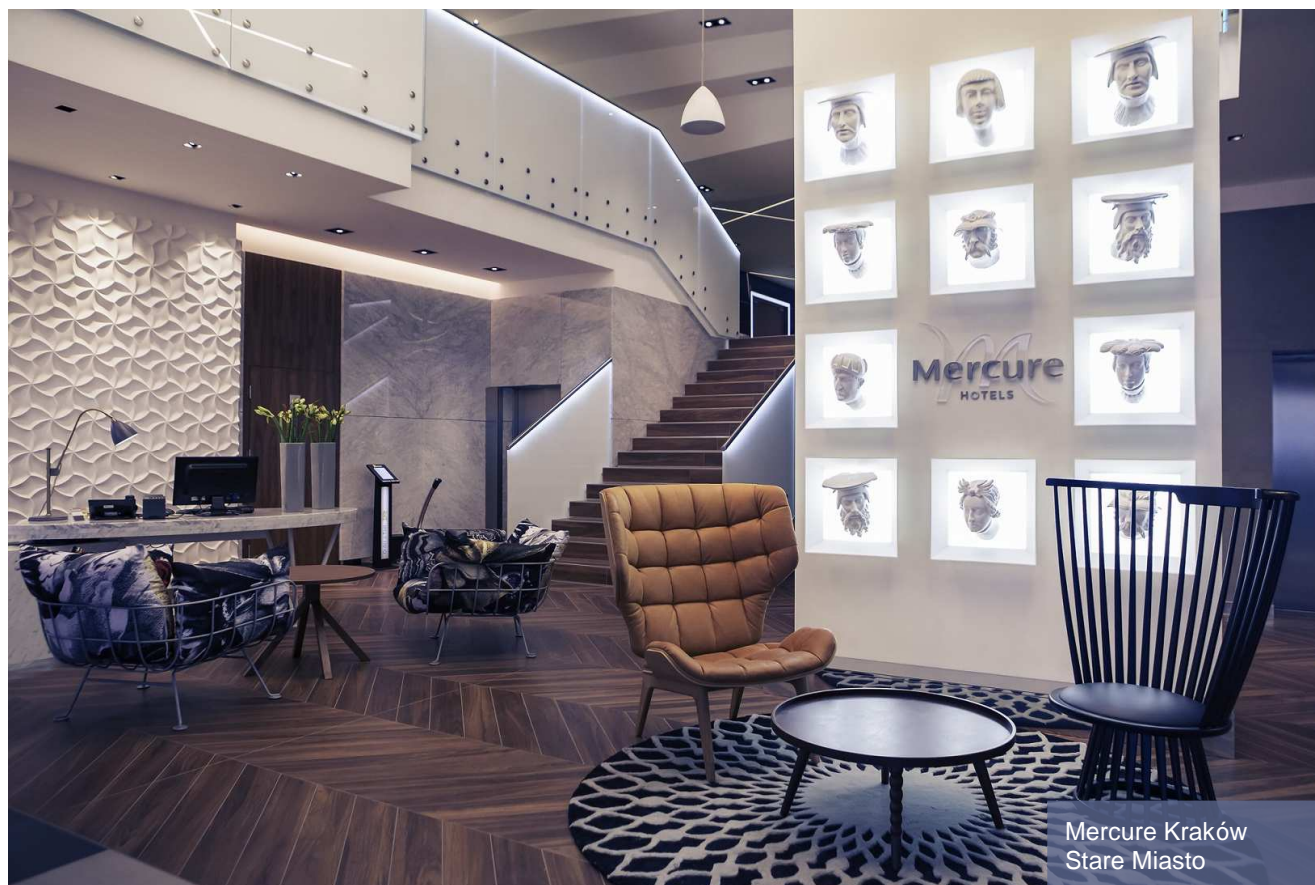
As the leader of the hospitality sector in Eastern Europe, Orbis aspires to be a trendsetter in sustainable development and ethics in the hotel market in this region.

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

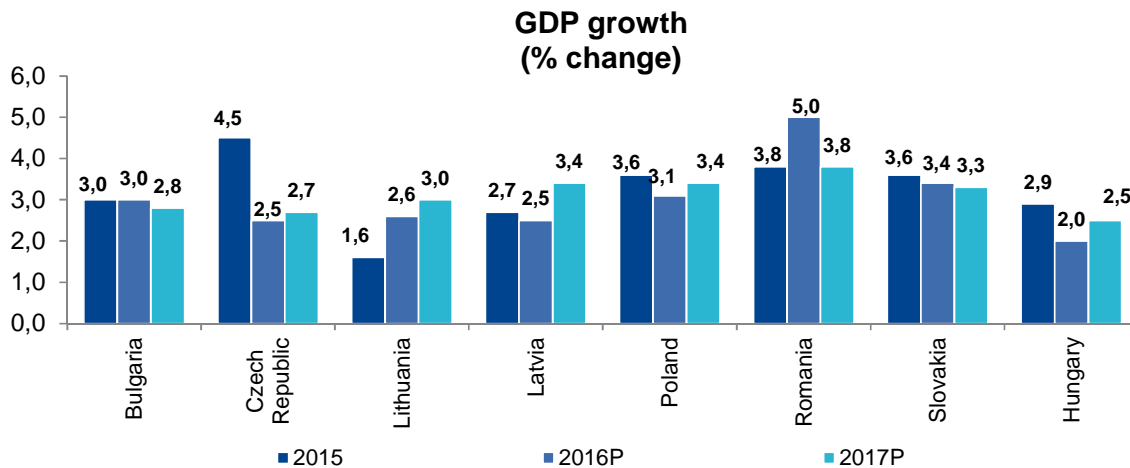


## 2 FACTORS IMPACTING THE GROUP'S OPERATIONS

### 2.1 Macroeconomic Environment

#### Economic recovery

After a slowdown in the second half of 2016, business trends in the CEE region are picking up. The projected average rate of economic growth in the countries of Central and Eastern Europe remains high at above 3% in 2016 and 2017. The projected export volumes are on the rise as well despite a slowdown in the Euroland, the main trading partner for most of the region's economies. Private consumption, which remains the main source of economic growth, is growing strong. The economic trends in the months to come may be shaped by United States' economic policies once the new President takes his office as well as by arrangements concerning the conditions of UK's exiting the European Union (BREXIT).



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

#### Bustling manufacturing sector in Poland and in the region

The PMI index showing the economic trends remains positive. In Poland PMI was at 54.3 at the end of December and accelerated after a weak start of the third quarter (50.2 at the end of October 2016). Its recovery has been fuelled by an increased inflow of export contracts. Also in the Czech Republic and Hungary, the PMI remains above 50 points, which reveals an increase in industrial turnover.

#### Improvement of the labour market

In most countries of the region, the unemployment rate dove down as compared to the same period last year, which translates into a single-digit unemployment rate. The unemployment rate in some economies (such as Poland, the Czech Republic, Romania and Hungary) reached its history lows in recent months. Thanks to a low unemployment rate (8.3% at the end of December 2016) and large number of job offers, salaries and wages are expected to accelerate on the Polish market.

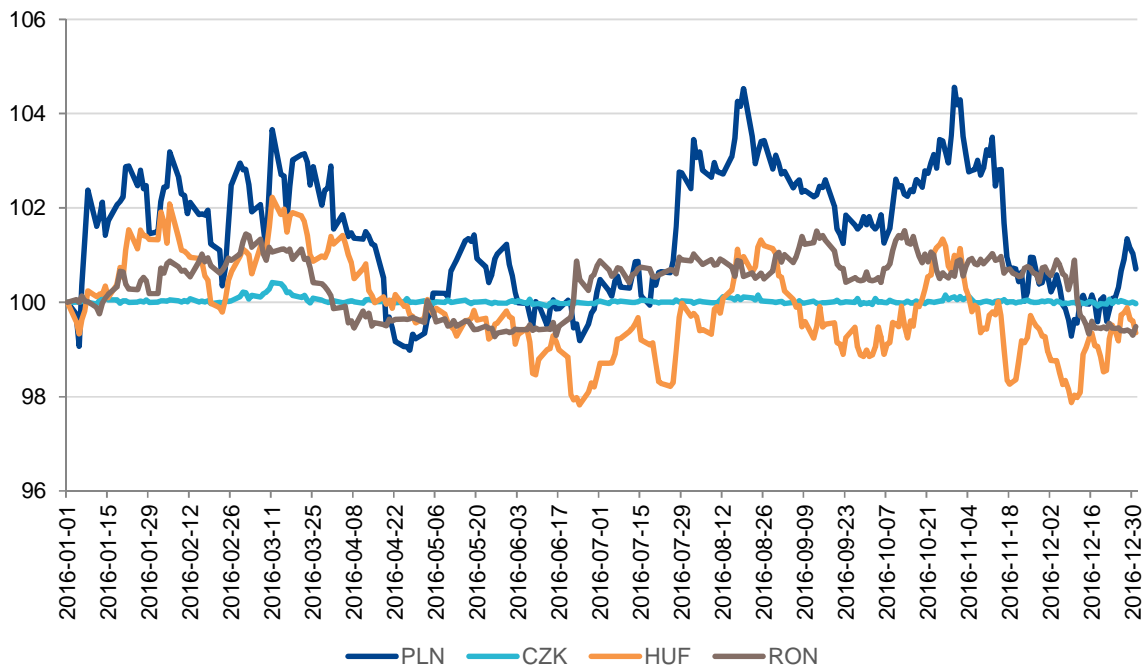
#### Reversal of inflationary trend

After a sustained period of deflation (28 months in Poland), inflation began to pick up. At the end of December, inflation reached 0.8 y/y in Poland and was higher than expected, mainly due to strong increases in food and fuel prices. The upward trend in food prices will continue in 2017. Further inflation increase should be expected in 2017 due to low base in 2016.

### Currencies' weakening against the euro

Better economic sentiment has positively impacted the currencies in the region. At the end of the year, Eastern European currencies strengthened against the euro. FX rate fluctuations were insignificant. At the end of the year, the PLN/EUR rate was around PLN 4.30, which by historical standards is the level typical for a "weak zloty". Limited fx volatility in the Central and Eastern Europe is partly a consequence of the origins of the increased risk in the world, which this time was not due to the most important economic partner of the region's countries, that is the Euroland.

**Currency quotations against the euro**  
(rates at at January, 2016 = 100,0%)



Source: Thomson Reuters

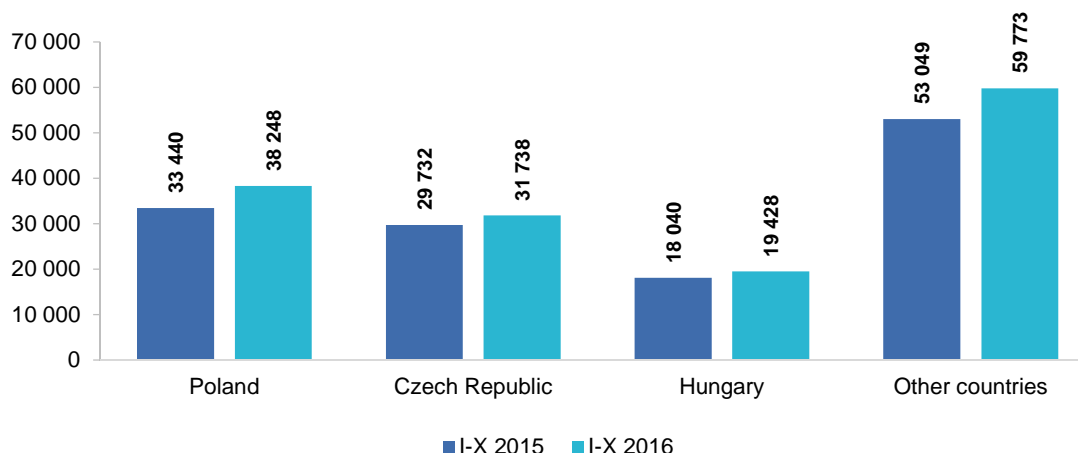
### Stabilization of the economic growth momentum forecasted

Economies of Eastern European countries have been growing two times faster than Germany, France or Italy. GDP growth forecasts in the countries where Orbis operates remain positive for the coming years and exceed 3% on average. An important factor influencing the economic trends is demographics that will exert pressure on the labour market. The employment rate decreases significantly. At present the unemployment rate in the countries of the Eastern Europe is often at record low, single-digit values. In the future, it is productivity and the retirement age that will determine the pace of economy's growth.

## 2.2 Hotel Market – Positive Trends

In 2016, the operating ratios of hotels in major cities of the Central and Eastern Europe improved. Both the Occupancy Rate and the Average Room Rate rose in the capitals of most countries where the Orbis Group operates.

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



\* Other countries comprise Lithuania, Romania and Slovakia

Source: Eurostat

From among the cities where Orbis Group hotels are located, the highest increase in occupancy rate as compared to the past year was reported in Wrocław (+5.7 pp as compared to 2015). It is attributable to the growing attractiveness of this city both as a business and tourist destination – Wrocław was the 2016 European Capital of Culture. Considerable increases in occupancy rates have also been reported on the Poznań market, where the local tourist organisation PLOT operates with robust strength (+3.6 pp as compared to 2015). A major increase in occupancy has also been reported by hotels in Bratislava and Bucharest. The highest hotel occupancy levels in 2016 have been achieved in Kraków, Warszawa, Budapest and Prague (above 75%).

In 2016 the average room rates rose in the region as well. The sharpest increase was observed in Wrocław (+13.1%) and Kraków (+11.7%) as compared to the previous year.

The steepest increase in RevPAR at the level of 22.8% was reported in Wrocław (a result of relatively high price and occupancy). Among the Central and Eastern Europe cities where the Group operates, high RevPAR was reported in hotels in Prague, Budapest and Kraków.

## 2.3 Risk Areas

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

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

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

Basic risks that may, should they transpire, have a major impact on the Group's operations have been presented below. Apart from the risks listed in this Chapter, the Group is also exposed to financial risks presented in the Consolidated Financial Statements of the Orbis Group for 2016 (Note 31.2).



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

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

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

### **Competition risk**

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

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

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

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

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

### **Reputational risk**

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

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

## Legal risk

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

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

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

## 2.4 Corporate Social Responsibility (CSR)

Sustainability and ethics are real Orbis Group business drivers as the non-financial perspective becomes more and more important nowadays. We have, on the one hand, new regulations arriving in big steps and, on the other hand, our corporate commitments, especially the Planet 21 strategy. Orbis stakeholders – its employees, shareholders, business partners, investors, analysts and clients expect transparency and credibility which we want to deliver.

Thus, in order to ensure transparency of the company's activities, Orbis decided to apply the rules set out in the Code of Best Practices for GPW Listed Companies. Following this decision, in 2016 Orbis issued and deployed 3 binding documents: the *"Ethics & Corporate Social Responsibility Charter"*, the *"Orbis Hotel Group Diversity Charter"* aimed at promoting workplace equality and preventing discrimination so that everyone is given an unrestricted opportunity to professionally grow within the Company, and the *"Orbis Hotel Group Sponsorship Policy"*.

On the people side, Orbis is focused on attracting and retaining the best talents and supporting its employees in the era of digitalisation and cultural transformation of the entire Company. Accordingly, employees training programs in 2016 were focused not only on technical skills, for instance through the "Digital Deployment Days" series of trainings, but also on modern leadership and empowering employees' relational skills through the "Happy Guest Come Back" program that consisted of 130 hours of workshops on social media skills for representatives of 100 hotels in the region. Moreover, as regards its food&beverage strategy, Orbis is also investing in broadening the professional prospects of young chefs throughout the "Culinary Excellence" program, a series of workshops lasting from January till the end of December 2016, that bring together 200 beneficiaries - chefs, external experts and young talents from vocational schools across Poland. Taking into account the popularity and business success of the *"Culinary Excellence"* program, it has been deployed in Warsaw, Tri-City, Kraków, Wrocław and Poznań. Its continued deployment abroad on markets such as Budapest is considered.

As the leading employer with a special impact on social issues in Eastern Europe, in 2016 Orbis engaged in the HeForShe campaign with the objective to involve more men in the process of improving the situation of women in its region. Detailed objectives to be attained by 2017 were set and included understanding and championing male employees' involvement in the HeForShe campaign, driving towards parity in pay, better representation of women in Orbis Group top management and advancing knowledge of the evolving "ideal worker" and changes in the hospitality industry. Moreover, through the Women At AccorHotels Generation network in the company that at present comprises more than 230 members in Orbis Group, in 2016 we ran a series of workshops on development of soft skills and launched successive editions of the mentoring program for Orbis Group employees in Poland, the Czech Republic, Romania and Bulgaria (over 20 mentors-mentee pairs). In Poland almost 80 participants benefited from the *"Happiness At Work"* workshops and over 50 employees participated in the *"Consciously About Communication"* trainings focused on soft skills development. In Romania, 20 participants benefited from women empowerment workshops, which are the driver of further professional success for WAAG members. At present, 40% of hotel general managers in the Orbis Group are women and the Company spares no effort to maintain the gender balance in amongst its top management.

Committed to child protection policy, with the support of "Nobody's Children Foundation", in 2016 the Orbis Group trained 200 hotel employees in Poland, the Czech Republic and Budapest. We have also extended our prevention policy to our business partners by offering trainings to almost 130 employees of security firms providing professional daily services to Orbis Group hotels in Poland. Moreover, in cooperation with the ECPAT organisation in Romania, in November 2016 the Orbis Group signed the *Code of Conduct* adding its expertise to the popularisation of child and youths protection policy. This extension will enable Orbis to pursue a more effective fight against abuse of children and youths in the hotel industry.

On the environmental side, Orbis continued the "Plant for the Planet" program in two countries – in Romania through the cooperation with Mihai Eminescu Trust foundation (the reforestation program thanks to which almost 2 million trees have already been planted in Transylvania) and in Poland in cooperation with the AgriNatura foundation, thanks to which more than 6 500 organic fruit trees of traditional Polish varieties (such as the "kosztela" variety) have been planted, thus bringing substantial help to farmers owning small parcels of lands who decided to cultivate bio farming that became the only source of income for the family. Moreover, 2016 was a time of intensive work preceding the deployment of the "Planet 21" social responsibility program with new objectives for 2016-2020, including the launch of the *"Healthy & Sustainable Food Charter"* in hotels with focus on objectives such as downsizing food waste by 30% in 2020, favouring local suppliers and promoting organically & sustainably farmed products. In connection with these objectives, the menus of the NOVO<sup>2</sup> and WineStone restaurants have been revamped in the first months of 2016 in line with the *"Healthy & Sustainable Food Charter"* guidelines.

Additionally, on the initiative of employees of the ibis Bucharest Gara de Nord (Romania), a „Bio & Co” project has been launched in the Ciocanari village in Romania in cooperation with the Ateliere Fara Frontiere foundation. Beginning from April 2016, we have been helping 20 disadvantaged people to become more independent in life through a schedule of trainings and professional engagement in eco farming. This farm uses food waste from hotels as a natural organic waste and the products from that farm (vegetables and fruits) are then supplied to Orbis Group hotels in Bucharest, thus creating a closed circuit economy. The corporate Solidarity AccorHotels Foundation has been supporting this initiative with EUR 23 000 in 2016.

Moreover, the year 2016 was a special year for the Company because Orbis has been the first hotel investor in Poland to open 2 hotels (ibis Gdańsk Stare Miasto and Mercure Kraków Stare Miasto) with green BREEAM certification, thus confirming its shift to sustainable, low-carbon hotels.

## 2.5 Factors to Affect the Orbis Hotel Group's Operations in 2017

### Macroeconomic Factors

The hotel market is strongly correlated with economic trends. Thanks to stable growth of the economy in recent years in Poland and in other countries of the Central and Eastern Europe, where the Group Orbis operates, growth of the hospitality industry ratios that depict the condition of the hotel market, such as the Occupancy Rate, the Average Room Rate, and the Revenue per Available Room is observable. The favourable business climate is expected to continue in the region of Central and Eastern Europe throughout 2017, as evidenced by the GDP forecasts discussed below.

The GDP is forecasted to grow in 2017 in the majority of the countries, in which the Group operates its hotels. According to the OECD projections (OECD Economic Outlook, Volume 2016, Issue 2 dated December 17, 2016), the Gross Domestic Product at market prices in 2017 will be as follows: 3.2 in Poland, 2.5 in Hungary, 2.5 in the Czech Republic, 3.4 in Slovakia and 2.7 in Lithuania (no data is available for Romania). As compared to 2016, the highest GDP growth is projected for Hungary (+ 0.8 pts.), followed by Poland and Lithuania (+0.6 pts.). On the other hand, in Slovakia the GDP is forecasted to drop slightly (from 3.6 in 2016 to 3.4 in 2017).

The year 2017 will be a turning point for the labour market in terms of market changes, specifically, though not only, in Poland. A shift of Poland's labour market from the employer's market towards the employee's market could be observed in recent years. Low unemployment rate (8.3% in December 2016 according to the Central Statistical Office (GUS)), which dropped even below 5% in the largest cities in Poland, makes it increasingly difficult to find the right employees. Moreover, the continued stable growth of the economy will be conducive to the growth in the demand for labour. Furthermore, lowering of the retirement age in October 2017 will translate to a decrease of the working age population and an upsurge in the number of citizens who are not active in the labour market.

Faced with falling unemployment and high demand for labour, employers will have to increasingly compete for employees, thus fuelling the upward pressure on salaries. Willing to retain their current staff, companies will be in a way forced to start salary negotiations. Moreover, the minimum monthly salary in Poland rose from PLN 1 850 to PLN 2 000 (growth by 8.1%); likewise, the legal regulations providing that a person entering the labour market can earn 20% less than the minimum salary have been annulled from January 1, 2017. Yet another vital change to take effect from the beginning of 2017 is the introduction of a minimum gross hourly rate of PLN 13 per hour applicable to contracts of mandate. Besides, the provisions on social security contributions being payable on civil law contracts came into effect as from the beginning of 2016.

Changes in the labour market in 2017 will also take place in other countries, in which the Group operates. According to OECD projections, further unemployment drop is expected throughout the region in 2017. Furthermore, new legal regulations increasing the minimum monthly salary came into effect from the beginning of the year in all the countries: in Hungary the minimum salary increased by 14.9%, in the Czech Republic by 11.1%, in Romania by 16.0%, and in Lithuania and Slovakia by 8.6% and 7.4% respectively. Given that the Orbis Group employs 4 thousand employees, the above-mentioned changes in the labour market, in Poland and in other countries of the region, will impact the value of labour-related costs, which could be observed already in 2016.

The development of the hotel sector in the countries, in which the Orbis Group operates, will be supported by factors such as the growth of society affluence and the changing model of life. With a growth of the level of income, the propensity to spend on tourist services will rise as well. Thanks to improvement of the society's financial condition, traveling becomes an integral part of modern life, and the level of income predetermines the choice of destinations and accommodation.

Next to the relatively low prices, the development of tourism and improvement of transportation infrastructure in the form of new roads, railway connections and cheap flights will be the driving factor of visits to Poland and other countries, in which the Group operates is hotels. The growth in the hotel market of the Central and Eastern Europe is also correlated with the entire region being perceived as safe in the face of continued economic and political uncertainty and terrorist threat in the Western Europe.

The propensity to travel will also be impacted by a range of cultural and sports. In 2017, a number of prestigious events will take place in the largest cities of the Central and Eastern Europe. At the turn of August and September, Poland will host the Men's European Volleyball Championships 2017. The tournament will be held in Poland's largest cities: Gdańsk, Katowice, Kraków and Szczecin. In July, Wrocław will organize The World Games 2017, Warsaw will host the 2017 European Judo Championships, and in October the prestigious world music fair, namely the WOMEX World Music Expo will take place in Katowice. On the other hand, next year Budapest will host two large sporting events: 2017 World Judo Championships and the FINA World Championships.

Furthermore, the sound condition of companies in Europe boosts the demand for hotel services, which translated into a growth of the segment of corporate guests and improvement in the MICE segment in 2016. This trend is forecasted to continue in the following year.

The macroeconomic trends described above are optimistic for the hospitality industry in the coming year. Considering the sound results of 2016 and given that the occupancy rates reached a record-high level in all the markets during the past year (the average for the entire Group was 72.4%), the room rate should be the key driver of growth in 2017.

### **Portfolio management**

Asset management and development of the Group's hotel portfolio is an important pillar of its strategy. In the following year, the Group will continue its efforts to increase its market share. The Group launched works related to the construction of new hotels, namely the Styles Warszawa Centrum hotel and the ibis Styles Szczecin hotel. Completion of investment in the Novotel Poznań Centrum hotel involving the hotel's modernization and its split and a partial change into the ibis brand is scheduled for Q1 2018.

Moreover, in 2017 the Group will raise the value of its own assets by renovating the hotels owned by the Group. Major modernisations have been scheduled in the Novotel Kraków City West hotel and the MGallery Praga Old Town hotel. Sale accompanied by franchise back transactions of hotels which are non-strategic for the Group will be continued next year. A preliminary sale agreement of the Mercure Jelenia Góra hotel and the Mercure Karpacz Resort hotel as organised parts of the enterprise was signed in February 2017.

Furthermore, to optimize the hotel business by eliminating the lease-associated costs, a buyout transaction of five leased hotels in Hungary operating under the Mercure, ibis and ibis Styles brands has been finalized at the beginning of January (description in Section 7.6). A buyout transaction of the now leased the Sofitel Budapest Chain Bridge hotel is planned for May 2017.

The Group also intends to continue its expansion based on the asset light model, mainly in new locations in the region as well as in smaller cities, towns and resorts in Poland. Franchise and management agreements 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. The development plan of the Orbis Group provides for the inclusion of 27 new hotels (3 100 rooms) into the network by the year 2020. These hotels will be located in the main business hubs and in major cities, boosting the Group's presence in promising markets of the region (such as Romania and Macedonia).

### **Competition on the hospitality market**

A further increase in the supply of hotels in the region is forecasted in 2017. The prospect of a stable growth on the hotel market encourages investors to make bolder decisions on new hotel investments. Hotel operators are striving to expand their market share both by building new hotels as well as by upgrading the quality of the existing hotel base. Warsaw, Budapest, Prague and other large cities of the Central and Eastern Europe enjoy unflagging popularity amongst foreign and domestic tourists. An increase in the number of guests traveling on business who ensure high occupancy from Monday through Friday was observed in recent years. In a struggle for competitive advantage, hotel operators strive to meet customer expectations by offering all kinds of amenities. Customer focus, in particular service standards improvement, is necessary in the conditions of the growing popularity of platforms such as the AirBnB booking service. The Orbis Group continues to take actions aimed at simplifying and accelerating the processes of sale and registration of guests and providing top quality service.



## FINANCIAL RESULTS OF ORBIS GROUP



Novotel Kraków City West



### 3 FINANCIAL RESULTS OF ORBIS GROUP

#### 3.1 Major Events of 2016

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

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

On July 29, 2016, the parent company Orbis S.A. issued 200 thousand ordinary bearer bonds of ORB B 290721 series of a nominal value of PLN 1,000 each and of a total nominal value of PLN 200,000 thousand. The issue price of the bonds is equal to their nominal value. The bonds shall be redeemed on July 29, 2021. On October 20, 2016, the bonds were introduced to trading in the BondSpot alternative trading system on the Catalyst market. More information about the bond issue is provided in Note 22 to the Consolidated Financial Statements of the Orbis Group for 2016.

##### **Real property sale transactions**

In 2016 Orbis S.A. finalised the following real property sale transactions:

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

##### **The merger of Orbis S.A. with Hekon-Hotele Ekonomiczne S.A.**

On September 1, 2016, a merger of Orbis S.A. (the merging company) with Hekon-Hotele Ekonomiczne S.A. (the merged company), was entered in the National Court Register. The objective of the merger was to simplify the organisational structure of the Orbis Group and reduce the costs of operations of companies forming the Group. The merger will also allow optimizing and centralizing tasks and functions, and in consequence improving the management process over the Group's operations. More information on accounting of the merger with Hekon-Hotele Ekonomiczne S.A. is provided in Note 12 to the Separate Financial Statements of the Orbis Group for 2016.

**Sale of minority interest in Blaha Hotel Szállodaüzemeltető Kft.**

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

**Two leased hotels buyout by a subsidiary Accor Pannonia Hotels Zrt.**

On the 17 February 2016, in performance of the preliminary sale and purchase agreement signed on 24 November 2015, the subsidiary Accor Pannonia Hotels Zrt. with its registered address in Budapest, executed a final sale and purchase agreement, by virtue of which it acquired two hotels, the **Ibis Budapest Heroes Square** (139 rooms) and the **Mercure Budapest City Center** (227 rooms), which until the date of signing of this sale agreement operated on the basis of lease agreements. The hotel real property buyout transaction includes buildings in which the ibis and Mercure hotels operated together with fittings, fixtures and equipment. The aggregate price for acquisition of the hotels amounted to EUR 27,5 million.

**Hotel building purchase by a subsidiary UAB Hekon**

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

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

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

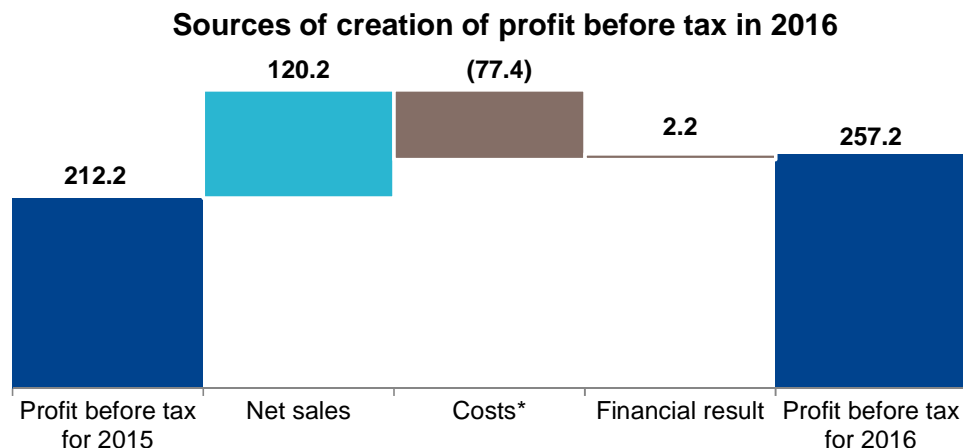
On December 23, 2016 Orbis' subsidiary – Accor Pannonia Hotels Zrt. with its registered address in Budapest, executed with Erste Group Immorent Holding GmbH with its registered address in Vienna and Subholding Immorent GmbH with its registered address in Vienna (the sellers) a buy back agreement of the following five hotels (real properties) operated by the Hungarian subsidiary company on the basis of lease agreements under Accor brands: **Mercure Budapest Korona, ibis Styles Budapest Center, ibis Budapest City, ibis Budapest Centrum and Mercure Budapest Buda.**

The buy-back transaction was executed by way of acquisition by the subsidiary from the sellers of interest representing 100% of the share capital in 5 Hotel Kft. with its registered address in Budapest (the owner of the above hotels). The total price to be paid by Accor Pannonia Hotels Zrt. under this transaction is EUR 64,1 million net with possible price adjustment depending on the audited figures of 5 Hotel Kft. published as at 31 December 2016.

Closing of the transaction (payment of the purchase price and application for registration of the new owner in 5 Hotel Kft. took place on **January 2, 2017.**

### 3.2 Financial Results of the Orbis Group

During 12 months of 2016, the Orbis Group generated profit before tax amounting to PLN 257.2 million, i.e. by 21.2% higher as compared to the figure for 2015. The growth was primarily an effect of a substantial increase in revenue.



\* Costs including the result from other operating activities

Income statement – analytical approach	2016	2015	change (%)
Net sales	1 382 879	1 262 726	9.5%
<i>Net sales "like-for-like"</i>	1 375 164	1 244 422	10.5%
EBITDAR	489 216	431 411	13.4%
Operating EBITDA	389 613	329 266	18.3%
<i>Ebitda "like-for-like"</i>	387 809	327 653	18.4%
Operating profit (EBIT) without the effects of one-off events	241 409	189 963	27.1%
Operating profit (EBIT)	264 477	221 683	19.3%
<i>Net result from financing activities</i>	(12 557)	(9 432)	-33.1%
Profit before tax	257 154	212 165	21.2%

Income statement – analytical approach	4th quarter of 2016	4th quarter of 2015	change (%)
Net sales	346 631	308 197	12.5%
<i>Net sales "like-for-like"</i>	340 504	305 886	11.3%
EBITDAR	112 327	92 088	22.0%
Operating EBITDA	86 801	66 013	31.5%
<i>Ebitda "like-for-like"</i>	84 838	66 646	27.3%
Operating profit (EBIT) without the effects of one-off events	48 438	30 656	58.0%
Operating profit (EBIT)	68 135	55 004	23.9%
<i>Net result from financing activities</i>	323	(3 430)	-
Profit before tax	73 565	51 501	42.8%

In 2016, the Group's net sales were at the level of PLN 1 382.9 million, i.e. rose by 9.5% as compared to figures for 12 months of 2015.

Positive business trends in the countries of the Central and Eastern Europe, increased demand for hospitality services as well as numerous promotional actions and flexible pricing strategy tailored to the current conditions on each individual market contributed to increase in the Occupancy Rate and the Average Room Rate and, consequently, the Revenue per Available Room (RevPAR) in the Group's hotels.

During 12 months of 2016, the Revenue per Available Room (RevPAR) in owned hotels<sup>1</sup> of the Orbis Group stood at PLN 169.3, i.e. was by 11.2% higher compared to the like-for-like figures for 2015. In the fourth quarter of 2016 the Revenue per Available Room in owned hotels of the Orbis Group reached PLN 161.5, i.e. it grew by 11.8% as compared to the past year.

Operating ratios of managed and franchised hotels by main category	2016	2015	change (%)	2016	2015	change (%)
	as reported			like-for-like		
<b>Orbis Hotel Group</b>						
Occupancy rate (%)	72.4	69.7	2.7 p.p.	72.4	70.0	2.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	233.8	216.3	8.1%	233.7	217.5	7.4%
Revenue per Available Room (RevPAR) in PLN	169.2	150.8	12.2%	169.3	152.3	11.2%

Operating ratios of owned hotels by main category	4th quarter of 2016	4th quarter of 2015	change (%)	4th quarter of 2016	4th quarter of 2015	change (%)
	as reported			like-for-like		
<b>Orbis Hotel Group</b>						
Occupancy rate (%)	70.1	65.3	4.8 p.p.	70.3	66.3	4.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	230.3	216.5	6.4%	229.7	217.7	5.5%
Revenue per Available Room (RevPAR) in PLN	161.4	141.3	14.2%	161.5	144.4	11.8%

A detailed list of the Orbis Group's operational ratios for 2016 and for Q4 2016 from various angles was attached as Appendix No. 1 to this Report.

There were no significant changes in the **structure of Group's revenue from major products and services** versus 2015. During 12 months of 2016, room revenue totalled PLN 942.4 million, which accounted for 68.2% of all the Group's revenues. The room revenue increased by 11.4% as compared to the past year.

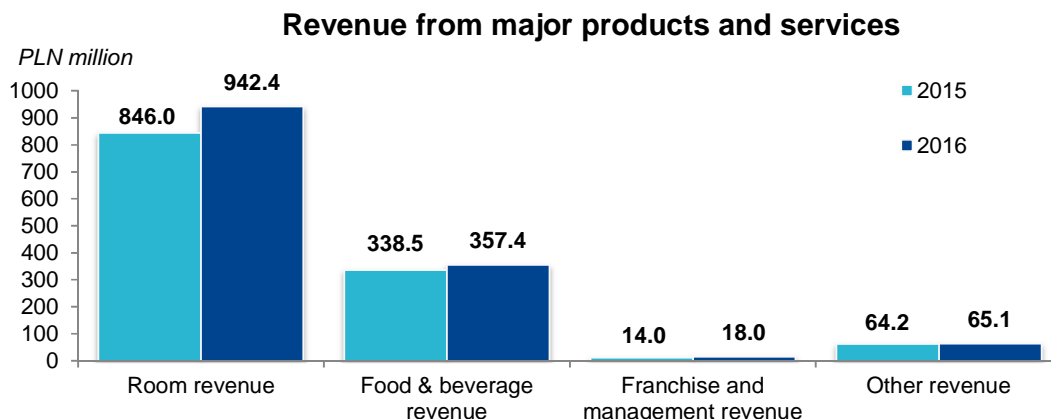
Growth in the number of guests in Orbis Group hotels had a positive impact on food&beverage revenue, which stood at PLN 357.4 million across the entire Group, accounting for 25.8% of consolidated revenues. As compared to the data for 2015, the food&beverage revenue increased by 5.6%.

Revenue from franchise and management contributed 1.3% to the Group's revenue. As compared to the figures for the past year, revenues from franchise and management grew by 28.0%. It is particularly attributable to the expansion of the Group's hotel portfolio from 19 franchised hotels as at December 31, 2015 to 26 hotels at the end of 2016.

Other revenue, comprising chiefly proceeds from real property and car park rentals, amounted to PLN 65.1 million and accounted for 4.7% of consolidated revenue.

<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.

In 2016 and 2015, the structure of revenue from major products and services of the Orbis Group was as follows:



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

Growth in expenses was lower than the revenue growth momentum. Consequently the Group generated EBITDAR of PLN 489.2 million, which translates into an increase by 13.4% versus 2015.

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

As a result of the above, the **operating EBITDA grew by 18.3% up to PLN 389.6 million**, while the **operating result excluding one-off events amounted to PLN 241.4 million, i.e. improved by 27.1%** against 12 months of 2015.

In 2016, the Orbis Group reported positive result of PLN 23.1 million from one-off events. Gain of PLN 27.6 million from the sale of real property (more information on the sale of the real property in 2016 was provided in Section 3.1) has been increased by fixed assets impairment (PLN 1.5 million), and reduced by restructuring costs (PLN 2.3 million) and other costs (PLN 3.8 million), including costs incurred in connection with the redemption of leased hotels. As a result, the Group generated operating profit (EBIT) in the amount of PLN 264.5 million (growth by 19.3%).

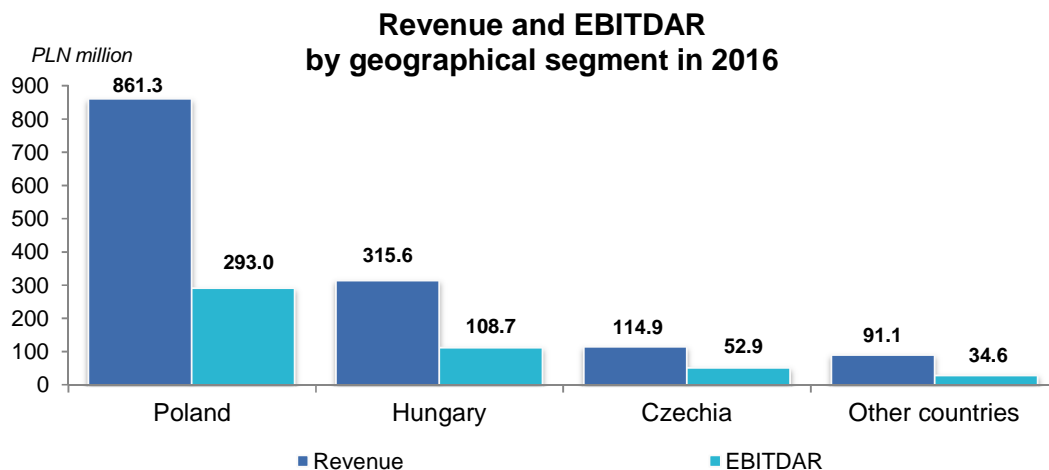
The sale of the associated company Blaha Hotel Szállodaüzemeltető Kft. (described in Section 1.2) had a positive impact on the Group's results for 2016. The Orbis Group generated a profit of PLN 5.1 million on this transaction.

During 12 months of 2016, the Group generated lower result on financing activities as compared to the past year. A major part of financial income in 2015 was generated due to foreign exchange gains resulting from translation of cash assets and settlement of transactions in foreign currencies.

The Orbis Group 2016 with a net profit of PLN 207.1 million, so the result was by 14.1% higher compared to figures for 2015.

### 3.3 Financial Results Across Geographical Segments

Across geographical segments, the highest share to the Group's net sales was contributed by hotels located in Poland (62.3%) and in Hungary (22.8%). Net sales generated by hotels located in the Czech Republic and in other countries accounted for, respectively, 8.3% and 6.6% of consolidated sales.



#### Poland

Financial results (in PLN million) and operating ratios of owned hotels located in Poland	2016	2015	% change
Net sales	861.3	797.0	8.1%
EBITDAR	293.0	257.8	13.7%
Operating EBITDA	285.2	250.3	13.9%
EBIT without the effects of one-off events	163.5	133.0	22.9%
Capital expenditure	139.9	104.4	34.0%
Occupancy rate (%)	70.8	68.2	2.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	223.7	208.3	7.4%
Revenue per Available Room (RevPAR) in PLN	158.4	142.0	11.5%
Clients: Business	66.4%	58.8%	7.6 p.p.
Clients: Leisure	33.6%	41.2%	-7.6 p.p.

**Hotels operating in Poland generated net sales of PLN 861.3 million, which accounts for 62.3% of consolidated revenues for 2016.** As compared to the past year, hotels in Poland recorded a growth in sales by 8.1%. Rooms revenue was higher thanks to a greater number of rooms sold and higher Average Room Rate.

The largest increase in the quantity of rooms sold was reported in the segment of individual guests, with a predominance of business guests. It was possible thanks to a flexible pricing strategy tailored to the conditions on individual markets and the introduction of attractive business packages. The highest sales growth in this segment was reported by hotels in Warsaw, followed by Wrocław, Tri-City, Poznań and Kraków. The World Youth Day in Kraków, events accompanying the celebrations of Wrocław being the European Capital of Culture and sporting events, cultural festivals and concerts organized in large cities also had a positive impact on the individual guests' segment.



A significant growth has also been reported in the MICE segment due to a number of trade fairs, conferences, and industry meetings. Also large sporting events have contributed to this growth, including above all the European Men's Handball Championship, the IIHF Ice Hockey World Championship Division I in Katowice, the European Fencing Championships in Toruń and the Ju-Jitsu World Championship in Wrocław. Other major events of 2016 included the medical congress and the Intel Extreme Masters World Championship Katowice, the Top Medical Trends congress in Poznań, anniversary of Poland's baptism in Poznań, the European Economic Congress in Katowice, the International Conference on Cardiology in Zabrze, accommodation of NATO forces in connection with the Anaconda-16 project in Toruń and Warsaw, the NATO summit in Warsaw, the Film Festival in Gdynia, the Henryk Wieniawski International Violin Competition in Poznań (organised every 5 years) and the European film awards in Wrocław.

## Hungary

Financial results (in PLN million) and operating ratios of owned hotels located in Hungary	2016	2015	% change
Net sales	315.6	280.1	12.7%
EBITDAR	108.7	95.3	14.1%
Operating EBITDA	49.8	32.3	54.2%
EBIT without the effects of one-off events	37.0	24.1	53.4%
Capital expenditure	147.1	13.6	981.6%
Occupancy rate (%)	73.8	70.4	3.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	248.6	229.8	8.2%
Revenue per Available Room (RevPAR) in PLN	183.3	161.7	13.4%
Clients: Business	43.9%	40.5%	3.4 p.p.
Clients: Leisure	56.1%	59.5%	-3.4 p.p.

**Hotels in Hungary generated operating income at the level of PLN 315.6 million, accounting for 22.8% of the Orbis Group's revenue.** Higher-than-last-year's results (by 12.7%), both in the rooms and food&beverage segments, were achieved due to higher occupancy rates and Average Room Rates.

Major increase in the quantity of rooms sold was possible thanks to high demand for accommodation services in Budapest, both in the segment of individual guests and groups, with the predominance of business guests. High demand has driven up rates during the high occupancy seasons.

A positive contribution from the MICE segment was also reported in 2016. MICE growth is attributable to a greater quantity of business groups, mainly one-off group stays and conferences. In addition, the following events had a positive effects on the results: the European Shooting Championships, the OECD congress, the Deutsche Telekom conference, the Hungarian Formula 1 Grand Prix, the Conference of the European Petrochemical Association (EPCA). Furthermore, sales to airlines by the Novotel, Mercure and ibis brands also grew in 2016. The positive trend in Hungary is also observed in the segment of corporate guests, mainly thanks to long-term projects implemented by international companies and in the tourist groups segment.

## The Czech Republic

Financial results (in PLN million) and operating ratios of owned hotels located in the Czech Republic	2016	2015	% change
Net sales	114.9	105.2	9.2%
EBITDAR	52.9	48.2	9.8%
Operating EBITDA	39.1	35.1	11.4%
EBIT without the effects of one-off events	27.5	23.7	16.0%
Capital expenditure	12.0	2.7	344.4%
Occupancy rate (%)	75.7	75.5	0.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	250.2	225.9	10.8%
Revenue per Available Room (RevPAR) in PLN	189.5	170.5	11.1%
Clients: Business	39.2%	35.0%	4.2%
Clients: Leisure	60.8%	65.0%	-4.2%

**In 2016, revenues of 8 hotels located in the Czech Republic totalled PLN 114.9, which represents 8.3% of the Group's revenue for 2016.** These hotels reported a 9.2% growth in revenue from sales as compared to the past year mainly due to a higher Average Room Rate. The occupancy rate in 2016 was slightly higher than in the past year.

The greatest growth was reported in the segment of individual business guests, which is attributable to, amongst others, special packages business and higher sales via online distribution channels. Positive trend was also reported in the corporate segment. In turn, leisure segments declined significantly as compared to 2015 (during which major sporting events, such as the IIHF World Championship, the UEFA European Under-21 Championship, and the 2015 Fed Cup in Prague) as well as numerous events related to the European Capital of Culture in Pilsen took place. In addition, reduction in the number of rooms sold in the segment of tourist groups was reported due to a change in the strategy involving reduced accessibility for these groups and greater availability for business guests. The MICE results were at past year's level.

## Other countries

Financial results (in PLN million) and operating ratios of owned hotels located in other countries	2016	2015	% change
Net sales	91.1	80.4	13.3%
EBITDAR	34.6	30.1	15.0%
Operating EBITDA	15.5	11.5	34.8%
EBIT without the effects of one-off events	13.4	9.1	47.3%
Capital expenditure	1.9	1.6	18.8%
Occupancy rate (%)	82.1	79.2	2.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	270.3	245.1	10.3%
Revenue per Available Room (RevPAR) in PLN	222.0	194.1	14.4%
Clients: Business	58.7%	59.3%	-0.6%
Clients: Leisure	41.3%	40.7%	0.6%

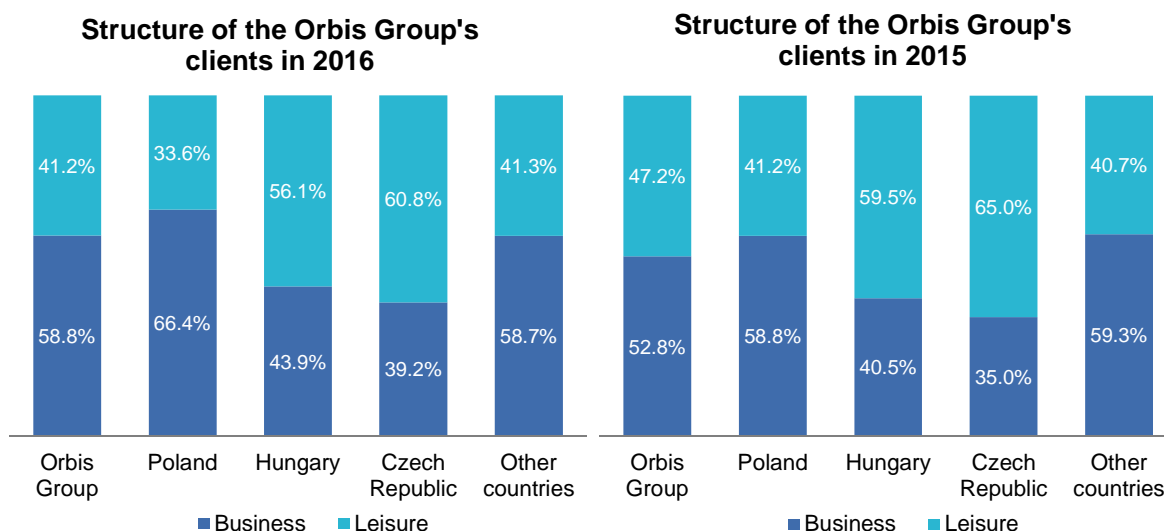
**In 2016, revenues generated in other countries, in which hotels owned by the Group are located, reached the level of PLN 91.1 million, i.e. 6.6% of consolidated revenues.** Hotels located in Lithuania, Slovakia and Romania reported sales revenues higher by 13.3% than in the corresponding period of the past year.

The Novotel in Vilnius achieved higher operating revenue as compared to past year due to higher Average Room Rate and despite the occupancy rate being slightly lower than in the past year. The number of guests rose both in the corporate guests segment as well as in the leisure groups segment. Decline was reported in the MICE segment owing to smaller number of business groups and conferences, as well as a big medical congress in the past year.

Slovakia reported increase in revenues from hotel rooms in 2016. This country is represented by two owned hotels located in Bratislava: Mercure and ibis. Both these hotels generated both increased occupancy rate and higher Average Room Rate. The growth in the number of rooms sold during the reporting period occurred in all the segments of the business. Slovak Presidency of the EU Council in H2 2016 generated high demand during this period and contributed to a higher Average Room Rate, which resulted in an increase in the segment of business groups. The increase was also reported in the segment of individual guests, and in the corporate segment.

The Novotel in Bucharest achieved a growth in operating revenue thanks to a higher occupancy rate and higher Average Room Rate. Increase in the number of rooms sold was reported in the segment of individual guests, chiefly thanks to business guests. Decline in the corporate guest segment caused by completion of larger projects running in 2015 was set-off by a greater number of individual guests. Decline was also reported in the business group segment, above all owing to major one-off cultural events held in the past year.

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



### 3.4 Financial Results per Operating Segments

The Orbis Group distinguishes two reportable operating segments:

- Up & Midscale hotels that comprise hotels of the Sofitel, 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 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 2016.

Operating segments – analytical approach (in PLN million)	2016	2015	% change
<b>Up&amp;Midscale Hotels</b>			
Net sales	1 059.0	984.6	7.6%
EBITDAR	422.0	377.3	11.8%
Operating EBITDA	337.2	289.4	16.5%
EBIT without the effects of one-off events	232.1	188.5	23.1%
Capital expenditure	241.3	105.5	128.7%
Occupancy rate (%)	71.9	68.4	3.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	267.6	243.9	9.7%
Revenue per Available Room (RevPAR) in PLN	192.3	166.7	15.4%
<b>Economy Hotels</b>			
Net sales	292.3	252.8	15.6%
EBITDAR	144.4	124.5	16.0%
Operating EBITDA	130.9	111.8	17.1%
EBIT without the effects of one-off events	91.7	76.5	19.9%
Capital expenditure	52.8	12.6	319.0%
Occupancy rate (%)	73.4	72.9	0.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	168.1	157.6	6.7%
Revenue per Available Room (RevPAR) in PLN	123.4	114.9	7.4%

During 12 months of 2016, revenue of the Up&Midscale segment was by 7.6% higher as compared to 2015. This growth was driven predominantly by higher occupancy rate in owned hotels (up by 3.5 p.p.) coupled with higher Average Room Rates (growth by 9.7%). Revenue of the economy hotel segment rose by 15.6%. The reported growth momentum is attributable to higher Average Room Rates (up by 6.7%) and slightly higher occupancy (by 0.5 p.p.).

The average Revenue per Available Room ranged from PLN 123.4 in economy hotels to PLN 192.3 in hotels of the Up&Midscale segment and from PLN 114.9 to PLN 166.7 respectively, during the same period of the past year (like-for-like). RevPAR growth is attributable in particular to higher average room rates (ARR growth rate in economy hotels by 6.7% and by 9.7% in hotels of the Up&Midscale segment) as well as higher Occupancy Rate as compared to nine months of 2015 (increase of occupancy by 0.5 pp in economy hotels and by 3.5 pp in hotels of the Up&Midscale segment). Revenue per Available Room in the fourth quarter of the year was higher than the 12-month average and stood at PLN 120.3 in economy hotels and PLN 182.7 in 3-star hotels and upscale segment hotels.

### 3.5 Statement of Financial Position

Statement of financial position – analytical approach	2016	Share in total assets / equity & liabilities	2015	Share in total assets / equity & liabilities	2016/ 2015
Non-current assets	2 193 359	76.7%	2 088 391	84.1%	5.0%
Current assets	643 145	22.5%	372 448	15.0%	72.7%
Assets classified as held for sale	23 631	0.8%	23 057	0.9%	2.5%
<b>TOTAL ASSETS</b>	<b>2 860 135</b>	<b>100.0%</b>	<b>2 483 896</b>	<b>100.0%</b>	<b>15.1%</b>
Equity	1 950 676	68.2%	1 783 288	71.8%	9.4%
Non-current liabilities	624 954	21.9%	454 837	18.3%	37.4%
Current liabilities	284 505	9.9%	245 771	9.9%	15.8%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2 860 135</b>	<b>100.0%</b>	<b>2 483 896</b>	<b>100.0%</b>	<b>15.1%</b>

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

On December 31, 2016, the Group's assets totalled PLN 2 860.1 million and rose by 15.1% comparing to December 31, 2015.

The major components of the Group's assets are non-current assets, out of which the predominant item are property, plant and equipment valued at PLN 2 037.3 million, accounting for 71.2% of assets. Due to the type of business pursued, the major item of property, plant and equipment are buildings and structures as well as land and titles to perpetual usufruct of land. Property, plant and equipment increased by 5.9% as compared with its value as at December 31, 2015. This increase is above all attributable to capital expenditure of PLN 177.0 million incurred for development of new hotels and upgrading the standard of the existing hotels (description in Section 3.8). Moreover, in 2016 a buyback transaction of two hotels so far leased (the ibis Budapest Heroes Square and the Mercure Budapest City Center) was executed by a subsidiary, Accor Pannonia Hotels Zrt. The capital expenditure incurred for the buyback of these hotels totalled PLN 124.0 million. The value of property, plant and equipment was also impacted by depreciation for 2016 (PLN -144.5 million ) and impairment (PLN +2.2 million).

Intangible assets (mainly goodwill) valued at PLN 112.7 million also constitute a major item of non-current assets. Their value dropped by 1.3% as compared to December 31, 2015. Their contribution to the Group's assets was at 3.9% at the end of 2016.

At the end of 2015, the non-current assets of the Orbis Group included interest in an associated company Blaha Hotel Szállodaüzemeltető Kft. (PLN 10.2 million). In December 2016, Accor Pannonia Hotels Zrt. Sold its minority holdings (44.46%) in Blaha (more information is provided in Section 1.2). As a result of the above-mentioned transaction, the Group no longer had any investments in associates as at December 31, 2016.

As regards current assets, the most significant changes in 2016 comparing to 2015 occurred with regard to cash and cash equivalents, trade receivables, and other current financial assets.

At the end of 2016, the Orbis Group reported total cash and cash equivalents of PLN 540.8 million (18.9% of assets). A two-fold growth of this item in comparison to December 2015 resulted mainly from higher cash inflow from operating activity as compared to the past year and the bond issue of PLN 200 million, which took place in July 2016. 52.2% of cash balance as at December 31, 2016, is the cash deposited on the escrow account by a subsidiary Accor Pannonia Hotels Zrt in connection with a buyback transaction of five leased hotels.

Increase of trade receivables by 16.6% as compared to December 31, 2015, is the result of higher sales of hotel rooms in December 2016 than in the past year.

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

A major item of current assets as at December 31, 2016 were other current receivables (PLN 33.2 million). This item includes mainly receivables from the sale of non-current assets, VAT receivables and prepayments. At the end of 2016, the Group had receivables from sale of non-current assets amounting to PLN 14.7 million (44.3% of other current receivables), including PLN 6.2 million from the sale of non-hotel real property located at Łopuszańska Street in Warsaw, PLN 4.5 million from the sale of the Mercure Mrągowo Resort & SPA hotel and PLN 3.9 million from the sale of an organised part of the enterprise of the Mercure Kasprowy hotel in Zakopane. At the end of 2015, the receivables from sale of non-current assets equalled PLN 3.4 million (and related to the sale of an organised part of the enterprise of the Mercure Kasprowy hotel in Zakopane); it was received at the beginning of January 2016.

As at December 31, 2016, the Group reported lower prepayments as compared with the end of 2015 (by 13.4%), including mainly prepayments under the lease of real properties as well as lower receivables under VAT.

The Group financed its operating activities predominantly with its own funds. As at December 31, 2016, the Group's equity totalled PLN 1 950.7 million (68.2% of equity and liabilities), and the Group's net debt stood at PLN 83.5 million (4.3% of equity).

As at December 31, 2016, Orbis S.A. had the following non-current liabilities bearing interest:

- liabilities under the bond issue of PLN 501.4 million (17.5% of equity and liabilities),
- borrowings of PLN 87.7 million (3.1% of the balance sheet total),

and current liabilities (borrowings) of PLN 35.3 million (1.2% of equity and liabilities).

As at December 31, 2015, the Group's liabilities under the bond issue totalled PLN 299.2 million. On July 29, 2016, Orbis issued a second tranche of 200 thousand corporate bonds of a total nominal value of PLN 200.0 million.

Borrowings totalled in aggregate PLN 122.9 million at the end of 2016 and decreased by PLN 36.2 million as compared to December 31, 2015 as a result of loan repayments.

The information concerning borrowings and bonds as well as collaterals established in connection with the debt has been provided in Note 21, Note 22 and Note 30 of the Consolidated Financial Statements of the Orbis Group for 2016.

A major item of current liabilities are trade payables. Increase in the balance of trade payables is connected predominantly with higher occupancy than at the end of 2015, resulting in increased purchases in the Group's hotels. Increased sales also triggered a rise in payables to owners of online reservation platforms. In addition, higher trade payables as at December 31, 2016, resulted from settlement of payments based on invoices for lease of a number of hotels after the balance sheet date.

Decline in non-current liabilities during 12 months of 2016 (from PLN 34.7 million at the end of 2015 to PLN 24.9 million at the end of December 2016) is attributable particularly to lower capital expenditure in Q4 2016 as compared to the same period last year. Capital expenditure incurred in 2016 amounted to PLN 300.9 million, of which PLN 64.6 million, i.e. 21.5% were incurred in Q4 2016. On the other hand, past year's capital expenditure amounted to PLN 122.4 million, of which the expenditure incurred in Q4 totalled PLN 74.9 million (61.2% of annual capex), i.e. 10.3 million more than in Q4 2016.

At the end of 2015, a substantial part of liabilities relating to non-current assets of the Orbis Group concerned major investment projects completed in 2016, i.e. the construction of the Mercure Kraków Stare Miasto hotel and the ibis Gdańsk Stare Miasto hotel, and the rebranding of the former Orbis Wrocław hotel into Novotel and ibis hotels.

Liabilities related to non-current assets at the end of 2016 are connected with continuation of works started in 2016, including works in the Novotel Poznań Centrum, Sofitel Warszawa Victoria, Novotel Szczecin, Novotel Kraków Centrum and Novotel Wrocław Centrum hotels.

Current deferred income include in particular advance payments for hotel rooms (72.1%). Moreover, this item also includes earnest money paid as part of sale transaction of title to perpetual usufruct of land located at Heweliusza Street in Gdańsk (PLN 2.1 million) and an item relating to real property lease (PLN 3.9 million).

A major item of current liabilities are other current liabilities which include mainly tax liabilities, social security liabilities and accrued expenses under employee benefits (including bonuses and unused vacation time) and public law liabilities (incl. mainly liabilities under disputed fees for perpetual usufruct of land).

### 3.6 Statement of Changes in Equity

On December 31, 2016, equity amounted to PLN 1 950.7 million against PLN 1 783.3 million at the end of 2015.

The retained earnings of the Orbis Group include a net profit of PLN 207.1 million for the year 2016. Increase of retained earnings is also attributable to settlement of the payment of EUR 4 million (equivalent to PLN 17.3 million) received from Accor S.A. in connection with the agreement signed on January 15, 2016 (described in Note 33.2 to the Consolidated Financial Statements of the Orbis Group for 2016). Also the income tax resulting from this transaction was posted to equity. The dividend for 2015 amounting to PLN 69.1 million had an adverse impact upon the value of retained earnings as at the end of 2016.

The change in the Group's other reserves in 2016 resulted from valuation of the derivative instrument hedging against the risk of interest rate change related to the bond issue of 2015. The information concerning this hedge was provided in the Note 32.3 to the Consolidated Financial Statements of the Orbis Group for 2016.

The foreign currency translation reserve of the Group increased from PLN 2.8 million at the end of 2015 up to PLN 17.4 million as a result of translating foreign operations into the currency of presentation (PLN). The level of the foreign currency translation reserve was greatly impacted by the growth of average rates of exchange of foreign currencies as at the end of December 2016 as compared to December 31, 2015 (foreign currency applied for translation of figures of foreign subsidiaries was in Note 1 to the Consolidated Financial Statements of the Orbis Group for 2016).

### 3.7 Statement of Cash Flows

Statement of cash flow	2016	2015	% change
Cash generated by operating activities	380 887	291 292	32.6%
Net cash used in investing activities	(211 963)	(630 748)	66.4%
Net cash generated by financing activities	97 570	374 556	-74.0%
<b>Total net cash</b>	<b>266 494</b>	<b>35 100</b>	<b>659.2%</b>
<b>Cash and cash equivalents at the end of period</b>	<b>540 794</b>	<b>271 683</b>	<b>99.1%</b>

In 2016 the change in the balance of cash amounted to PLN 266.5 million (PLN 35.1 million in 2015) and it resulted from the following factors:

- **Cash flows from operating activities**

A considerable rise in sales in 2016, achieved both thanks to higher prices and increase in occupancy rate, resulted in an improvement of pre-tax earnings and directly in higher operating cash flows compared to last year. Consequently, operating activities generated cash flows of PLN 380.9 million (PLN 291.3 million in 2015).

- **Cash flows from investing activities**

The main source of the negative cash flows of PLN 212.0 million during the reporting period (PLN 630.7 million in 2015) was the expenditure for plant, property and equipment (PLN 291.5 million).

A significant portion of cash was allocated for the buyout by Accor Pannonia Hotels Zrt. of two formerly leased hotels (the ibis Budapest Heroes Square hotel and the Mercure Budapest City Center hotel). As part of this transaction, the Hungarian subsidiary paid EUR 24.2 million (approx. PLN 107 million) against the agreed price of PLN 27.5 million (the difference between the total agreed price and set-offs resulting from loans of EUR 2 million granted and prepayment of EUR 1.3 million paid in December 2015).



The remaining expenditure for plant, property and equipment in 2016 concerned the investment in two hotels opened in the second half of 2016 (the Mercure Kraków Stare Miasto hotel and the ibis Gdańsk Stare Miasto hotel), rebranding of the former Orbis Wrocław hotel into Novotel and ibis brands, and modernisation of the Novotel Poznań Centrum hotel and the MGallery Praga Old Town hotel. The remaining expenditure was a regular capex aimed at upgrading the standard of hotels operating in the Group.

The capital expenditure was partially offset by income from sale transactions of the following properties finalized in 2016: the Mercure Mrągowo Resort & SPA hotel and the Mercure Opole hotel (both sold as organised parts of the enterprise), the Mercure Częstochowa Centrum hotel and the ibis Częstochowa hotel, and a non-hotel property located in Warsaw at Łopuszańska Street. Additionally the Company received PLN 4.4 million as a result of increased sale price of the real property located at Bitwy Warszawskiej 1920 r. Street in Warsaw. Detailed description of the sale transactions is presented in the Note 3 to the Consolidated Financial Statements of the Orbis Group for 2016.

Moreover, in December 2016, Orbis' subsidiary Accor Pannonia Hotels Zrt. sold its non-controlling interest (44.46%) in Blaha Hotel Szállodaüzemeltető Kft., which owns the land on which the Nemzeti Budapest MGallery hotel stands. Income from the sale of this interest equalled euro 3.6 million (i.e. PLN 15.8 million).

- **Cash flows from financing activities**

The issue of two hundred thousand bonds with a total nominal value of PLN 200 million by the parent company was of crucial importance to the cash flows from financing activities generated in 2016. Moreover, in 2016 Orbis received a payment amounting to PLN 17.3 million from Accor S.A. in connection with the agreement signed on January 15, 2016 (described in Note 33.2 to the Consolidated Financial Statements of the Orbis Group for 2016).

The main item of expenditure was in turn the dividend of PLN 69.1 million paid out by Orbis S.A., and expenses related to external financing in the amount of PLN 50.6 million.

As a result, the cash flow achieved in 2016 amounted to PLN 97.6 million (PLN 374.6 million in 2015).

### 3.8 Capital Expenditure

In 2016, capital expenditure of the Orbis Group amounted to PLN 300.9 million (PLN 122.4 million in the corresponding period of past year).

Capital expenditure of the Group	2016	2015
Development projects	115 345	58 346
Leased hotels buyback	123 969	0
Other expenditure	61 629	64 017
<b>Total</b>	<b>300 943</b>	<b>122 363</b>

In 2016, capital expenditure of PLN 124.0 million was allocated for buyback of two hotels so far leased by Accor-Pannonia Hotels Zrt. The transaction involved the ibis Budapest Heroes Square hotel (139 rooms) and the Mercure Budapest City Center hotel (227 rooms). The purpose of leased hotels buyback is to optimise the hotel business of the Orbis Group, in particular to eliminate lease costs. The total net price paid by Accor-Pannonia Hotels Zrt. for the acquisition of the above-mentioned hotels equalled EUR 27.5 million, of which EUR 16.0 million was financed from a loan granted to the Hungarian company by Hekon-Hotele Ekonomiczne S.A. (at present Orbis S.A.).

Expenditure incurred in 2016 was also allocated for Orbis S.A. development projects. A total sum of PLN 115.3 million was appropriated for the following investment projects:

- The Mercure Kraków Stare Miasto hotel: The construction of the new hotel was completed in the second half of 2016, and in September the hotel opened for guests. The hotel offers 200 rooms, 5 conference rooms, a fitness centre with a gym and a car park. The hotel was built in accordance with the requirements of the BREEAM certification (for green buildings). The Mercure Kraków Stare Miasto hotel was named the Hotel of the Year 2016 in the "Debut of the Year" category in the ranking of the "Hotelarz" monthly. The total cost of hotel construction incurred during the period 2014 - 2016 amounted to PLN 85 million.
- The ibis Gdańsk Stare Miasto hotel: A new hotel of the ibis brand joined the hotel portfolio of the Group in August 2016. This attractively located hotel offers 120 rooms, 3 conference rooms and a car park for guests. The Ibis Gdańsk Stare Miasto is the first hotel in Poland which is newly built in line with the green BREEAM certification requirements, for which it has been awarded the "Prime Property Prize 2016" in the "Green Building" category. The total cost of the hotel construction incurred during the period 2014 - 2016 amounted to PLN 27 million.
- The Orbis Wrocław hotel: Within the frame of the modernization of the former Orbis Wrocław hotel launched in 2015 and its division into two hotels of different brands, the ibis part of the hotel building was opened for guests in March 2016 and the successive 7 floors of the building, i.e. the Novotel hotel, opened to visitors in July. The modernization works included guest rooms, hallways, the public area, conference rooms, the lobby, the restaurant, the bar, the fitness room and the hotel back office facilities. Following its modernization, ibis offers 112 rooms located on 4 floors, a restaurant, a bar and conference rooms with a total area of 800 square meters, and Novotel offers 192 air-conditioned rooms with modern equipment, 13 meeting rooms, a restaurant and NOVO<sup>2</sup> bar, a fitness area and car park. The total expenditure for the modernisation of the former Orbis hotel during the period 2015 – 2016 amounted to approx. PLN 40 million.
- Novotel Poznań Centrum. Modernization of the hotel planned for the years 2016-2017 involving the division of the hotel and its partial rebranding into ibis has started. In 2016, work was carried out on mock-up rooms and design works. The first stage of modernization started in the third quarter and included signing a contract with the General Contractor of the investment project. The last phase of the modernization project will be launched in the first quarter of 2018. The total estimated expenditure for this investment project during the period 2016 – 2017 will come to approx. PLN 42 million.

Modernisation of the Novotel Kraków City West involving 28 rooms with bathrooms, replacement of the façade (including windows) and the fitness and sauna area also began in 2016. The works will be continued in 2017. The total estimated expenditure for this investment project during the period 2016 – 2017 will come to approx. PLN 15 million.

During the reporting period, works related to the construction of new ibis Styles Warszawa Centrum and ibis Styles Szczecin hotels have been commenced; furthermore, a design and construction works agreement relating to a new ibis hotel in Vilnius was signed.

Moreover, capital expenditure for the modernization of the MGallery Praga Old Town hotel was incurred in 2016. The expenses allocated for this investment in 2016 amounted to approx. PLN 9 million.

Other expenditure incurred in 2016 (PLN 61.6 million) was allocated for upgrading the standard of hotels operating in the Group, increasing their security, fire safety and IT investments.

The most important hotel investments carried out in 2016 include:

- modernization and rebranding of the Mercure Budapest Duna hotel and the Mercure Budapest Metropol hotel into the ibis Styles brand (the ibis Styles Budapest Center hotel and the ibis Styles Budapest City hotel);
- modernization of the car park system and part of the rooms in the Sofitel Victoria Warsaw hotel;
- modernization of the lobby, reception and restaurant with a bar at the Novotel Szczecin Centrum hotel and modernization of 27 rooms (including a room for disabled persons) in this hotel;
- progressive modernization of conference rooms and replacement of equipment in the Novotel Gdańsk Marina hotel, the Novotel Poznań Centrum hotel and the Novotel Wrocław City hotel; in addition, works involving modernization of the swimming pool basin, terrace flooring and a new arrangement of green areas around the hotel, including children playground have been carried out in the Novotel Gdańsk Marina hotel;
- modernization of a restaurant incl. replacement of equipment in the Novotel Kraków City West hotel;
- replacement of room and bathrooms arrangement, amongst others, in the Novotel Katowice Centrum hotel, the Novotel Kraków Centrum hotel, and the Sofitel Grand Sopot hotel;
- modernization of public areas in the Mercure Poznań Centre hotel, including the bar and the Winestone restaurant and the lobby and reception areas; a modern car park system has also been installed in the hotel; a continued upgrading in this hotel is planned in 2017 covering restaurants and the conference room,
- modernisation of the lobby, reception and bar to the Winestone standard in the Mercure Wrocław Centrum hotel;
- thermomodernization the roof of the Mercure Gdynia hotel and external signage of the Mercure Gdańsk Stare Miasto hotel;
- modernisation of the fitness and SPA facilities of the Mercure Warszawa Centrum hotel and extension of the WineStone restaurant in this hotel;
- renovation of the lobby and the reception in the ibis Szczecin Centrum hotel and in the ibis Częstochowa Centrum hotel and 31 bathrooms in the ibis Kraków Centrum hotel; modernization of the successive 32 bathrooms in this hotel will be carried out in 2017;
- adaptation of a part of the rooms on the seventh floor to operate as a hostel and modernization of successive 6 bathrooms in guest rooms of the ibis Warszawa Centrum hotel;
- modernization of the common area of the ibis budget Warszawa Centrum hotel including the breakfast room, the lobby and reception area, installation of a new communication code in this hotel, and the rearrangement of the standard rooms; modernization of the successive 61 guest rooms and hallways on two hotel floors is planned for 2017.

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

### 3.9 Ratio Analysis of the Financial Statements

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

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

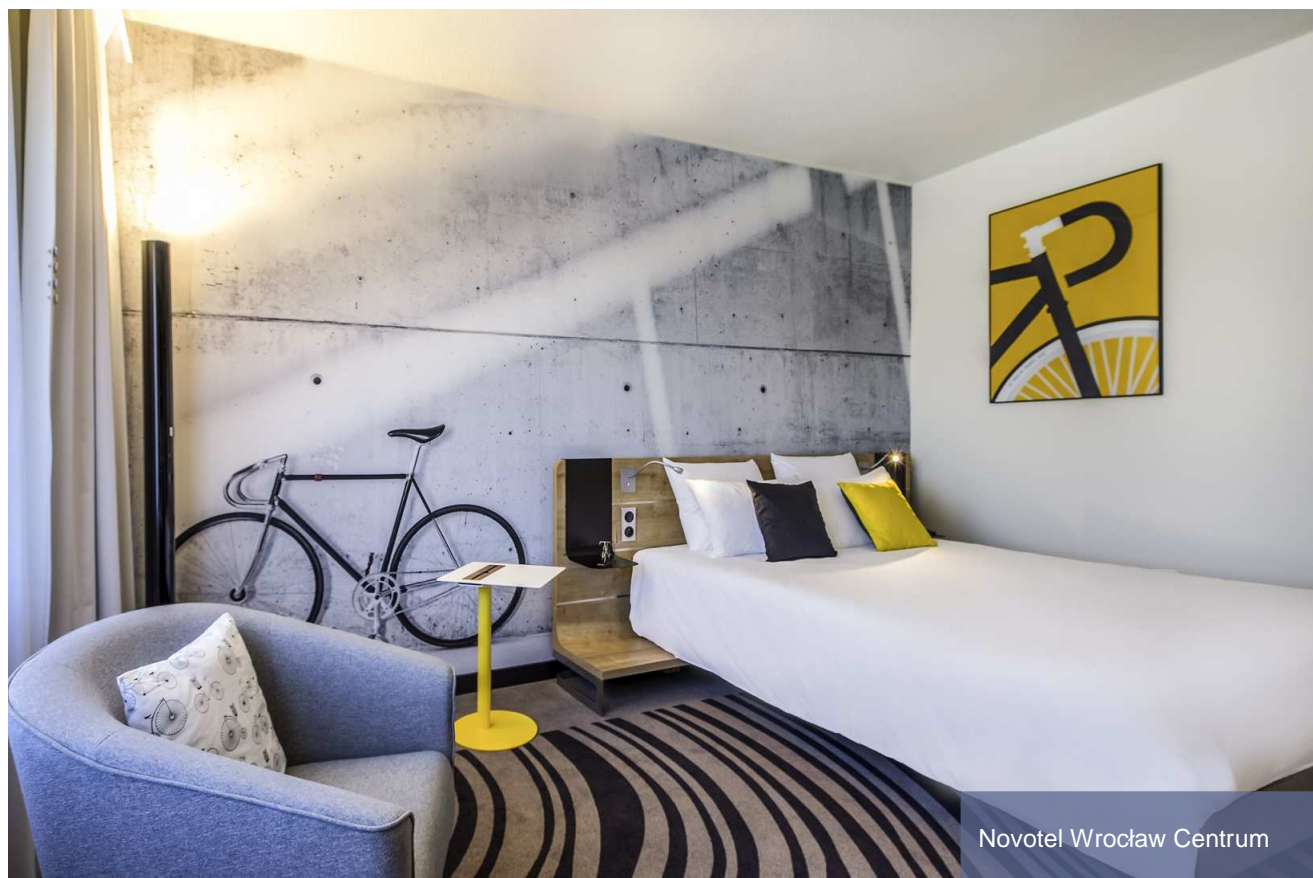
Selected financial ratios of the Orbis Group	2016	2015
<b>Margin ratios</b>		
EBITDAR margin in %	35.4	34.2
EBITDA margin in %	28.2	26.1
EBIT margin in %	19.1	17.6
<b>Profitability ratios</b>		
Return on Equity (ROE)	11.1%	9.7%
Return on assets (ROA)	7.8%	7.9%
Return on sales (ROS)	15.0%	14.4%
<b>Efficiency ratios</b>		
Receivables collection period	14	11
Payables deferral period	31	20
Inventory turnover	2	2
<b>Financing ratios</b>		
Net debt (in PLN million)	83.5	187.0
Debt-to-equity*	31.8%	28.2%
Non-current assets cover ratio	88.9%	85.4%
<b>Liquidity ratios</b>		
Current ratio	2.34	1.61

\* *total liabilities/total equity and liabilities*

### 3.10 Assessment of Divergence Between Estimates and Generated Results

The EBITDA of the Orbis Group generated during 12 months of 2016 (after eliminating the impact of one-off events) stood at PLN 390 million, which translates into a result by 5.4% higher than the upper limit of the projection disclosed in the current report no. 34/2016 of July 28, 2016, where the forecasted EBITDA was in the range of PLN 360 and 370 million.

## FINANCIAL RESULTS OF ORBIS S.A.

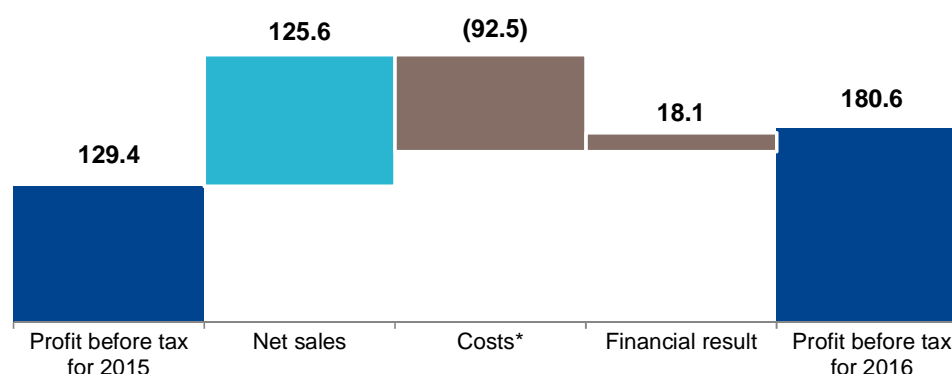


## 4 FINANCIAL RESULTS OF ORBIS S.A.

### 4.1 Factors Affecting Results

In 2016 Orbis S.A. generated profit before tax amounting to PLN 180.6 million, i.e. by 39.6% higher as compared to 2015. The growth was primarily the effect of merger with subsidiary company Hekon-Hotele Ekonomiczne S.A., that took place on September 1, 2016.

#### Sources of creation of profit before tax of Orbis S.A. in 2016



\* Costs including the result from other operating activities

Income statement – analytical approach	2016	2015	% change
<b>Net sales, of which:</b>	<b>729 339</b>	<b>603 758</b>	<b>20.8%</b>
Room revenue	458 960	350 161	31.1%
Food & beverage revenue	195 120	169 972	14.8%
Franchise and management revenue	11 711	11 258	4.0%
Other revenue	63 548	72 367	-12.2%
<b>EBITDAR</b>	<b>229 100</b>	<b>175 774</b>	<b>30.3%</b>
<b>Operating EBITDA</b>	<b>221 280</b>	<b>168 305</b>	<b>31.5%</b>
<b>Operating profit (EBIT) without the effects on one-off events</b>	<b>116 239</b>	<b>74 871</b>	<b>55.3%</b>
<b>Operating profit (EBIT)</b>	<b>135 230</b>	<b>102 181</b>	<b>32.3%</b>
<i>Net result from financing activities</i>	<i>45 390</i>	<i>27 244</i>	<i>66.6%</i>
<b>Profit before tax</b>	<b>180 620</b>	<b>129 425</b>	<b>39.6%</b>
<b>Net profit</b>	<b>154 744</b>	<b>109 203</b>	<b>41.7%</b>

### 4.2 Income Statement

The registration, on September 1, 2016, of the merger with Hekon-Hotele Ekonomiczne S.A. had a major impact upon the improvement of the result as compared to the past year. Under this merger, Orbis took over 25 hotels of the subsidiary company. As at December 31, 2016, the Orbis network comprised of 53 hotels (at the end of December 2015, the Orbis portfolio included 27 hotels).

In addition, the following factors positively contributed to the 2016 result:

**Improvement of operating results on all the markets**

In 2016, the Orbis S.A. net sales were at the level of PLN 729.3 million, i.e. rose by 20.8% as compared to the figure for twelve months of 2015.

In most hotels of the Company, as compared to the past year, both the Occupancy Rate and the Average Room Rate increased, which translated to higher Revenue per Available Room. This was above all the effect of a flexible pricing strategy, introducing seasonal promotional offers and attractive business packages. In addition, numerous trade fairs, conferences and major sporting and cultural events have positively contributed to the results attained in individual cities. In 2016, major events included the NATO summit in Warsaw, the World Youth Days in Kraków and events connected with the celebrations of Wrocław being the European Capital of Culture.

Growth in the number of guests had a positive impact on the value of food&beverage revenues in 2016.

**Maintaining a tight cost discipline**

Operating expenses (including rental expense and depreciation/amortisation) totalled PLN 614.8 million, i.e. were by 16.3% higher than in 12 months of 2015. Growth in expenses was lower than the revenue growth momentum, although the share of individual types of costs in the net sales remained unchanged as compared to the past year.

Major increases were reported in the costs of outsourced services mainly laundry and cleaning costs, distribution expenses (as a result of hotel occupancy increase) and costs of employee benefits (among others due to higher employment, salary increases and increase of financial performance-related bonuses). The higher level of costs of raw materials and energy used is directly connected with higher volume of food&beverage sales.

In the reporting period depreciation and amortisation went up by 12.4% (from PLN 93.4 million in 2015 till PLN 105.0 million in 2016). It is on the one hand the result of merger with the subsidiary, and on the other of the expansion of hotel portfolio by two new hotels, namely the Mercure Kraków Stare Miasto and the ibis Gdańsk Stare Miasto, as well as a growth in the value of assets thanks to capital expenditure incurred on existing hotels.

As a result of the above, **EBITDAR grew by 30.3% and amounted to PLN 229.1 million, operating EBITDA grew by 31.5% up to PLN 221.3 million, while the operating result excluding one-off events amounted to PLN 116.2 million, i.e. improved by 55.3% against 12 months of 2015.**

**Positive results from one-off events**

In 2016, Orbis S.A. reported positive results of PLN 19.0 million from one-off events. Gain of PLN 16.6 million from the sale of real property (more information about real properties sale transactions finalised in 2016 is included in Note 3 to the Separate Financial Statements of Orbis S.A. for 2016) was increased by impairment gain on non-current assets (PLN 4.2 million) and has been decreased by restructuring costs (PLN 1.8 million). As a result, the Company generated **operating profit (EBIT) in the amount of PLN 135.2 million (growth by 32.3%).**

**A significant change in the net finance income**

A significant increase in finance income results mainly from a higher dividend for 2015 received from subsidiary Hekon - Hotele Ekonomiczne S.A. and additionally the dividend received from Accor Hotels Romania s.r.l.

Orbis S.A. ended the year 2016 with **a net profit of PLN 154.7 million, which means that the result was by 41.7% higher** as compared to the figures for 2015.



### 4.3 Statement of Financial Position

Statement of financial position – analytical approach	2016	Share in total assets / equity & liabilities	2015	Share in total assets / equity & liabilities	2016/ 2015
Non-current assets	2 597 617	92.9%	2 393 760	94.8%	8.5%
Current assets	176 323	6.3%	98 457	3.9%	79.1%
Assets classified as held for sale	23 631	0.8%	32 200	1.3%	(26.6%)
<b>TOTAL ASSETS</b>	<b>2 797 571</b>	<b>100.0%</b>	<b>2 524 417</b>	<b>100.0%</b>	<b>10.8%</b>
Equity	2 004 319	71.6%	1 924 883	76.2%	4.1%
Non-current liabilities	617 251	22.1%	453 349	18.0%	36.2%
Current liabilities	176 001	6.3%	146 185	5.8%	20.4%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2 797 571</b>	<b>100.0%</b>	<b>2 524 417</b>	<b>100.0%</b>	<b>10.8%</b>

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

On December 31, 2016, Orbis S.A. assets totalled PLN 2 797.6 million and rose by 10.8% as compared to the end of December 2015.

The major component of the Group's assets are non-current assets, accounting for 92.9% of total assets. Significant changes in individual items of non-current assets have been reported in the third quarter of this year as a result of the merger with subsidiary Hekon-Hotele Ekonomiczne S.A. As a result of this merger:

- Investments in subsidiaries and affiliates decreased by PLN 559.7 million as a result of elimination of shares of PLN 571.8 million in Hekon S.A. and recognition of shares held by the acquired subsidiary in UAB Hekon and Orbis Kontrakty (PLN 12.1 million in aggregate).
- The goodwill of PLN 107.3 million has been recognized in intangible assets (as from the moment of takeover of the subsidiary, i.e. as of the date of purchase of shares in Hekon S.A.).
- Investment properties of PLN 289.0 million, including hotel buildings rented to the acquired subsidiary have been reclassified to non-current assets.
- Property, plant and equipment increased by PLN 320.1 million as a result of takeover of Hekon property.
- Loans granted included a loan of EUR 16.0 million (PLN 69.9 million as at the date of merger) granted in January 2016 by Hekon S.A. to another Group company, i.e. Accor Pannonia Hotels Zrt.

The predominant item of non-current assets are property, plant and equipment valued at PLN 1 650.3 million, accounting for 59.0% of total assets. Due to the type of business pursued, the major item of property, plant and equipment are buildings and structures as well as land and titles to perpetual usufruct of land. Property, plant and equipment increased by 57.4% as compared with the value of this item as at December 31, 2015. It is above all the result of merger with subsidiary Hekon-Hotele Ekonomiczne S.A., as well as of capital expenditure of PLN 135.8 million incurred for development of new hotels and upgrading the standard of the existing hotels. Depreciation and amortisation (PLN -92.3 million) and revaluation (PLN +4.2 million) also had an impact upon the value of property, plant and equipment.

Long-term loans granted also constitute a major item of non-current assets. As a result of the merger, Orbis took over a loan granted to Accor Pannonia Hotels Zrt. (EUR 16.0 million) from Hekon and in December credited the borrower with an additional EUR 65.0 million. Accordingly, at the end of December 2016, Orbis had a total of PLN 358.6 million of receivables under the loan granted to the Hungarian subsidiary, of which PLN 345.1 was classified as long-term loan and PLN 13.5 as short-term loan.

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

As regards current assets, the most important item are cash and cash equivalents of PLN 118.0 million, accounting for 4.2% of total assets. A significant increase of this item (by approx. PLN 56.0 million, i.e. 90.4%) as compared to December 2015 was primarily the result of higher inflows from operating activities as compared to the previous year, as well as the bond issue of PLN 200 million carried out in July 2016, as well as income from the sale of real estate.

A significant item of current assets as at December 31, 2016, are also trade receivables, which went down by 18.1% as compared to December 2015. It is specifically the result of the merger with Hekon-Hotele Ekonomiczne S.A. and the consequent non-disclosure of trade receivables and payables to and from Hekon as at the end of December 2016. As at December 31, 2015, the company disclosed receivables of PLN 14.2 million from Hekon resulting from lease of hotel properties. The decline in trade receivables at the end of 2016 resulting from the merger was partly set-off by higher receivables resulting from higher sale of hotel rooms in December 2016 as compared to the past year.

Other current receivables (PLN 16.9 million as at the end of 2016) comprise predominantly of receivables resulting from sale of tangible assets and prepayments. As at December 31, 2016 the Company held receivables resulting from the sale of non-current assets of PLN 14.7 million (86.8% of other current receivables), including PLN 6.2 million from the sale of non-hotel real property located at Łopuszańska Street in Warsaw, PLN 4.5 million from the sale of the Mercure Mrągowo Resort & SPA hotel and PLN 3.9 million from the sale of an organised part of the enterprise of the Mercure Kasprowy hotel in Zakopane. At the end of 2015, receivables from the sale of non-current assets equalled PLN 3.4 million (and concerned the sale of the organised part of the enterprise of the Mercure Kasprowy hotel in Zakopane); it was paid at the beginning of January 2016.

As at the end of 2016 the Company reported the short-term part of the loan granted to Accor Pannonia Hotels Zrt. (described above) under the current assets. At the end of 2015 the Company had no loans granted.

As at December 31, 2016, Orbis S.A. also reported assets of PLN 23.6 million classified as assets held for sale (PLN 32.2 million at the end of 2015). This item includes assets classified under property, plant and equipment (including the title to perpetual usufruct and the building) of the Mercure Jelenia Góra hotel and the Mercure Karpacz Resort hotel and the title to perpetual usufruct of land located at Heweliusza Street in Gdańsk. In 2015, assets held for sale included non-hotel real property located at Łopuszańska Street in Warsaw and the title to perpetual usufruct of land together with the building and other assets of the Mercure Mrągowo Resort & SPA hotel. The sale transaction of both these real properties was finalized in 2016.

Orbis S.A. finances its assets predominantly from equity which accounted for 71.6% of the total assets (PLN 2 004.3 million) as at December 31, 2016. The external capital equalled PLN 793.3 million, of which 77.8% were long-term liabilities and provisions.

As at December 31, 2016, Orbis S.A. had the following non-current liabilities bearing interest:

- liabilities under the bond issue of PLN 501.4 million (17.9% of liabilities),
- borrowings of PLN 87.7 million (3.1% of the balance sheet total),

and current liabilities (borrowings) of PLN 35.3 million.

As at December 31, 2015, the Group had liabilities of PLN 299.2 million under the bond issue. Cash obtained from bonds issued in 2015 (PLN 300.0 million) was fully allocated to a premature partial repayment of the loan incurred on December 19, 2014, to finance the transaction of purchase of shares in companies in the Central Europe from Accor S.A. The bonds will mature in 2020.

In July 29, 2016, Orbis issued the second tranche of 200 thousand corporate bonds of a total nominal value of PLN 200.0 million, with maturity date in 2021. Consequently, on December 31, 2016, Orbis had non-current liabilities under bond issue of PLN 501.4 million.

The balance of liabilities under borrowings as at the end of 2016 totalled PLN 122.9 million, i.e. decreased by PLN 34.8 million as compared with December 31, 2015, as a result of repayment of principal debt instalments.

On December 31, 2016, the Orbis' net debt stood at PLN 506.4 million, i.e. accounted for 25.3% of equity.

The biggest item of current liabilities of the Company as at December 31, 2016, was trade payables (29.8%) and other current liabilities (29.3%), including above all liabilities under taxes and social insurance and accrued expenses of employee benefits (incl. bonuses and unused employee leaves) as well as statutory liabilities (mainly under the challenged fees for the title to perpetual usufruct of land). Differences in the level of these liabilities as compared to the end of 2015 result primarily from merger with a subsidiary. A major increase of trade payables is connected with higher occupancy at the end of 2016 as compared with the corresponding period in 2015, resulting in increased purchases in Orbis' hotels.

Decline of liabilities associated with tangible assets in the period of 12 months of 2016 (from PLN 27.9 million at the end of 2015 to PLN 17.7 million at the end of December 2016) results in particular from lower capital expenditure in Q4 2016 as compared with the corresponding period of the past year. Capital expenditure incurred in 2016 equalled PLN 135.8 million, of which PLN 42.7 million, i.e. 31.4% was incurred in Q4 2016. On the other hand, capital expenditure incurred in the past year totalled PLN 95.4 million, of which capital expenditure in Q4 totalled PLN 54.2 million (56.8% of the total annual capex), i.e. PLN 11.5 million more than in Q4 2016.

At the end of 2015 a major component of liabilities associated with tangible assets of Orbis S.A. concerned large investment projects completed in 2016, i.e. the construction of the Mercure Kraków Stare Miasto hotel and the ibis Gdańsk Stare Miasto hotel, and rebranding of the former Orbis Wrocław hotel into Novotel and ibis hotels. The remaining liabilities concerned hotel modernization. The key projects implemented in 2016 include the modernisation of the Sofitel Warszawa Victoria hotel, the Novotel Gdańsk Marina hotel, the Novotel Poznań Centrum hotel (modernization planned for the period 2016 – 2018), the Novotel Katowice Centrum hotel, the Mercure Poznań Centrum hotel and the Mercure Gdynia Centrum hotel (more information about capital expenditure in 2016 is provided in Section 3.8).

Liabilities associated with tangible assets at the end of 2016 are related to continuation of works launched in 2016, amongst others in the Novotel Poznań Centrum hotel, the Sofitel Warszawa Victoria hotel, the Novotel Szczecin hotel, the Novotel Kraków Centrum hotel and the Novotel Wrocław Centrum hotel.

Current deferred revenue include specifically all prepayments for hotel rooms (85.7% of the total). Moreover, this item includes the earnest money against the sale of the title to perpetual usufruct of land at Heweliusza Street in Gdańsk (PLN 2.1 million).

#### **4.4 Statement of Changes in Equity**

On December 31, 2016, equity amounted to PLN 2 004.3 million against PLN 1 924.9 million at the end of 2015. Their increase resulted above all from reclassification of the net profit for 2016 in the amount of PLN 154.7 million to retained earnings. Moreover, in the current year, the payment received from Accor S.A. in the amount of EUR 4 million (equivalent to PLN 17.3 million) resulting from the agreement signed on January 15, 2016, was posted directly to retained earnings (description in Note 31.2 of the Separate Financial Statements of Orbis S.A. for 2016). Also the income tax resulting from this transaction has been posted to equity. The dividend paid out in the total amount of PLN 69.1 million contributed to the decrease in retained earnings at the end of 2016 and at the end of the past year.

In 2016, retained earnings have been further reduced by the sum of PLN 20.8 million as a result of accounting for the merger between Orbis S.A. and its subsidiary Hekon-Hotele Ekonomiczne S.A. (description in Note 12 of the Separate Financial Statements of Orbis S.A. for 2016).

The change in Orbis S.A. other reserves in presented periods resulted from valuation of the derivative instrument hedging against the risk of interest rate change related to the bond issue of 2015. The information concerning this hedge was provided in Note 30.3 of the Separate Financial Statements of Orbis S.A. for 2016).

## 4.5 Statement of Cash Flows

Statement of cash flow	2016	2015	% change
Cash generated by operating activities	208 581	151 620	37.6%
Net cash used in investing activities	(251 528)	(592 203)	57.5%
Net cash generated by financing activities	98 964	373 570	-73.5%
<b>Total net cash</b>	<b>56 017</b>	<b>(67 013)</b>	<b>-</b>
<b>Cash and cash equivalents at the end of period</b>	<b>117 958</b>	<b>61 941</b>	<b>90.4%</b>

In 12 months of 2016, the net cash flow of Orbis S.A. amounted to PLN 56.0 million (PLN -67.0 million in 2015). The following factors influenced the positive cash flow in the reporting period:

- **Cash flows from operating activities**

Thanks to good operating performance and profits generated in 2016, the Company reported positive cash flows from operating activities in the amount of PLN 208.6 million. The increase in these cash flows as compared to the corresponding period of the past year has also been caused by the increase in the scale of operations through merger with a subsidiary.

- **Cash flows from investing activities**

Negative cash flows from investing activities of PLN 251.5 million (PLN 592.2 million in 2015) were principally the result of the loan of EUR 65.0 million (PLN 286.8 million) granted in December 2016 to a Hungarian subsidiary, Accor Pannonia Hotels Zrt.

Furthermore, in 2016 the company incurred expenditure of PLN 142.8 million on property, plant and equipment. This expenditure concerned investment into hotels opened in the second half of 2016, namely the Mercure Kraków Stare Miasto hotel and the ibis Gdańsk Stare Miasto hotel, the rebranding of the former Orbis Wrocław hotel into Novotel and ibis brands and modernisation of the Novotel Poznań Centrum hotel. The remaining expenditure was a regular capex aimed at upgrading the standard of hotels operating in the Company.

The capital expenditure was partially offset by dividends received from subsidiaries (PLN 55.3 million) as well as income from sale transactions of real properties finalized in 2016 (PLN 60.5 million). Detailed description of the sale transactions is presented in the Note 3 to the Separate Financial Statements of Orbis S.A. for 2016.

As a result of merger with Hekon S.A. the cash of this subsidiary in the amount of PLN 46.8 million was classified as income from investing activities.

Other inflows from investing activities include, amongst others, the repayment of the loan by Katerinska Hotel s.r.o. (the loan was granted by Hekon S.A. in 2015) as well as other inflows from investing activities including prepayment for the sale of the title to perpetual usufruct of land at Heweliusza Street in Gdańsk (PLN 2.1 million) and impact of the subsequent repayment instalment (PLN 3.4 million) against the sale price of the Mercure Kasprowy hotel in Zakopane.

- **Cash flows from financing activities**

Cash flows from financing activities generated in 2016 were essentially impacted by the issue of two hundred thousand bonds of a total nominal value of PLN 200 million. Moreover, in 2016 Orbis received a cash payment of PLN 17.3 million from Accor S.A. in connection with the agreement signed on January 15, 2016 (described in Note 31.2 to the Separate Financial Statements of Orbis S.A. for 2016).

The main item of expenditure was the dividend paid by Orbis S.A. in the amount of PLN 69.1 million and expenditure related to external financing in a total amount of PLN 49.2 million.

Consequently, the cash flows from financing activities generated by Orbis S.A. throughout 2016 totalled PLN 99.0 million (PLN 373.6 million in 2015).

## 4.6 Loans Granted

As at December 31, 2016, the receivables payable to Orbis S.A. included a loan granted to Accor Pannonia Hotels Zrt. with its registered address in Budapest for a total of EUR 81.0 million. The loan was granted in the following drawdowns:

- EUR 16.0 million – the loan was granted on February 15, 2016, by Hekon-Hotele Ekonomiczne S.A. to the Hungarian company to finance the buyout of two hotels located in Budapest, which had been leased until their buyout by Accor Pannonia Hotels Zrt. (more information about these hotels is provided in Section 3.8). As a result of the merger, Orbis S.A. became the successor of Hekon - Hotele Ekonomiczne S.A. of the aforementioned loan agreement;
- EUR 65.0 million – under the agreement of December 20, 2016, Orbis S.A. granted a loan to Accor Pannonia Hotels Zrt. to finance the agreement of buy-back of 5 hotels in Budapest, operated by the Hungarian company under lease agreements. The buy-back transaction of those hotels was finalized by acquisition of 100% of the share capital of 5 Hotel Kft. with its registered address in Budapest, the owner of the hotels. More details on this transaction have been provided in the current report no. 52/2016 and in Section 7.6).

Under an agreement executed in December 2016, both the above-mentioned loans have been consolidated into a single loan with a total value of EUR 81.0 million. Pursuant to the agreement, the loan was granted for a term of 3 years, the principal instalments being payable in each 12-month period beginning from the date of execution of the loan agreement in amounts not lower than EUR 3 million.

The interest rate on the loan was determined as a variable rate equal to EURIBOR 6M, plus interest rate margin of 2.5%. According to the agreement, if EURIBOR 6M is lower than zero, the loan interest rate will be equal to the interest rate margin, i.e. 2.5%. The interest is payable for 6-month periods, at the end of June and December of each year.

## 4.7 Bonds Issue

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

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

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

On October 20, 2016, the bonds of ORB B 290721 series were introduced to trading in the debt securities alternative trading system at BondSpot S.A. (the Catalyst market).

Moreover, in the past year Orbis S.A. issued 300 thousand ordinary bearer bonds of the ORB A 260620 series, of a nominal value of PLN 1 000 each and a total nominal value of PLN 300 000 thousand. The issue price of the bonds is equal to their nominal value.

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

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

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

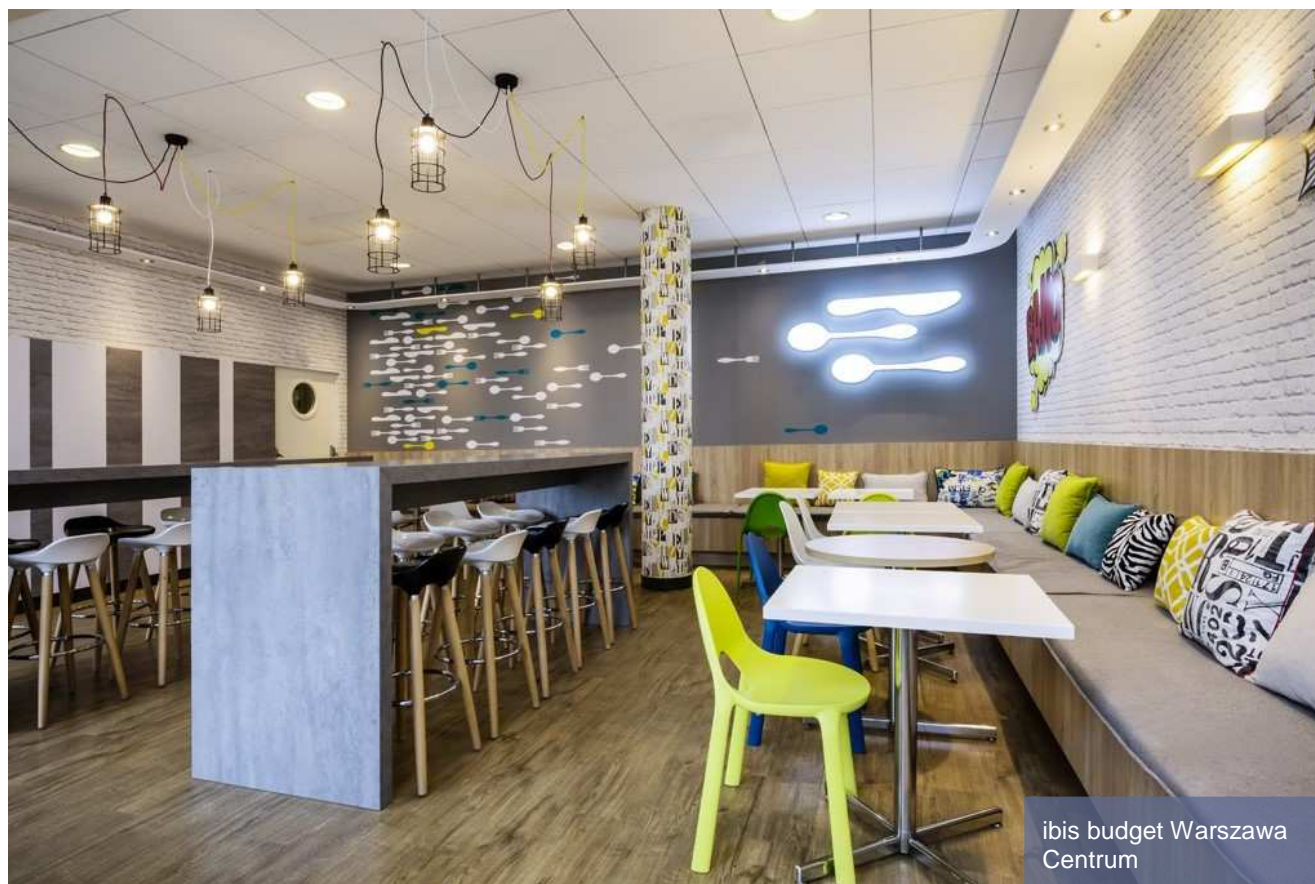
In 2016, Orbis S.A. generated significantly better efficiency ratios compared to 2015 figures. It is attributable in particular to the merger between Orbis S.A. and its subsidiary Hekon-Hotele Ekonomiczne S.A. dated September 1, 2016.

Selected financial ratios of Orbis S.A.	2016	2015
<b>Margin ratios</b>		
EBITDAR margin in %	31.4	29.1
EBITDA margin in %	30.3	27.9
EBIT margin in %	18.5	16.9
<b>Profitability ratios</b>		
Return on Equity (ROE)	7.9%	5.7%
Return on assets (ROA)	5.8%	4.8%
Return on sales (ROS)	21.2%	18.1%
<b>Efficiency ratios</b>		
Receivables collection period (in days)	12	16
Payables deferral period (in days)	24	21
Inventory turnover (in days)	2	2
<b>Financing ratios</b>		
Net debt (in PLN million)	506.4	395.0
Debt-to-equity*	28.4%	23.7%
Non-current assets cover ratio	77.2%	80.4%
<b>Liquidity ratios</b>		
Current ratio	1.14	0.89

\* total debt/total equity and liabilities



## ORBIS S.A. SHARES



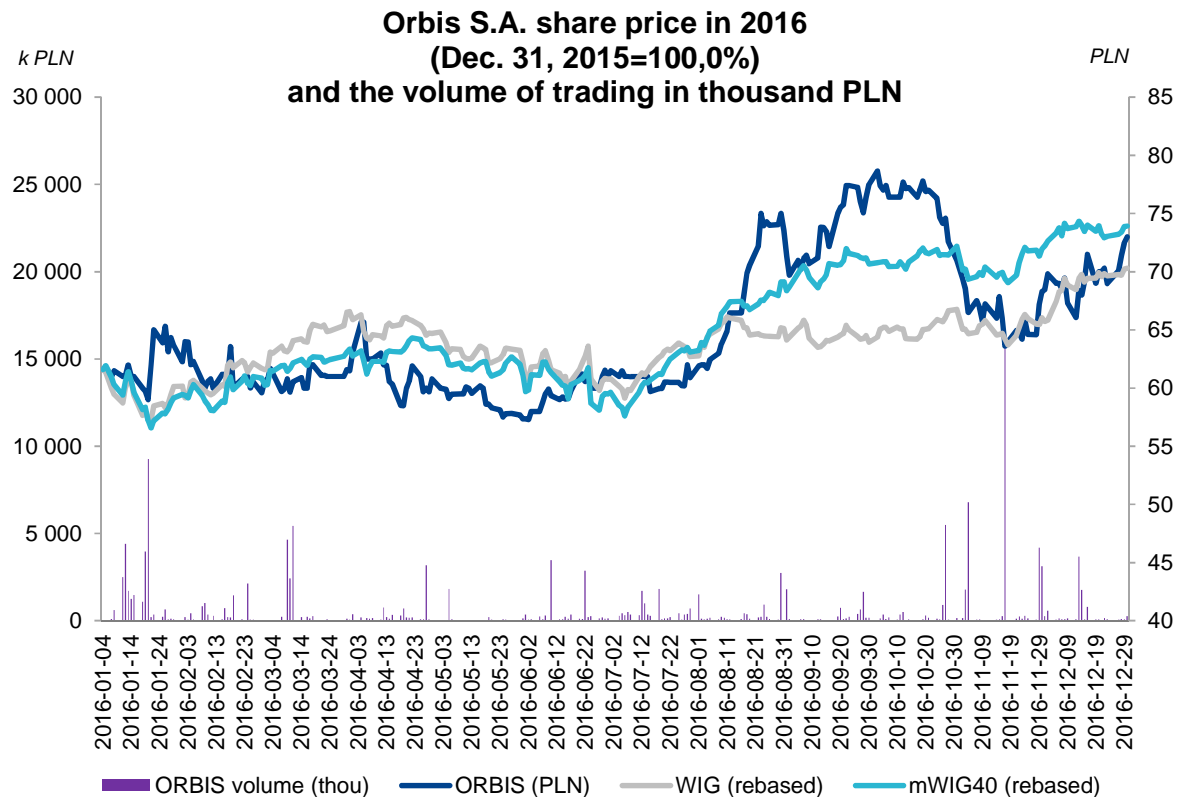
ibis budget Warszawa  
Centrum



## 5 ORBIS S.A. SHARES

### 5.1 Share Price

In the period from January 1 till December 30, 2016, the price of Orbis S.A. share was within the range from PLN 57.3 (on June 16) to PLN 78.7 (at the session on October 16). The spread between the highest and the lowest quotations was PLN 21.4, which accounted for 37% of the lowest price. The Orbis share closing price in 2016 stood 4% above the WIG index, and by 1% below the mWIG40 index. On December 30, 2016, Orbis S.A. shares achieved the level of PLN 73, which translates into a 19% increase compared to PLN 61.4 as at the end of 2015. During 2016, the average trading volume in Orbis shares equalled 9 270 shares.



### 5.2 Shareholder Structure

As at December 31, 2016, the share capital of Orbis S.A. comprised the share capital disclosed in the amount set out in the Statutes and entered in the court register, adjusted for effects of hyperinflation, i.e.:

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

The value of Orbis S.A. share capital did not change throughout 2016 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 Otwarty Fundusz Emerytalny Aviva BZ WBK	4 577 880	9.94
Metlife Otwarty Fundusz Emerytalny and Metlife Dobrowolny Fundusz Emerytalny managed by Metlife Powszechnie Towarzystwo Emerytalne S.A.	2 357 156	5.12
Nationale-Nederlanden Otwarty 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 present at the Annual General Meeting of Shareholders.

The Annual General Meeting of Shareholders was held on June 2, 2016, and the following shareholders holding at least 5% of the total number of votes participated 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 Otwarty Fundusz Emerytalny Aviva BZ WBK 4 589 000 shares (9.96% of all the shares),
- Nationale-Nederlanden Otwarty Fundusz Emerytalny 3 448 653 shares (7.48% of all the shares),
- Metlife Otwarty Fundusz Emerytalny 3 600 000 shares (7.81% of all the shares).

Apart from the Annual General Meeting of Shareholders convened for June 2, 2016, an Extraordinary General Meeting of Shareholders was held on June 29, 2016, and the following shareholders holding at least 5% of the total number of votes participated 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 Otwarty Fundusz Emerytalny Aviva BZ WBK 4 589 000 shares (9.96% of all the shares),
- Nationale-Nederlanden Otwarty Fundusz Emerytalny 3 448 000 shares (7.48% of all the shares).

As at the date of publication of this Director's Report, 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 - the world's leading hotel operator and leader of the European market. AccorHotels is present in 95 countries where it operates more than 4.1 thousand hotels under 20 brands, from luxury to economy segments, with a total of more than 570 thousand rooms. AccorHotels employs approx. 240 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: ACRFY).

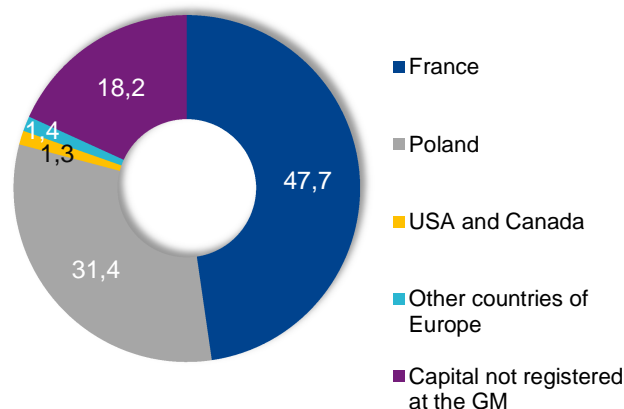
As at the date of publication of this Director's Report, the Vice-President of the Management Board, Mr. Ireneusz Andrzej Węglowski, held 3 000 shares in Orbis S.A. Other members of the Management Board did not hold any Company shares.

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

No changes occurred in respect of the holding of Orbis S.A. shares by members of the Management Board and members of the Supervisory Board throughout 2016 and till the date of publication of this Director's Report.

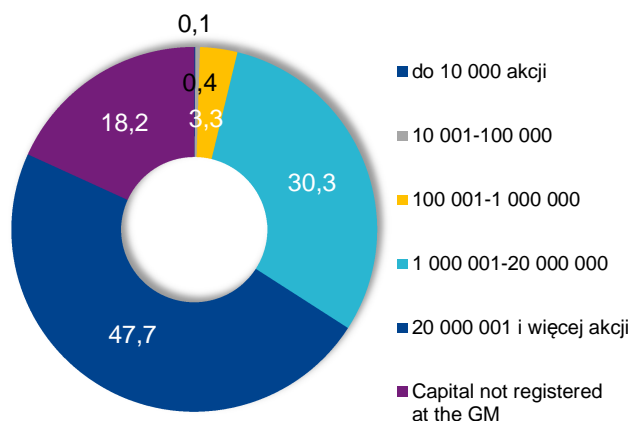
### Shareholders by country of origin\*

Countries	Total number of shares
France	21 972 566
Poland	14 459 805
Other countries of Europe	595 051
USA and Canada	672 076
Shareholders not registered at the GM	8 377 510
<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	55 229
10 001-100 000	193 719
100 001-1 000 000	1 536 482
1 000 001-20 000 000	13 941 502
20 000 001 and more	21 972 566
Shareholders not registered at the GM	8 377 510
<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 2, 2016. The list comprised shareholders representing 81.82% of share capital (as at the day of compiling the list)

## 5.3 Dividends Paid

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

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

## 5.4 Investor Relations

Whilst fulfilling exhaustively its information disclosure obligations, Orbis S.A. pursues an open information policy. The Management Board of the Company offers comments and responds to investor inquiries during conferences organised after publication of quarterly results. All conferences accompanying the publication of the financial results are broadcast live in Orbis TV at the Company's website.

Individual meetings with investors and analysts are held in the Company's headquarters. Company representatives participate in the so-called Investor's Days organised by financial institutions.

In 2016, Orbis S.A. held:

- meetings accompanying the publication of 2015 annual results, 1H 2016 results and Q3 2016 results,
- teleconference to present the Q1 2016 results,
- a road show in connection with the issue of bonds,
- 2 investor days meetings in key brokerage houses.

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

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

CORPORATE GOVERNANCE DECLARATION



ibis Praha Mala Strana

## 6 CORPORATE GOVERNANCE DECLARATION

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

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

The text of the corporate governance rules under the title "Best Practice for GPW Listed Companies 2016" is available to the public at the following website: [https://www.gpw.pl/pub/files/PDF/RG/DPSN2016\\_EN.pdf](https://www.gpw.pl/pub/files/PDF/RG/DPSN2016_EN.pdf) and available for review at the headquarters of the Warsaw Stock Exchange.

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

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

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

In 2016 Orbis S.A. decided not to apply the following principles of corporate governance contained in the "Best Practice for GPW Listed Companies 2016":

#### **Disclosure Policy, Investor Communications**

##### Detailed principles

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

The Company does not apply the above principle.

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

#### **Internal Systems and Functions**

##### Detailed principles

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

Not applicable.

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



## General Meeting, Shareholder Relations

### Recommendation

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

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

The Company does not apply the above principle.

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

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

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

Not applicable.

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

### Detailed principles

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

The Company does not apply the above principle.

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

## Remuneration

### Detailed principles

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

Not applicable.

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

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

Not applicable.

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



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

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

The Company does not apply the above principle.

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

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

### **The process of financial statements compilation**

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

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

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

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

Furthermore, the process of risk management is carried out by way of verification of the financial statements by an independent chartered auditor. The annual separate financial statements of Orbis S.A. and the annual consolidated financial statements of the Orbis Group are audited by an auditor which grants its opinion and compiles the audit report. The semi-annual separate and consolidated financial statements are reviewed and the review report is issued. Information about the company authorized to audit the financial statements of the Group and the Group companies is provided in Section 7.2.

## **Internal control**

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

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

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

The structure of Orbis S.A. shareholding has been discussed in detail in Section 5.2 of this Director's Report on the Operations of the Orbis Group for 2016.

## **6.5 Special Controlling Powers of Securities' Holders**

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

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

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

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

### **The Management Board**

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

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

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

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

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

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

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

**Gilles Clavie, President and Chief Executive Officer:**

- strategy, planning
- hotel operations
- sales, marketing, distribution
- legal
- human resources

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

- internal audit and risk management
- investor relations
- CSR
- Corporate PR and communication

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

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

**Marcin Szewczykowski, Member of the Management Board for Finance:**

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

## 6.8 Principles of Modifying the Orbis S.A. Statutes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The powers of the General Meeting of Shareholders include:

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

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

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

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

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

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

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

### **The Management Board**

In 2016, 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 (from June 2, 2016)

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

### **The Supervisory Board**

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

From January 1, 2016, till December 31, 2016, Orbis S.A. Supervisory Board was composed of the following Members:

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

### **Supervisory Board Committees**

From January 1, 2016, till December 31, 2016, Supervisory Board Committees was composed of the following members:

#### **Audit Committee:**

- Artur Gabor
- Christian Karaoglanian – till June 2, 2016,
- Jacek Kseń
- Laurent Picheral
- Jean-Jacques Morin – since June 2, 2016,

#### **Remuneration Committee:**

- Bruno Coudry - till June 2, 2016,
- Jacek Kseń,
- Jean-Jacques Morin – since June 2, 2016,

#### **Corporate Social Responsibility Committee:**

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

Information concerning remuneration of Members of the Management Board and the Supervisory Board is provided under Note 33.1 to the Consolidated Financial Statements of the Orbis Group for 2016.

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

### The Management Board

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

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

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

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

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

### The Supervisory Board

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

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

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



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

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

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

### Supervisory Board Committees

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

- **Audit Committee** - its tasks comprise, among others: monitoring the process of financial reporting in Orbis S.A., preparing draft evaluations and reports of the Supervisory Board connected with the closing of a financial year, monitoring efficiency of internal control systems, internal audit and risk management in the Company, monitoring the independence of the entity licensed to audit financial statements.
- **Remuneration Committee** - the Committee is tasked with preparing recommendations for the Supervisory Board as regards the annual bonus and remuneration policy for members of the Management Board.
- **Corporate Social Responsibility Committee** – the CSR Committee was established to ensure supervision and evaluation of proper pursuance of the strategy and actions implemented by the Company in the area of corporate governance, human rights, practices related to employment, natural environment, protection of consumer rights and the Company's involvement in the local communities.

## 6.12 Diversity Policy

Diversity and its aspects have been extensively described in the „Ethics and Corporate Social Responsibility Charter”. They are regulated in detail in the “Orbis Diversity Policy” adopted by the Orbis Group. The diversity Policy sets out the Company's commitment to eliminate all forms of discrimination due to ethnic, social or cultural origin, gender, age, physical features or disability, religious beliefs, sexual orientation, family status, being a trade union activist or other partialities made illegal by law. Its aim is to provide equal opportunities to employees with the same professional qualifications, in particular to men and women in all areas of work and at all phases of their professional career, beginning from recruitment through training, remuneration, geographic mobility, to career development.

This policy also ensures inclusion of diversity in training programs (for example each training for executives and managers in the Accorhotels Academy includes a module dedicated to diversity, and all of our employees can participate in the e-learning training dedicated to diversity, available in the Orbis Group intranet). The policy also sets out an obligation to inform our employees and other persons with whom we collaborate about actions undertaken by the Group to promote diversity, we provide guidance on how these measures can be implemented in practice. We require our suppliers, subcontractors or service providers to sign the "Orbis Group Procurement Policy" and to apply the non-discrimination rules set out therein. We respect the diversity of our guests and do our best to embrace it by adapting our products and services to guest expectations. We give much attention to women. Our hotels enrich their product targeted at women offering a range of services designed to cater for their needs. We have various offers for them beginning from specially arranged rooms with facilities and ending with food and beverage offers. From time to time we examine the commitment of our employees and measure the impact of actions taken in favour of diversity.

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

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

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

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

#### **Orbis at the Great Integration Gala**

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

For 21 years now it has been an opportunity to meet with people suffering from different disabilities from all over the country as well as with public figures, politicians, media representatives, businesses engaged in activities for the benefit of persons with disabilities and representatives of non-governmental organizations.

During the 2016 Gala, a report from our Novotel Warszawa Centrum was presented as an example of good practice. The session was attended by 2 000 participants and watched remotely by 11 000 participants.

#### **The #HeForShe Campaign**

Accorhotels, and thus the Orbis Group, is one of 10 companies from around the world selected to actively participate in the #HeForShe campaign. The aim of the campaign is to engage men to improve women's empowerment and to actively promote gender equality. The actress Emma Watson is the face of the campaign.

By participating in the #HeForShe campaign, Orbis and Accorhotels commit, along with 9 other companies, 10 universities and governments of 10 countries selected by the "UN Women" United Nations agenda, to achieve the goals set for 2017.

#### **Women at AccorHotels Generation (WAAG)**

The Women at AccorHotels Generation network (WAAG) connects women working in the AccorHotels and Orbis Groups and supports their professional development. It brings together nearly two hundred women and several

dozen men from the Orbis Group in Poland and in the Eastern Europe. In the Orbis Group, as many as 40% of hotel General Managers are women, which is the highest percentage in the overall worldwide AccorHotels community. The aim of the network is to develop leadership skills, build greater work comfort and mutual inspiration. The "WAAG Empowerment" program which is a series of workshops for women working in the Orbis Hotel Group was built around that perspective. Since January 2015, the Orbis Hotel Group offers to WAAG network members a mentoring program, within a framework of which several mentoring pairs have been brought together not only in Poland but also in Romania, the Czech Republic and Hungary.

In the past year, information about the Women at AccorHotels Generation network (WAAG) has appeared twenty times in the media despite lack of a dedicated information campaign. A few-day HeForShe campaign presenting the Orbis Group as an open, friendly employer supporting professional development of women has been run in social media.

### **6.13 Information on Sponsorship, Charity and Other Similar Activities of Orbis S.A.**

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

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

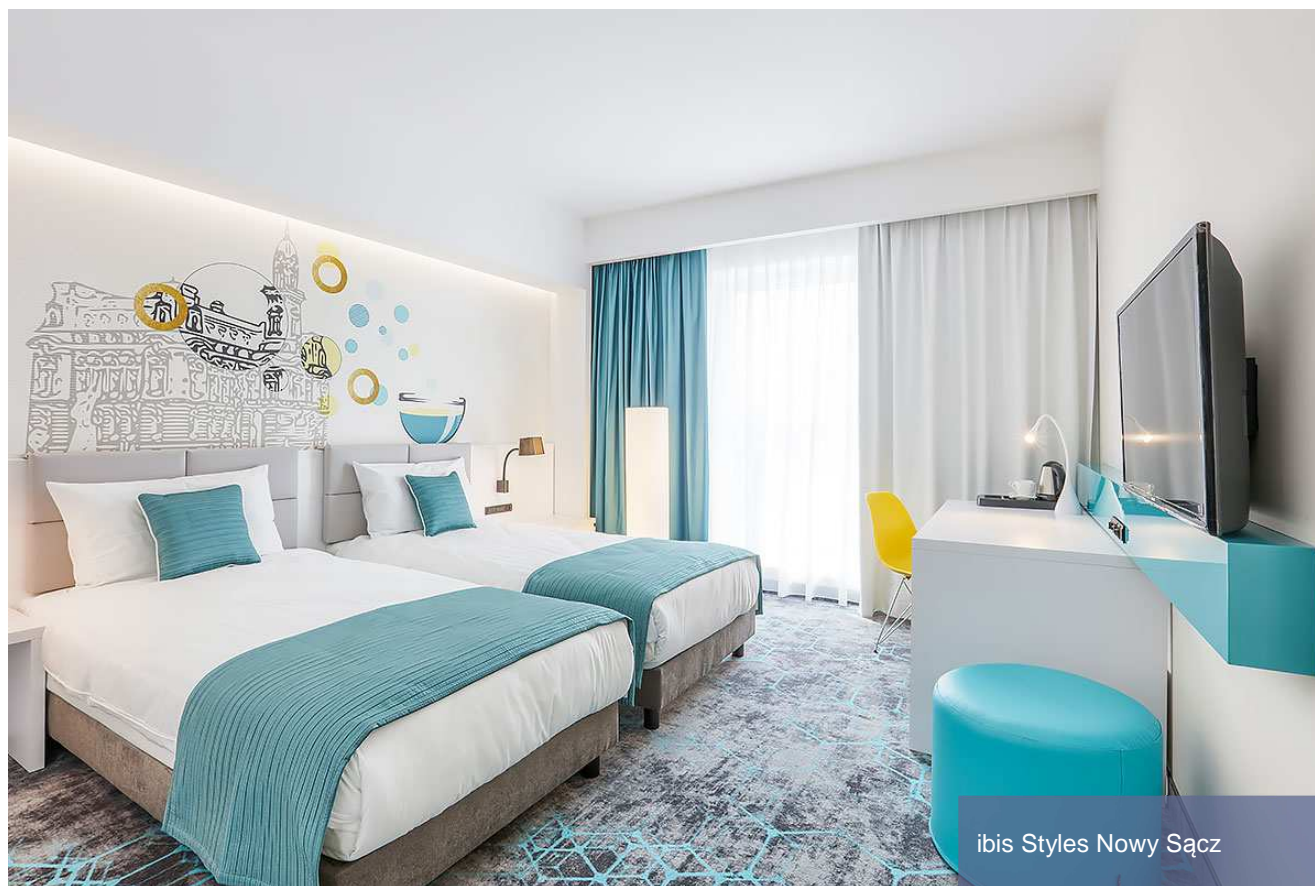
The above-mentioned social and environmental programs are implemented from current assets of Orbis S.A., with financial support from the Accor S.A. "Solidarity AccorHotels" corporate foundation, with the support of Orbis S.A. employees and thanks to involvement of hotel guests.

The most important social and environmental projects of Orbis S.A. in 2016 include:

- The "Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism" – a prevention program raising awareness of negative social phenomena, carried out together with the Nobody's Children Foundation in Poland and the ECPAT Association in Poland, Hungary, the Czech Republic and Romania ;
- The "Women At AccorHotels Generation" corporate network of women working in Orbis S.A. and its subsidiaries - the aim of the program is to boost leadership and empowerment of women and to enhance work environment and mutual inspiration. The WAAG network brings together more than 220 members. Its activities in 2016 focused on Poland, Romania and Hungary;
- The "Plant for the Planet" program aimed at transferring 50% of the savings generated due to optimization of towel use in Orbis S.A. hotels for the creation and development of traditional fruit orchards in Poland. The program is implemented thanks to involvement of hotel guests and in co-operation with the Pur Projet SARL and the AgriNatura Foundation;
- „Bio & Co" – thanks to the initiative of employees of the ibis Bucuresti Gara de Nord hotel, the "Solidarity AccorHotels" corporate foundation has donated EUR 23 000 for the Ateliere Fara Frontiere foundation in Romania to support persons who are at the verge of social marginalization through an eco-crop professional training and apprenticeship program;
- "Chamber of Commerce of the Polish Hotel Industry" (IGHP) - support for the local self-governing organization of the hotel and restaurant industry in Poland in contacts with government administration at the local, regional, national and EU level.

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

## ADDITIONAL INFORMATION



## 7 ADDITIONAL INFORMATION

### 7.1 Human Resources

During the period of 12 months of 2016, the average employment in the Orbis Group stood at 3 898 full time equivalents, having risen by 2.8% as compared to the same period of last year.

Average employment (in full-time equivalents)	2016	2015	% change
Poland	2 507	2 480	1.1%
Hungary	906	844	7.3%
Czech Republic	225	216	4.2%
Other countries	260	251	3.6%
<b>Total</b>	<b>3 898</b>	<b>3 791</b>	<b>2.8%</b>

In 2016, the Orbis Group continued its efforts aimed at enhancing efficiency of employment level and improving the ratio of staff costs to Group's revenue, involving particularly organisational changes and adapting the level of employment to current operating needs.

In 2016, the Orbis Group ran traditional and e-learning trainings, providing nearly 6 000 person-days of training for 3 200 persons (more than 6 100 participants), which made it possible for Orbis Group employees to unify and expand their expertise and develop competencies as well as to acquire new skills.

In 2016, hotel employees took part in numerous selling trainings, including: Effective Selling Techniques, Skilful Persuasion, Upselling in the Reception and F&B, Etiquette and Savoir-Vivre, Strength of a Smile and Relation Building.

Numerous programmes to enhance knowledge, skills and behaviours in each brand to ensure an international quality standard for customers were run in 2016. The following trainings for employees and hotels managers have been offered: *Fit for Business, Enabling Excellence, Priority and Resolution, Magnifique Journey in hotels of the Sofitel brand; Life Genius Change Leadership Workshop, Itinéraires, You in hotels of the Novotel brand, Live the Brand with Mercure Touch* in hotels of the Mercure brand and *Happy Mood Maker, i-Burger, Appleasure* in the ibis hotels. All of them embody a new approach to guests in order to increase sales through a natural, authentic approach, trade sense as well as ability to predict and find solutions. The trainings enabled its participants to get more insight into specific features of Orbis Group brands.

As regards the food and beverage segment, the offered trainings focused on: the new HACCP book, cooking training for chefs, modern restaurant management, suggestive sales in the restaurant and increasing profits and loss prevention in the food & beverage segment.

Moreover, a training program devoted to Revenue Management in Warsaw and Budapest as well as Sales Campus for sales employees from Poland, Hungary and Slovakia were also run in 2016. Furthermore, managers of various levels participated in a number of soft skills trainings.

### 7.2 Entity Authorised to Audit the Financial Statements

On June 9, 2016, Orbis S.A. executed an agreement with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa, entered on the list of licensed entities maintained by the National Chamber of Statutory Auditors under number 73, for the review and audit of financial statements of Orbis S.A. The agreement covers the review of semi-annual separate and consolidated financial statements for the six-month period ended June 30, 2016 and for the six-month period ended June 30, 2017, and the audit of annual separate and consolidated financial statements for the years 2016 and 2017.

The net fee due or paid out to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa for the audit of the financial statements and other attestation services amounted to PLN 765 thousand in 2016 (PLN 793 thousand in 2015).



The fee of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa for advisory services amounted to PLN 128 thousand in 2015.

Also, Deloitte Group companies audited the annual financial statements of foreign subsidiaries and associates, except Orbis Kontrakty Sp. z o.o. and Accor Pannonia Slovakia s.r.o. (for 2016). The total net fee for the audits and other attestation services by companies belonging to the Deloitte Group amounted to PLN 549 thousand in 2016 (PLN 721 thousand in 2015).

The financial statements of the subsidiary Orbis Kontrakty Sp. z o.o. were audited by Revision-Rzeszów Józef Król Sp. z o.o. Sp. K. The net fee for the audit amounted to PLN 8 thousand in 2016 (PLN 7 thousand in 2015).

On the other hand, the financial statements for 2016 of the subsidiary Accor Pannonia Slovakia s.r.o. with its registered address in Bratislava were audited by PKF Slovensko s.r.o. The net fee for the audit amounted to PLN 53 thousand for 2016. The financial statements of the Slovak company for 2015 were audited by a company belonging to a Deloitte Group of companies.

Currently, there is no rule in place in Orbis S.A. concerning the change of the entity licensed to audit financial statements.

### **7.3 Legal Claims**

Information about proceedings pending before court, arbitration or public administration authorities is provided in Note 30.3 to the Consolidated Financial Statements of the Orbis Group for 2016.

### **7.4 Related party transactions**

The Group executes transactions with related parties at arm's length. Information about transactions with related parties is provided in Note 33 to the Consolidated Financial Statements of the Orbis Group for 2016.

### **7.5 Contingent Assets and Liabilities**

Information on contingent assets and liabilities, including issued or received sureties and guarantees, is provided in Note 30 to the Consolidated Financial Statements of the Orbis Group for 2016.

### **7.6 Events after the End of the Reporting Period**

On January 1, 2017, a merger took place between the subsidiary Katerinska Hotel s.r.o. (the margining company) and Novy Smichov Gate a.s. (the merged company). As of that date, Katerinska Hotel s.r.o. took over the rights and obligations of Novy Smichov Gate a.s., which was deleted from the register of companies.

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

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

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

Orbis S.A. accepted exercising of the Option Right, including in particular the obligation to pay the purchase price for the hotel of the maximum EUR 44.0 million, where the final amount depends on the type of transaction (share deal or real estate deal), which will be executed under the Option Right.

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

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

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



## APPENDIX 1: OPERATING RATIOS OF THE ORBIS GROUP

### Owned Hotels<sup>2</sup>

Operating ratios of owned hotels by main category	2016	2015	change (%)	2016	2015	change (%)
	as reported			like-for-like		
<b>Orbis Hotel Group</b>						
Occupancy rate (%)	72.4	69.7	2.7 p.p.	72.4	70.0	2.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	233.8	216.3	8.1%	233.7	217.5	7.4%
Revenue per Available Room (RevPAR) in PLN	169.2	150.8	12.2%	169.3	152.3	11.2%
<b>Economy Hotels</b>						
Occupancy rate (%)	73.4	72.9	0.5 p.p.	74.3	73.3	1.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	168.1	157.6	6.7%	168.6	158.2	6.6%
Revenue per Available Room (RevPAR) in PLN	123.4	114.9	7.4%	125.3	115.9	8.1%
<b>Up&amp;Midscale Hotels (3-star and more)</b>						
Occupancy rate (%)	71.9	68.4	3.5 p.p.	72.2	69.1	3.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	267.6	243.9	9.7%	267.7	249.1	7.5%
Revenue per Available Room (RevPAR) in PLN	192.3	166.7	15.4%	193.2	172.2	12.2%

Operating ratios of owned hotels by main category	4th quarter of 2016	4th quarter of 2015	change (%)	4th quarter of 2016	4th quarter of 2015	change (%)
	as reported			like-for-like		
<b>Orbis Hotel Group</b>						
Occupancy rate (%)	70.1	65.3	4.8 p.p.	70.3	66.3	4.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	230.3	216.5	6.4%	229.7	217.7	5.5%
Revenue per Available Room (RevPAR) in PLN	161.4	141.3	14.2%	161.5	144.4	11.8%
<b>Economy Hotels</b>						
Occupancy rate (%)	71.7	69.1	2.6 p.p.	72.9	69.9	3.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	167.8	159.8	5.0%	168.8	161.0	4.8%
Revenue per Available Room (RevPAR) in PLN	120.3	110.4	9.0%	123.0	112.5	9.3%
<b>Up&amp;Midscale Hotels (3-star and more)</b>						
Occupancy rate (%)	69.2	63.5	5.7 p.p.	69.4	65.5	3.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	264.0	244.4	8.0%	262.8	248.8	5.6%
Revenue per Available Room (RevPAR) in PLN	182.7	155.3	17.6%	182.5	162.9	12.0%

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

Operating ratios of owned hotels by geographical segment	2016	2015	change (%)	2016	2015	change (%)
	as reported			like-for-like		
<b>Poland</b>						
Occupancy rate (%)	70.8	68.2	2.6 p.p.	70.9	68.6	2.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	223.7	208.3	7.4%	223.4	209.9	6.4%
Revenue per Available Room (RevPAR) in PLN	158.4	142.0	11.5%	158.4	143.9	10.1%
<b>Hungary</b>						
Occupancy rate (%)	73.8	70.4	3.4 p.p.	73.8	70.4	3.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	248.6	229.8	8.2%	248.6	229.8	8.2%
Revenue per Available Room (RevPAR) in PLN	183.3	161.7	13.4%	183.3	161.7	13.4%
<b>Czech Republic</b>						
Occupancy rate (%)	75.7	75.5	0.2 p.p.	75.7	75.5	0.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	250.2	225.9	10.8%	250.2	225.8	10.8%
Revenue per Available Room (RevPAR) in PLN	189.5	170.5	11.1%	189.5	170.5	11.1%
<b>Other countries</b>						
Occupancy rate (%)	82.1	79.2	2.9 p.p.	82.1	79.2	2.9 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	270.3	245.1	10.3%	270.3	245.1	10.3%
Revenue per Available Room (RevPAR) in PLN	222.0	194.1	14.4%	222.0	194.1	14.4%

Operating ratios of owned hotels by geographical segment	4th quarter of 2015	4th quarter of 2015	change (%)	4th quarter of 2015	4th quarter of 2015	change (%)
	as reported			like-for-like		
<b>Poland</b>						
Occupancy rate (%)	67.0	64.1	2.9 p.p.	67.3	65.8	1.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	218.5	206.3	5.9%	217.2	207.9	4.5%
Revenue per Available Room (RevPAR) in PLN	146.4	132.3	10.7%	146.2	136.7	6.9%
<b>Hungary</b>						
Occupancy rate (%)	75.1	62.4	12.7 p.p.	75.1	62.4	12.7 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	246.3	238.6	3.2%	246.3	238.6	3.2%
Revenue per Available Room (RevPAR) in PLN	185.1	148.8	24.4%	185.1	148.8	24.4%
<b>Czech Republic</b>						
Occupancy rate (%)	77.3	74.9	2.4 p.p.	77.3	74.9	2.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	238.6	219.1	8.9%	238.6	219.1	8.9%
Revenue per Available Room (RevPAR) in PLN	184.4	164.2	12.3%	184.4	164.2	12.3%
<b>Other countries</b>						
Occupancy rate (%)	78.5	77.0	1.5 p.p.	78.5	77.0	1.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	291.1	252.1	15.5%	291.1	252.1	15.5%
Revenue per Available Room (RevPAR) in PLN	228.4	194.1	17.7%	228.4	194.1	17.7%

## Managed and Franchised Hotels

Operating ratios of managed and franchised hotels by main category	2016	2015	change (%)	2016	2015	change (%)
	as reported			like-for-like		
<b>Orbis Hotel Group</b>						
Occupancy rate (%)	61.3	58.2	3.1 p.p.	65.1	59.3	5.8 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	185.6	181.3	2.4%	189.6	181.4	4.5%
Revenue per Available Room (RevPAR) in PLN	113.8	105.6	7.8%	123.4	107.5	14.8%
<b>Economy Hotels</b>						
Occupancy rate (%)	63.6	61.3	2.3 p.p.	69.6	62.0	7.6 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	146.9	140.3	4.7%	148.0	139.9	5.8%
Revenue per Available Room (RevPAR) in PLN	93.4	86.0	8.6%	103.0	86.7	18.8%
<b>Up&amp;Midscale Hotels (3-star and more)</b>						
Occupancy rate (%)	58.9	55.1	3.8 p.p.	60.6	56.5	4.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	230.3	226.9	1.5%	237.7	227.1	4.7%
Revenue per Available Room (RevPAR) in PLN	135.7	125.1	8.5%	144.1	128.4	12.2%
Operating ratios of managed and franchised hotels by main category	4th quarter of 2016	4th quarter of 2015	change (%)	4th quarter of 2016	4th quarter of 2015	change (%)
	as reported			like-for-like		
<b>Orbis Hotel Group</b>						
Occupancy rate (%)	57.1	56.9	0.2 p.p.	63.4	58.0	5.4 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	188.4	182.6	3.2%	191.5	182.5	4.9%
Revenue per Available Room (RevPAR) in PLN	107.5	103.9	3.5%	121.4	105.9	14.6%
<b>Economy Hotels</b>						
Occupancy rate (%)	60.4	59.1	1.3 p.p.	69.0	61.3	7.7 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	146.5	140.1	4.6%	148.1	140.3	5.6%
Revenue per Available Room (RevPAR) in PLN	88.5	82.8	6.9%	102.2	86.0	18.8%
<b>Up&amp;Midscale Hotels (3-star and more)</b>						
Occupancy rate (%)	53.3	54.7	-1.4 p.p.	57.9	54.8	3.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	241.0	229.0	5.2%	243.0	228.9	6.2%
Revenue per Available Room (RevPAR) in PLN	128.4	125.4	2.4%	140.6	125.5	12.0%

Operating ratios of managed and franchised hotels by geographical segment	2016	2015	change (%)	2016	2015	change (%)
	as reported			like-for-like		
<b>Poland</b>						
Occupancy rate (%)	49.2	45.4	3.8 p.p.	51.3	47.2	4.1 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	187.8	189.4	-0.8%	197.7	190.3	3.9%
Revenue per Available Room (RevPAR) in PLN	92.4	86.0	7.4%	101.5	89.8	13.0%
<b>Hungary</b>						
Occupancy rate (%)	76.7	69.9	6.8 p.p.	77.5	74.3	3.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	292.8	259.3	12.9%	294.8	265.6	11.0%
Revenue per Available Room (RevPAR) in PLN	224.7	181.2	24.0%	228.5	197.4	15.8%
<b>Czech Republic</b>						
Occupancy rate (%)	57.9	52.7	5.2 p.p.	57.9	52.7	5.2 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	155.5	149.0	4.4%	155.5	149.0	4.4%
Revenue per Available Room (RevPAR) in PLN	90.1	78.5	14.8%	90.1	78.5	14.8%
<b>Other countries</b>						
Occupancy rate (%)	70.0	66.2	3.8 p.p.	73.2	66.2	7.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	181.2	175.1	3.5%	183.1	175.1	4.6%
Revenue per Available Room (RevPAR) in PLN	126.8	115.9	9.4%	134.1	115.9	15.7%

Operating ratios of managed and franchised hotels by geographical segment	4th quarter of 2016	4th quarter of 2015	change (%)	4th quarter of 2016	4th quarter of 2015	change (%)
	as reported			like-for-like		
<b>Poland</b>						
Occupancy rate (%)	42.7	43.3	-0.6 p.p.	48.7	45.2	3.5 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	188.1	191.6	-1.8%	201.9	194.0	4.1%
Revenue per Available Room (RevPAR) in PLN	80.3	82.9	-3.1%	98.4	87.7	12.2%
<b>Hungary</b>						
Occupancy rate (%)	77.7	67.5	10.2 p.p.	82.4	71.4	11.0 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	290.9	271.2	7.3%	299.4	276.4	8.3%
Revenue per Available Room (RevPAR) in PLN	226.1	183.2	23.4%	246.8	197.3	25.1%
<b>Czech Republic</b>						
Occupancy rate (%)	62.0	45.7	16.3 p.p.	62.0	45.7	16.3 p.p.
Average Room Rate (ARR) in PLN (net of VAT)	160.2	161.9	-1.1%	160.2	161.9	-1.1%
Revenue per Available Room (RevPAR) in PLN	99.3	74.0	34.2%	99.3	74.0	34.2%
<b>Other countries</b>						
Occupancy rate (%)	67.5	66.0	1.5 pp	71.7	66.0	5.7 pp
Average Room Rate (ARR) in PLN (net of VAT)	185.6	175.7	5.6%	185.2	175.7	5.4%
Revenue per Available Room (RevPAR) in PLN	125.3	115.9	8.1%	132.8	115.9	14.6%

## APPENDIX 2: GLOSSARY OF TERMS

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

**CAPEX** – Capital Expenditure

**CSR** – Corporate Social Responsibility

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

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

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

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

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

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

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

**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 lodging services divided by the number of available rooms (may be calculated as occupancy rate multiplied by the Average Room Rate)

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

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

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