MANAGEMENT BOARD REPORT ON THE ACTIVITIES OF BENEFIT SYSTEMS GROUP

FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER 2018

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LETTER OF THE MANAGEMENT BOARD

DEAR SHAREHOLDERS,

Enclosed herewith is the Management Board's report on the activity of the Capital Group of Benefit Systems, which is intended to share with you what year 2018 brought us. In many terms, it was an exceptionally satisfying year.

Over 12 months, MultiSport cardholders group has extended by 198 thousand, which is more than ever in the history of the Group. As of the end of 2018, the number of MultiSport cards amounted to 1 194 thousand, representing a year-on-year growth by 20%, with 223 thousand users abroad included in that number. We are extremely happy about it, since it shows that devised and developed in Poland, our unique business concept proves attractive in other countries as well.

Hence, we are optimistically looking at our business development. Poles increasingly often evince the ambition to maintain a healthy lifestyle and an appetite to practice sports. Moreover, the MultiSport card has become a standard non-payroll benefit and quite often is an important argument in the recruitment process. We hope that these factors will continue to support the sales of our flagship product.

We experience an intensive development abroad. In the Czech Republic, Bulgaria and Slovakia, the MultiSport programme has won recognition and acclaim among its Customers, Partners and Users. We invest into people (sales teams) so as to scale our business even more effectively. In 2018, we sold the first sports cards in Croatia and launched our activity in Greece. We hope that the "youngest" markets of ours will also support the development of our business outside Poland.

At Benefit Systems, year 2018 abounded in investments. We completed seven transactions representing both continuations of the investments from the past and new acquisitions. Within our networks (subsidiaries) we opened 27 clubs in Poland, in particular, by taking advantage of withdrawal of one of the foreign fitness club chains from the market. As of the end of 2018, our subsidiaries were managing 144 clubs in Poland and 18 foreign clubs.

For us, well-equipped and outfitted clubs in top locations are the infrastructure, an integral part of the sports cards business and a competitive advantage that took us quite a few years to build up. In 2018, we completed a wideranging acquisition programme in that business area, and now, in particular on the Polish market, we focus on organic growth based on specific locations that are most preferred among the MultiSport cardholders.

The investments would have not been possible without financing. Last year, we raised nearly PLN 300 million from a capital increase and sale of treasury shares for further business development. We see the fund raisings as an exceptional success, in particular, considering that in 2018, conditions on the capital market were not favourable for Issuers. Today, we would like to thank you for the trust you placed in us.

In 2018, the revenues of the Capital Group of Benefit Systems grew by 26.4% and EBITDA by 27.3%. We are maintaining a double-digit dynamics of growth of revenues and results in line with the expanding business base. We are investing into continued development by building and augmenting our sales forces abroad and by opening new clubs to provide new space for sports activities for our Cardholders. In the long run, these activities will allow us to continue the growth of revenues while maintaining profitability.

Last year was also exceptional for us in the CSR area. A socially-oriented business model, a partner approach to stakeholders and social initiatives, all were appreciated in 2018 by granting Benefit Systems the international B Corp certificate, which is awarded to "best for the world" corporations. We are the first public company from the Central and Eastern Europe which was awarded this coveted distinction. Such appreciation propels us to work further, in particular on key social projects, including MultiSport Senior, Aktywne Szkoły MultiSport, Dobry MultiUczynek and MultiSport Index. The above initiatives are described in more detail in our non-financial report that we strongly invite you to take a look at.

At Benefit Systems, we believe that effective cooperation is a prerequisite for business development and success. This is why we would like to warmly thank our Shareholders, Employees, Customers, Partners and Cardholders for the trust they have shown in us. With a prudent optimism, we are looking forward to what the following year will bring us.

The Management Board of Benefit Systems S.A.

SELECTED FINANCIAL DATA FOR BENEFIT SYSTEMS GROUP

Table 1: Selected financial data for Benefit Systems Group for 2018

In thousands of PLN	**4th quarter, 2018**	**4th quarter, 2017**	**4 quarters of 2018**	**4 quarters of 2017**
Sales revenues	329 967	266 743	1 219 571	964 786
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	64 182	41 297	197 917	155 529
Operating profit increased by depreciation and amortisation (EBITDA) excluding the Incentive Programme's costs	71 371	45 296	214 350	164 670
Earnings before interest, tax (EBIT)	50 624	31 697	153 555	121 411
Profit before tax	59 525	28 110	157 422	116 291
Net profit attributable to shareholders of the parent company	40 884	18 000	114 645	88 103
Net profit attributable to non-controlling entities	508	(167)	1 545	(1 395)
Net profit	41 392	17 833	116 190	86 708
Net cash flows from operating activities	31 764	33 866	139 989	139 161
Net cash flows from investment activities	(71 554)	(10 431)	(263 000)	(161 847)
Net cash flows from financing activities	(67 794)	(17 295)	146 372	9 949
Net change in cash and cash equivalents	(107 584)	6 140	23 361	(12 737)
Net income per share attributable to shareholders of the parent company (in PLN per share)	14.99	6.15	41.71	33.09

In thousands of PLN	**31st December, 2018**	**31st December, 2017**
Non-current assets	791 668	517 998
Current assets	296 997	236 115
Total assets	1 088 665	754 113
Non-current liabilities	148 454	193 791
Current liabilities	373 242	340 445
Equity	566 969	219 877
Equity attributable to shareholders of the parent company	564 727	202 033
Share capital	2 859	2 675
Number of shares	2 858 842	2 674 842
Book value per share attributable to shareholders of the parent company (in PLN per share)	197.54	75.53

All data in the report (unless otherwise stated) covers the period January - December, 2018, and the comparative data presents the same period of 2017. All figures are presented in thousands PLN, unless stated otherwise.

DEVELOPMENT OF BENEFIT SYSTEMS GROUP AND THE MARKET ENVIRONMENT

The Benefit Systems Group specializes in providing employers with effective solutions in the area of non-payroll benefits dedicated to employees. The unique business model of the Benefit Systems Group consists in the building and maintaining of sustainable relations with Customers (business entities), Partners (sports and recreation facilities, fitness clubs, restaurants, catering factilities etc.) and Cardholders (holders of the MultiSport card).The MultiSport Programme is the Group's flagship product, which has been successfully developed in Poland and on foreign markets.

Responsible actions for all stakeholders of the Group were appreciated in 2018 by granting Benefit Systems the B Corp certificate, awarded by American NGO B Lab. Benefit Systems is the Central and Eastern Europe's first public company and, at the current time, the only Polish entity in the international community of the B-Corp enterprises for which, in addition to generating profits, very important is solving social issues and acting for the benefit of all the stakeholders.

The key elements of development of the Benefit Systems Group primarily include maintaining an attractive product in Poland and developing it abroad, also through continued development of the sports-recreation infrastructure for the benefit of sports Cardholders, in particular, by investing into fitness clubs.

The Benefit Systems Group operates in four (4) segments:

• Sports Cards, which offer access to a broad offer of over 4,000 sports-recreation facilities.

At the end of 2018 the number of sport cards offered by Benefit Systems Group reached 1 194.1 thousand (971.2 thousand in Poland and 222.9 thousand in the foreign markets), which constitutes an increase of 12.2% in Poland and 70.0% in the foreign markets compared to 2017.

• Fitness, which comprises companies, owned directly or indirectly by the Benefit Systems Group, operating sports clubs across Poland.

Development of Sports Cards is supported by investments in own infrastructure. As of end of 2018 companies, in which the Group holds majority stakes operated 144 facilities throughout Poland. Attractiveness of their offer and their locations constitute the most important argument for Users and Customers, who decide to choose MultiSport cards (Kantar TNS Report, 2018). Moreover, as a part of the development of the Group's flagship product in the foreign markets, the Group operates 15 clubs in the Czech Republic and 3 in Bulgaria.

• Foreign, which is responsible for sale of sports cards on foreign markets. Since 2018, foreign investments into fitness companies are also presented as part of the Foreign segment.

In 2018 the Group extended its operations to new countries, and as a result MultiSport cards are available in the Czech Republic, Slovakia, Croatia and, shortly, in Greece. Similarly to the Polish market, investments in fitness infrastructure support the development of Group's flagship product. The Group holds stakes in local companies operating a total of 18 fitness clubs.

• Cafeterias, a modern channel for distribution of non-payroll benefits representing not only sports, but also cultural, touristic and other types of activities.

There were over 380.8 thousand registred users in the cafeteria platforms last year, with Sport being the most popular category.

The market environment

Non-payroll benefits market, on which the Benefit Systems Group operates, is systematically growing. The latest survey of non-wage benefits budgets in 2018, carried out by ARC Rynek i Opinia commissioned by Benefit Systems S.A., indicates that financial resources for employee incentive schemes increased in every third company in 2018, and the market value exceeded PLN 12 billion. The average amount that employers spent on one employee was PLN 1 995, which is PLN 80 more than in 2017.

Also raising the income tax threshold (PIT) from PLN 380 to PLN 1000 on account of benefits financed from corporate employee benefits fund programmes (ZFŚS) could contribute to increase in the value of the benefits even though the mere decision to join the MultiSport programme has, over most recent ten years, gradually become independent from the sports cards being financed from the above source by our Customers.

In 2018, Benefit Systems S.A., acting in collaboration with Kantar TNS, has launched MultiSport Index, an annual survey programme dedicated to sports activities. It appeared from the first edition of the survey that 62% of Poles were physically active and 48% of Poles practiced sports at least once a week. Running is the most popular of sports activities, and most active physically are the residents of the Lublin voivodship and of the city of Warsaw. These figures are still lower than in many Western European countries, which means that the potential for growth of interest in healthy lifestyle and physical activity is still high.

The Benefit Systems Group launches engaging activities dedicated to individual groups of society with their diverse needs and preferences; in 2018, the following projects were being intensely developed: The MultiSport Senior Card, and the Active School MultiSport Programme that grouped as much as 10 thousand of children of primary school grades 4 - 7.

For a few years, Benefit Systems S.A. has been running a number of special activities aimed at engaging the MultiSport cardholders in sports activities in the summer holiday season. In the third quarter of 2018, a special summer offer was on, allowing sports Cardholders to take advantage of open-air swimming pools, high rope parks and fitness classes for children. Also, gamification that was available at the User Area (https://www.kartamultisport.pl/), in which you could score points and exchange them for attractive awards or contribute to a charitable objective (school starter kits), and, in wintertime, the MultiSport Lab that was a part of "Zimowy Narodowy" programme in Warsaw, were all a big success.

The attractiveness of Benefit Systems Group's flagship product, i.e. the sports cards, the favourable labour market trends and the growing popularity of a healthy and active lifestyle in Europe, as well as the dynamic development of the sports industry, indicate that Benefit Systems Group has the potential to continue its growth in the coming years, both in Poland and abroad.

1. MATERIAL INFORMATION ABOUT BENEFIT SYSTEMS GROUP

1.1. GENERAL INFORMATION AND COMPOSITION OF BENEFIT SYSTEMS GROUP

Benefit Systems Group is comprised of Benefit Systems S.A., responsible for the sale of sport cards in Poland, as well as entities operating on the non-monetary employee benefits market and sports market.

Currently, only in the Sports Cards segment, over 15,000 companies and institutions employing over 3.3 million employees are customers of Benefit Systems Group.

Benefit Systems S.A. has been listed on the main trading floor of the Warsaw Stock Exchange since April, 2011. The flagship product of Benefit Systems Group is the MultiSport Programme, which provides access to almost 4,000 of the best and most popular sports facilities in approximately 650 towns and cities throughout Poland. Benefit Systems Group also offers other sports cards, for example, the FitProfit card, described in the futher part of the report. In total there are over 971.2 thousand users in Poland and 222.9 thousand users abroad of the sports products alone from Benefit Systems Group. The MultiSport programme is one of the most popular employee benefits in Poland, enabling a holder to lead an active, and thus a healthy lifestyle.

Benefit Systems Group also offers the MyBenefit and MultiKafeteria cafeteria platforms, which give employees a choice of any non-wage employee benefits from a list accepted by their employer. From the Group's perspective cafeteria platforms are predominantly a distribution channel for the main product – sport cards. Cafeteria systems include the Benefit Systems Group's own products, such as the MultiBilet cultural and entertainment programme, allowing users to watch any of the films offered in hundreds of cinemas throughout Poland, the MultiTeatr programme offering tickets to the most popular theatrical performances, and the BenefitLunch programme with its dining offer for employees.

In order to sustain in the coming years the dynamic growth of its flagship product, Benefit Systems Group invests in the fitness market, with the aim of ensuring the appropriate infrastructure for MultiSport card users. According to Benefit Systems Group's research, half of all cards issued go to completely new users. This means that each year tens of thousands of new people go to fitness clubs and other sports facilities. Thanks to its investments in companies with fitness clubs, Benefit Systems Group guarantees that users of sports cards can benefit from modern, well-equipped clubs that offer a wide range of professional services. High integration of sports cards and fitness operations has a reflection in the Group structure – in December 2018 a branch of Benefit Systems S.A. with self-balancing set of accounts was formally set up, in which the entire activity of fitness clubs as well as their ownership will be concentrated.

The concept of the MultiSport programme is also used to support foreign expansion abroad. Since 2011, Benefit Systems Group has operated on the Czech market, since 2015 in Slovakia and Bulgaria and since 2018 in Croatia and Greece. The accumulated potencial of the businesses in those countries (centred mostly in the capitals) may surpass the capabilities of the Polish market.

A LIST OF SUBSIDIARIES AND ASSOCIATES

COMPANIES IN THE SPORTS CARD SEGMENT

Benefit Systems S.A. is responsible for the sale of MultiSport cards. Since 2011, it has been listed on the main floor of the Warsaw Stock Exchange.

FitSport Polska Sp. z o.o. offers sports cards to small and medium-sized enterprises and is also a distributor of products from Benefit Systems S.A.

Vanity Style Sp. z o.o. specialises in providing sports and recreation solutions. The Company provides large and medium-sized businesses with FitProfit and FitSport cards that have similar characteristics to the products of Benefit Systems S.A., but with a narrower range of services offered, fewer partners and, in principle, a product positioned as less expensive. Furthermore, the Company has enhanced the sports cards offer with a programme for access to cinema chains, called Bilet CinemaProfit.

COMPANIES IN THE FITNESS SEGMENT

Fit Invest Sp. z o.o. is the entity responsible for managing the investments by Benefit Systems Group in the Fitness segment. The Company holds in Fabryka Formy S.A. and Calypso Fitness S.A., as well as shares in Fitness Academy Spółka z ograniczoną odpowiedzialnością SKA, Zdrofit Sp. z o.o., Fitness Place Sp. z o.o, Wesolandia Sp. z o.o. o., Fitness Management Sp. z o.o., Fit Fabric Sp. z o.o., NewCo2 Sp. z o.o., NewCo3 Sp. z o.o., Masovian Sports Center Sp. z o.o., and minority stakes in Baltic Fitness Center Sp. z o.o., Instytut Rozwoju Fitness Sp. z o.o. and Benefit Partners Sp. z o.o.

Fitness Academy Spółka z ograniczoną odpowiedzialnością SKA operates a network of 19 fitness clubs in Wrocław, Katowice, Kraków and Legnica. The general partner in the company is Fitness Academy Sp. z o.o. The Company is the sole shareholder in the companies AM Classic Sp. z o.o. and Jupiter Sport Sp. z o.o.

Fabryka Formy S.A. operates a network of 27 fitness clubs, including several clubs in Poznań and its surroundings. The Company is the sole shareholder in the company Fitness za Rogiem Sp. (3 clubs).

Zdrofit Sp. z o.o. operates 44 fitness clubs, of which 27 in the Warsaw area, and the remaining ones primarily in the pomorskie and zachodniopomorskie region. 9 clubs out of total were merged into Zdrofit network after the merger with Tiger Sp. z o.o. (1 August 2018).

Fitness Place Sp. z o.o. operates 14 fitness clubs under the My FitnessPlace brand, which are located in małopolskie region.

Fit Fabric Sp. z o.o. operates 11 fitness clubs located primarily in the łódźkie region. The company is fully consolidated from 31 October 2018.

Wesolandia Sp. z o.o. is the owner of the Aquapark Wesolandia leisure complex, consisting of, among others, a swimming pool, fitness club and tennis court, located in Warsaw - Wesoła.

M Group Sp. z o.o. is a 100% subsidiary of Zdrofit Sp. z o.o. (before 1 August 2018 it was a subsidiary of Tiger Sp. z o.o.). The Company leases space to Zdrofit Sp. z o.o. in the Alchemia business location in Gdańsk.

Fitness Management Sp. z o.o. operates 14 clubs acquired from the company S4 Fitness Club in Warsaw, Torun, Gdynia and Bialystok.

NewCo2 Sp. z o.o., Masovian Sports Center Sp. z o.o. and NewCo3 Sp. z o.o. are a part of the Group since 31 October 2018, 7 November 2018 and 7 November 2018, respectively, as a result of an acquisition following the division of Calypso Fitness S.A., as described in the plan of the transformation. These companies operate a total of 14 clubs under Calypso brand.

As of the publication date of this report, companies within the Fitness segment have undergone a partial reorganization, phases of which were described in the 'Significant events in Benefit Systems Group after the balance sheet date' section.

COMPANIES FROM THE FOREIGN SEGMENT

Benefit Systems International Sp. z o.o. is the entity through which Benefit Systems Group conducts operations abroad. Benefit Systems International Sp. z o.o. is the majority owner of the Group's shares in foreign companies: MultiSport Benefit S.R.O. (the Czech Republic), Benefit Systems Slovakia S.R.O.

(Slovakia), Benefit Systems Bulgaria EOOD (Bulgaria), Benefit Systems D.O.O. (Croatia) and Benefit Systems MIKE (Greece), which are responsible for the sale of sports cards in these countries.

Fitness Place S.R.O. and Fit Invest Bulgaria EOOD are companies responsible for investments in fitness clubs, including the purchase of existing clubs and the opening of new facilities in the Czech Republic and Bulgaria, respectively. Fitness Place S.R.O. operates 15 clubs, and Fit Invest Bulgaria EOOD operates 3 clubs.

Beck Box Club Praha S.R.O. operates six fitness clubs in Prague.

Fit Invest International Sp. z o.o. is a new entity (from 30 July 2018) which manages investments of Benefit Systems Group within the Foreign segment.

COMPANIES IN THE CAFETERIA SEGMENT

My Benefit Sp. z o.o. develops and sells products (through its special cafeteria platform) that can be used by companies to motivate and reward employees. Currently, the company has in its portfolio a cafeteria system tailored to the needs of customers, including, among others, gift cards for retail chains, cinema or cultural programmes, tourism vouchers and a recreation funding system.

MultiBenefit Sp. z o.o. conducts activities related to non-wage employee benefits, including, among others: MultiKafeteria, MultiBilet, MultiTeatr and BenefitLunch.

OTHER COMPANIES

Benefit IP Spółka z ograniczoną odpowiedzialnością sp.k. manages the marketing activities of Benefit Systems Group, as well as all trademarks and industrial property rights owned by the companies of Benefit Systems Group (granting licenses for the use of trademarks) in order to implement the centralized management of marketing activities and industrial property in the Group. The general partner and minority shareholder of the company is Benefit IP Sp. z o.o.

The share in the total number of votes held by Benefit Systems Group in subsidiaries is equal to Benefit Systems Group's holding in the capital of these entities.

Table 2: Table of subsidiaries

Operating segment	Name of the subsidiary	Registered office of the subsidiary	Group's share in equity	
			31/12/2018	31/12/2017
SPORTS CARDS SEGMENT	VanityStyle Sp. z o.o.	ul. Jasna 24 00-054 Warsaw	100.00%	100.00%
	FitSport Polska Sp. z o.o.	Plac Europejski 2 00-844 Warsaw	100.00%	100.00%
	Benefit IP Sp. z o.o.	Plac Europejski 2 00-844 Warsaw	100.00%	100.00%
	Benefit IP Spółka z ograniczoną odpowiedzialnością sp. k.	Plac Europejski 2 00-844 Warsaw	99.90%	100.00%

FITNESS SEGMENT	Fit Invest Sp. z o.o.*	Plac Europejski 3 00-844 Warsaw	100.00%	100.00%
	Fitness Academy Sp. z o.o.	Plac Europejski 2 00-844 Warsaw	100.00%	100.00%
	Fitness Academy Spółka z ograniczoną odpowiedzialnością SKA	ul. Powstańców Śląskich 95 53-332 Wrocław	100.00%	100.00%
	AM Classic Sp. z o.o.	Plac Dominikański 3 53-209 Wrocław	100.00%	100.00%
	Jupiter Sport Sp. z o.o.	ul. Żegiestowska 11 50-542 Wrocław	100.00%	100.00%
	Fitness za Rogiem Sp. z o.o. **	ul. Rolna 16 62-070 Dopiewo	100.00%	66.06%
	Fabryka Formy S.A. **	ul. Rolna 16 62-070 Dopiewo	100.00%	66.06%
	Fitness Place Sp. z o.o.	Plac Europejski 3 00-844 Warszawa	100.00%	100.00%
	Wesolandia Sp. z o.o.	ul. Wspólna 4 05-075 Warszawa-Wesoła	100.00%	100.00%
	Zdrofit Sp. z o.o.	ul. Mangalia 4 02-758 Warszawa	100.00%	55.03%
	Tiger Sp. z o.o.****	Aleja Grunwaldzka 82 80-244 Gdańsk	0.00%	30.00%
	M Group Sp. z o.o.*****	ul. Reymonta 16 80-290 Gdańsk	100.00%	100.00%
	Fitness Management Sp. z o.o.	Plac Europejski 3 00-844 Warszawa	100.00%	99.99%
	Masovian Sports Center Sp. z o.o.	Plac Europejski 3 00-844 Warszawa	100.00%	0.00%
	NewCo2 Sp. z o.o.	Plac Europejski 3 00-844 Warszawa	100.00%	0.00%
	Fit Fabric Sp. z o.o.******	ul. 1go Maja 119/121 90-766 Łódź	52.50%	30.00%
	NewCo3 Sp. z o.o.	Plac Europejski 3 00-844 Warszawa	100.00%	0.00%
FOREIGN SEGMENT	Benefit Systems International Sp. z o.o.	Plac Europejski 2 00-844 Warsaw	100.00%	100.00%
	Benefit Systems Bulgaria EOOD	11-13, Yunak Str., floor 1 Sofia 1612, Bulgaria	100.00%	100.00%
	Benefit Systems D.O.O.	Zagreb (Grad Zagreb) Ožujska 2, Croatia	100.00%	100.00%
	Benefit Systems Greece MIKE*******	L. Vouliagmenis 47 16675 Hellenic – Argyroupoli, Greece	100.00%	0.00%
	Benefit Systems Slovakia S.R.O.	Ružová dolina 6 Bratislava - mestská časť Ružinov 821 08, Slovakia	83.00%	83.00%
	MultiSport Benefit S.R.O.	Lomnickeho 1705/9 140 00 Praha4 Czech Republic	78.80%	74.00%
	Form Factory S.R.O.***	Vinohradská 2405/190 Vinohrady, 130 00 Praha 3 Czech Republic	100.00%	100.00%
	Fit Invest Bulgaria EOOD	Atanas Dukov 32 M-Plaza building	100.00%	100.00%

		1407 Sofia, Bulgaria		
	Beck Box Club Praha S.R.O.	Vinohradská 2405/190 Vinohrady, 130 00 Praha 3 Czech Republic	100.00%	100.00%
	Fit Invest International Sp. z o.o.	Plac Europejski 2 00-844 Warsaw	100.00%	0.00%
CAFETERIA SEGMENT	MyBenefit Sp. z o.o.	ul. Powstańców Śląskich 28/30 53-333 Wrocław	100.00%	100.00%
	MultiBenefit Sp. z o.o.	Plac Europejski 2 00-844 Warsaw	100.00%	100.00%

** As of 14 January 2019, a merger of Fit Invest Sp. z o.o. and Benefit Systems S.A. was realized and a self-balancing branch was created.*
*** As of 17 January 2019, a merger of Fitness za Rogiem Sp. z o.o. and Fabryka Formy Sp. z o.o. was realized.*
**** Form Factory S.R.O. was created from the transformation of Fitness Place S.R.O. on 20 December 2018.*
***** As of 31 July 2018, a merger of Tiger Sp. z o.o. and Zdrofit Sp. z o.o. was realized. Benefit Systems Group's share in the equity amounted to 30%, however, due to the options held to purchase the remaining 70% of non-controlling interests, the company was consolidated using the full method, assuming a 100% share by Benefit Systems Group in the equity of this company.*
****** As of 10 January 2019, a merger (by acquisition) of M Group Sp. z o.o.(acquiree) and Zdrofit Sp. z o.o. (acquirer) was realized.*
******* Consolidated using the full method (assuming a 100% share) regardless of the minority shares since, on the basis of the concluded agreements, the shareholders of the minority shares are obliged to sale their shares.*
******** Entity created in the second quarter of 2018.*

Table 3: Table of associates and others

Operating segment	Name of associate	Registered office of the associate	Group's share in equity	
			31/12/2018	31/12/2017
FITNESS SEGMENT	Baltic Fitness Center Sp. z o.o.	ul. Puławska 427 02-801 Warsaw	49.95%	49.95%
	Instytut Rozwoju Fitness Sp. z o.o.	ul. Puławska 427 02-801 Warsaw	48.10%	48.10%
	Benefit Partners Sp. z o.o.	Plac Europejski 2 00-844 Warsaw	47.51%	47.51%
	Calypso Fitness S.A.	ul. Puławska 427 02-801 Warsaw	33.33%	33.33%
	Get Fit Katowice II Sp. z o.o.	ul. Uniwersytecka 13 40-007 Katowice	20.00%	20.00%
	Zdrofit Sport Sp. z o.o. (in liquidation)	ul. Mangalia 4 02-758 Warsaw	0.00%	26.69%
OTHER COMPANIES	LangMedia Sp. z o.o.	ul. Skwierzyńska 25/3 53-521 Wrocław	37.00%	37.00%
	X-code Sp. z o.o.	ul. Klaudyny 21/4 01-684 Warszawa	31.15%	31.15%

1.2. INCOME STATEMENT

Table 4: Income Statement for Benefit Systems Group for 2018

In thousands of PLN	12 months of 2018	12 months of 2017	Change
Sales revenues	**1 219 571**	**964 786**	**26.4%**
Revenues from rendering services	1 209 362	959 359	26.1%
Revenues from sales of goods and materials	10 209	5 427	88.1%
Costs of sales	**(881 553)**	**(699 127)**	**26.1%**

In thousands of PLN	12 months of 2018	12 months of 2017	Change
Cost of services rendered	(875 470)	(695 509)	25.9%
Cost of goods and materials sold	(6 083)	(3 618)	68.1%
Gross profit on sales	**338 018**	**265 659**	**27.2%**
Selling expenses	(84 625)	(57 747)	46.5%
General and administrative expenses	(120 490)	(87 944)	37.0%
Other operating income	6 610	9 085	(27.2%)
Other operating costs	(7 562)	(7 443)	1.6%
Re-measurement to fair value of existing holdings	21 604	0	-
Profit (loss) on sales of subsidiaries (+/-)	0	(199)	-
Operating profit	**153 555**	**121 411**	**26.5%**
Financial income, of which	21 663	3 915	453.3%
Dividends	*277*	*112*	*147.3%*
Interest income	*3 987*	*1 611*	*147.5%*
Financial expenses, of which	(13 781)	(12 101)	13.9%
Write down of financial assets	*(964)*	*(1 836)*	*(47.5%)*
Share of profits (loss) for entities accounted for using the equity method	(4 015)	3 066	-
Profit before tax	**157 422**	**116 291**	**35.4%**
Income tax	(41 232)	(29 583)	39.4%
Net profit from continuing operations	**116 190**	**86 708**	**34.0%**
Gross margin on sales %	27.7%	27.5%	*0.2 p.p.*

1.3. PROSPECTS

Benefit Systems Group does not publish its annual budget nor short-term financial forecasts. The current financial position of Benefit Systems Group supports implementation of investment projects using its own resources and externally available funding. Share issue proceeds will be spend in accordance with the Extraordinary General Meeting Resolutions on the aim of capital increase of the parent company (by way of F Series shares issue), which is further Group development and the use of growth potential – especially in the foreign markets, both in the sports cards segment, and in the area of fitness investments, which support it.

2. FINANCIAL RESULTS FOR 2018 BY OPERATING SEGMENTS OF BENEFIT SYSTEMS GROUP

2.1. INTRODUCTION

Starting from 2014, the Benefit Systems Group has been presenting its results on the basis of operating segments. The results presented in the report are being compared to the historical data. In line with the thresholds defined in IFRS 8, the Benefit Systems Group is obliged to present results of the segments where the revenues have exceeded the threshold of 10% of the total revenues of the Group; however, acting in response to the needs of various stakeholder groups, every year, the Group has been presenting the segment data in a wider scope.

According to the Group, analysing the results of the Fitness segment jointly with the results of the Sports Cards segment is purposive due to numerous synergies occuring between these types of activity (the supporting function of the Fitness segment with respect to the market and sales of sports cards) and also due to the process of reorganisation of the Group with a view to streamlining its structure, which has already started. As a consequence of progressing changes in the structure of the Group, starting from 2019, the results of the Sports Cards and of the Fitness segments will be presented jointly. That perspective of the financial standing and economic position of the activity of the Group will be consistent with the Management Board's approach to analyses, allocation of resources and to strategic and operational decisions. Until the end of 2018, the Capital Group of Benefit Systems divided their operating activity into four core operating segments: Sport Cards, Fitness, Foreign, Cafeterias and a supplementary segment: Other activities and arrangements. Also in connection with the above-described synergies and the role of fitness as a supporting infrastructure, starting from 2018, the classification of the foreign activity of the fitness clubs has changed, and now it belongs to the Foreign segment due to its significant role in the development of sports cards abroad (whereby before the change, i.e. until the end of 2017, the activity had been classified into the Fitness segment). Therefore, starting from year 2019, the approach to the analogous business model pursued by the Group in Poland and abroad will be consistent.

The Company made appropriate restatements to the comparable data that it presents in these Statements, and information regarding the components of the Sports Cards Segment that has been integrated starting from 2019 and of the Fitness Segment will be disclosed to an extent ensuring transparency of the change.

The Other activities and arrangements Segment represents management and administration-related activity and strategic activity within the Group. The segment includes items that are not allocated to the operating sements and exclusions of the intragroup transactions. The revenues of the Other activities and arrangements Segment consist of the revenues generated from sales to third-party customers or from transactions with other segments. They can be directly attributed to a specific segment. The costs of the segment include the costs of sales to third-party customers and the costs of transactions executed with the other segments. The said costs follow from the operating activity of specific segment and are directly attributable thereto along with an appropriate portion of the costs of the Capital Group that is clearly attributable to specific segment. The costs of income tax are not classified into the operating segment costs. The result of the segment is determined at the level of Profit before tax.

Table 5: Selected financial data for operating segments for the period of 12 months of 2018

In thousands of PLN	Sports cards	Fitness	Foreign	Cafeteria	Other activities and arrangements	Total
Sales revenues	**846 690**	**247 830**	**217 993**	**44 040**	**(136 982)**	**1 219 571**
Costs of sales	(585 040)	(232 811)	(179 181)	(27 447)	142 926	(881 553)
Gross profit on sales	**261 650**	**15 019**	**38 812**	**16 593**	**5 944**	**338 018**
Selling expenses	(32 227)	(20 758)	(26 412)	(5 046)	(182)	(84 625)
General and administrative expenses	(35 829)	(26 886)	(29 697)	(5 202)	(22 876)	(120 490)
including the Incentive Programme	*0*	*0*	*0*	*0*	*(16 433)*	*(16 433)*

Other operating income and expenses	(731)	18 646	496	(325)	2 566	20 652
including Re-measurement to fair value of existing holdings	*0*	*21 604*	*0*	*0*	*0*	*21 604*
Operating profit (loss)	**192 863**	**(13 979)**	**(16 801)**	**6 020**	**(14 548)**	**153 555**
Financial income and expenses	0	112	(2 752)	507	10 015	7 882
Share in the profits of associates accounted for using the equity method	0	(4 850)	0	0	835	(4 015)
Gross profit (loss)	**192 863**	**(18 717)**	**(19 553)**	**6 527**	**(3 698)**	**157 422**
EBITDA	**201 951**	**12 341**	**(10 083)**	**7 719**	**(14 011)**	**197 917**
D&A	9 088	26 320	6 718	1 699	537	44 362
Segment assets	868 617	619 809	132 793	114 515	(647 069)	1 088 665

Table 6: Reconciliation of the total value of revenues, income and assets of operating segments with similar items of the consolidated financial statements of Benefit Systems Group for the 12 months of 2018.

In thousands of PLN	12 months of 2018	12 months of 2017
Segment revenue		
Total revenue of operating segments	1 356 553	1 068 323
Excluding revenue from intersegment transactions	(136 982)	(103 537)
Sales revenues	**1 219 571**	**964 786**
Result of segments		
Operating result of segments	168 103	126 619
Exclusion of result from intersegment transactions	(14 548)	(5 208)
Operating profit	**153 555**	**121 411**
Financial income and expenses	7 882	(8 186)
Share in profit or loss of entities accounted for using the equity method (+/-)	(4 015)	3 066
Profit before tax	**157 422**	**116 291**
In thousands of PLN	**As of 31st December 2018**	**As of 31st December 2017**
Total assets of operating segments	1 735 743	1 115 948
Total assets not allocated to segments	48 547	52 655
Exclusion of intersegment transactions	(695 616)	(414 490)
Total assets	**1 088 665**	**754 113**

In the period covered by the consolidated financial statements, revenues from sales attributed to the Other activities and arrangements segment primarily include exclusions of intersegment transactions. The costs are associated with management and administration activities, strategic activities in Benefit Systems Group and the cost of the Incentive Programme, support functions and other activities not allocated to separate operating segments.

2.2. INFORMATION ABOUT OPERATING SEGMENTS

2.2.1. SPORTS CARDS SEGMENT

The Sports Card segment includes sports cards that are offered on the Polish market, distributed by: Benefit Systems S.A., FitSport Polska Sp. z o.o. and VanityStyle Sp. z o.o. Currently the following cards are available:

MultiSport Plus - this card allows for the unlimited use of nearly 4000 sports and recreational facilities throughout Poland, providing access to over 25 different sports;

MultiSport Classic - this card can be used once a day at nearly 2200 sports facilities providing access to almost 25 different sports;

MultiActive - this card provides access to over 2000 sports facilities and over 20 different sports up to the prepaid limit stored on the card;

MultiSport Plus Kids / MultiActive Kids - these cards give children access to activities such as martial arts, dance classes, and entrance to swimming pools, adventure playgrounds, salt caves or ice rinks; with the new features including selected climbing walls and rope parks;

MultiSport Plus Dziecko / MultiActive Dziecko - allows entry to selected swimming pools honouring these types of cards;

MultiSport Senior – the card dedicated to users above 60 years of age, which allows for a single daily use of services offered by sports facilities before 4pm. The card provides access to more than 1500 facilities and 25 different sport activities;

FitSport - the card gives access to many sports services, such as fitness, gym, sauna, and swimming pool cooperating with VanityStyle Sp. z o.o. within the specified limit of permitted entrances - 8 entrances per month;

FitProfit - this card allows the use of services from facilities cooperating with VanityStyle Sp. z o.o, i.e. with more than 3500 facilities in 590 towns and cities in Poland.

Sports cards are one of the most popular benefits in Poland. They are one of the most preffered benefits by the employees – they are expected by 50% of job applicants.

Sports cards are unique because this single product represents a combination of gains derived therefrom by multiple market participants: for employers, they are an effective tool providing incentives for their employees; they enable the cardholders to take advantage of the diverse offer of multiple sports facilities and activities; and for the sports facility owners the sports cards represent a good complementation of their business. As a result of all of this, the growth tendency of active sports cards continues, given in particular that the market potential remains high since many Poles still do not engage in any sports activity, and employers increasingly often can see that they benefit from their employee's care for their physical condition, and, by the same, their health.

As at the end of 2018, the Benefit Systems Group reported growth in the number of sports cards in Poland which reached the level of 971.2 thousand cards. Over the period of 12 months of this year, the number of sports cardholders grew by 105.7 thousand, i.e. by 12.2%. The continued growth tendency only confirms attractiveness of the offer presented to the cardholders, who become natural ambassadors of sports cards in their communities. This, in turn, generates subsequent growths in sales to new ones and additional sales to the existing customers.

The sports cards are still more attractive thanks to seasonal offers. Early this year, following the winter campaign, when the cardholders could additionally (apart from the standard offer) take advantage of skating rinks and activities offered at the National Stadium (training sessions before the ski season, curling and an ice hill) in Warsaw, the sportscard offer was yet another time extended by city bikes in April 2018. Later on, at the end of 2Q 2018, summer holiday campaign was launched, which allowed the cardholders to attend, already in June, high rope parks, trampoline parks and outdoor swimming pools. The summer holiday offer also included beach volleyball courts, a novelty consisting in indoor badminton, as well as fitness for children. Also, gamification that was available at the User Area (https://www.kartamultisport.pl/), in which you could collect points and exchange them for attractive awards or contribute to charitable objective (school starter kits) was a big success. In the Q4 of 2018, Benefit Systems yet another time supported Warsaw-based winter campaign „Zimowy Narodowy" at the PGE Narodowy sports stadium, in particular by setting up special MultiSport Lab zone dedicated to children and youth which attracted over 8.5 thousand visitors.

All the activities became very popular and gained recognition among the Cardholders, contributed to increased cardholders' satisfaction from sports cards, which positively translated into Cardholder retention level. Direct costs of the vacation campaign of the current year were a few times lower than in the preceding year. Yet outcomes of a survey among the Cardholders proved that as many as 75% of them were interested in the offered attractions.

Table 7: Selected financial data from the Sports Card segment

In thousands of PLN	12 months of 2018	12 months of 2017	Change
Sales revenues	**846 690**	**730 744**	**15.9%**
Costs of sales	(585 040)	(539 522)	8.4%
Gross profit on sales	**261 650**	**191 222**	**36.8%**
Selling expenses	(32 227)	(28 524)	13.0%
General and administrative expenses	(35 829)	(29 370)	22.0%
Other operating income and expenses	(731)	(870)	16.0%
Operating profit	**192 863**	**132 458**	**45.6%**
EBITDA	**201 951**	**141 291**	**42.9%**
Gross margin on sales	*30.9%*	*26.2%*	*4.7 p.p.*
Number of sports cards	*971.2*	*865.5*	*12.2%*

The revenues of the Sports cards Segment grew by PLN 115.9 million year-on-year and the gross margin grew by PLN 70.4 million in the analogous period. These nominal growths are attributable to a higher number of active sports cards; as at the end of year 2018, the number of sports cards was higher by 105.7 thousand than in the analogous period of the previous year. Growth of the gross margin on sales by 4.7

p.p. follows from lower (by PLN 13.9 million) costs of the summer holiday campaign and is attributable to decline, over a lengthy period of time, of the share of so-called heavy users, i.e. the most active Cardholders in the total Cardholder base. Those who have not engaged in sports activities, now increasingly often become members of MultiSport, since physical activity has become the question of lifestyle and involves such groups of society members (in terms of age, residence region, living and work environment) who, for a number of reasons, have not engaged in sports before. An indirect consequence of gradual diversification of the Cardholders group is the growing share of limited cards in the portfolio of the Group, which, in turn, has a positive effect on the gross margin on sales. Moreover, the level of the own costs of sales comprises a settlement of the gains with the companies in the Fitness segment; in 2018, own costs of sale were calculated at the aggregate of: PLN 37.6 million. Increasing value of this settlement results from the fact that sports cards Users prefer fitness facilities of the companies that are part of the Group. Following the planned mergers and presentation of integrated segments, the Group will not calculate this technical settlement value, which will be neutral for the results and will not impact the comparability of data.

Overheads grew by 22% (PLN 6.5 million), and costs of sales grew by 13% (PLN 3.7 million) whereby the ratio of the total of these costs to revenues remained unchanged and was at the level of 8% in the both years under review. The nominal increase in the level of the above-described fixed costs follows from seasonal special campaigns that were launched in 2018 to support development of the future market (including in particular the communication and marketing of such campaigns). Furthermore, the gradually increasing operation scale translates into greater needs in terms of technology and headcount level of the back-office sections of the leading segment of the Group. Material contribution to the nominal increases in that expense item was attributable to: development and launching of the ERP system, development of additional services for sports cardholders, communication and marketing regarding products, promotion of the brand and sports activity among the present and potential Cardholders.

Item: Other revenues and operating costs, in the Sports Cards segment primarily consists of write-offs on account of de-activated sports cards and impairment losses on receivables.

2.2.2. FITNESS SEGMENT

Given the continued growth in the number of sports Cardholders, the Benefit Systems Group has been investing into fitness clubs of their own with a view to securing an adequate, both in the quantitative and qualitative terms, base of sports-recreation facilities.

The Fitness Segment is made up of subsidiaries and affiliates of the Group operating on the fitness market. They include both business entities that run fitness clubs and sports-recreation facilities and those that manage the investments into fitness clubs, as specifically described in chapter: Material Information on the Benefit Systems Capital Group.

The Fitness Segment is complementary to the Sports cards Segment. The growing number of sports clubs operated by the Group is a response to the growing demand from new Cardholders. Due to both a greater number of cardholders and the growing, on average, tendency of engaging in sports activities among Poles, it has become necessary to secure addtional space of sports facilities, so that the workout facilities could remain available to all users, with the comfort of use sustained at the same high level. The investment decisions considering the location and area of the new fitness clubs are based on the real and estimated demand from the sport cards Users.

As at the end of 2018, companies managed by the Benefit Systems Group operated, in aggregate, 144 own clubs in Poland. As compared to year 2017, the investment base of fitness clubs (belonging to Polish subsidiaries) grew by 67 clubs in aggregate (of which, 27 clubs originated from the organic growth). Additionally, the Group held (minority) interests in companies managing additional 46 facilities.

The financial result of the Fitness segment represents profits of the following companies that are being fully consolidated: Fit Invest Sp. z o.o., Fitness Academy Spółka z ograniczoną odpowiedzialnością SKA, AM Classic Sp. z o.o., Jupiter Sport Sp. z o.o., Fabryka Formy S.A., Fitness za Rogiem Sp. z o.o, Zdrofit Sp. z o.o. (taking into account the merger of Tiger Sp. z o.o. and Zdrofit Sp. z o.o.), Wesolandia Sp. z o.o., Fitness Place Sp. z o.o., M Group Sp. z o.o., Fit Fabric Sp. z o.o., Fitness Management Sp. z o.o., Masovian Sports Center Sp. z o.o., NewCo2 Sp. z o.o., and NewCo3 Sp. z o.o. The results of the other companies of the Fitness segment are accounted for, in the consolidated financial statements, using the equity method.

In 4Q 2018 alone, six (6) new fitness clubs were opened: two (2) by Fabryka Formy and four (4) by Zdrofit. Furthermore, the new and the existing facilities are being continuously reorganized, in particular rebranded, which changes the proportion between the numbers of clubs in specific club chains.

Table 8: Selected financial data for the Fitness Segment

In thousands of PLN	12 months of 2018*	12 months of 2017	Change
Sales revenues	**247 830**	**163 985**	**51.1%**
Costs of sales	(232 811)	(138 269)	68.4%
Gross profit on sales	**15 019**	**25 716**	**(41.6%)**
Selling expenses	(20 758)	(12 186)	70.7%
General and administrative expenses	(26 886)	(19 092)	40.8%
Other operating income and expenses*	(2 958)	(2 736)	8.1%
Loss from the sale of subsidiaries	-	(199)	-
Loss from operations	**(35 583)**	**(8 497)**	**318.8%**
Financial income and expenses*	(10 518)	(8 150)	29.1%
Share in the profits of associates accounted for using the equity method	(4 850)	3 176	-
Loss before tax	**(50 951)**	**(13 471)**	**278.2%**
EBITDA	(9 263)	13 481	-
Gross margin on sales	*6.1%*	*15.7%*	*(9.6 p.p.)*
*Number of clubs ***	*144*	*77*	*67*

** excl. the value of one-time events described in the section: Table 8 - note*

*** clubs owned by the subsidiaries of Benefit Systems S.A.*

Table 8 – note:

In order to keep the comprability of the data presented, segment results is adjusted for one-offs related to settlement of acquisitions of shares in subsidiaries, which had the following impact on 2018 results:

- PLN +21.6 million in Other operating income, net, from the settlement of acquisition of shares in FitFabric Sp. z o.o. (PLN +8.9 million) and from the settlement of multi-stage transaction, which resulted in acquisition of companies spun-off from Calypso Fitness S.A. (PLN +12.7 million),
- PLN +10,6 million in Other financial income, net, from: revaluation of a liability related to acquisition of shares in Fabryka Formy Sp. z o.o. (PLN +7.0 million) and from the settlement of the acquisition of shares in FitFabric Sp. z o.o. (PLN +3.6 million).

Details of the above items were described in detail in Note 2 of the Consolidated Financial Report of the Capital Group of Benefit Systems for 2018.

In comparison to year 2017, sales revenues of the Fitness segment grew by 51%, whereby new fitness entities (Fitness Place Sp. z o.o., Fitness Management Sp. z o.o., FitFabric Sp. z o.o., Masovian Sports Center Sp. z o.o., NewCo2 Sp. z o.o., and NewCo3 Sp. z o.o.) contributed in total PLN 20.3 million to the revenues generated by the Group in 2018. The growth in the revenues of the segment as presented in this report was also attributable to the settlement of gains between the Fitness and Sports Cards segments that were evaluated at PLN 34.4 million (i.e. by PLN 20.7 million more than in the analogous period of 2017) for all the subsidiary clubs.

A drop in the gross margin on sales and increase in the general administrative costs (overheads) is, in a part, a consequence of a dynamic development of the Fitness segment (in the course of an organic growth in the number of clubs, the network grew by 27 new facilities as compared to the status as at December 2017). This segment is characterised by fixed costs diminishing in relation to revenues in pace with acquisition of regular customers and the clubs attaining maturity.

A high share of new clubs (operated for less than 2 years from the opening) in the total number clubs had a negative influence on the short-term results generated by the segment. The growing fitness market and the consequent infrastructural development boost the competitiveness of the surroundings, which, in certain urban agglomerations, results in a reduction in the membership fees in fitness clubs and an increased interest in low-cost clubs. These tendencies have translated into lower profitability y-o-y in most of the club chains both those fully consolidated and those accounted for using the equity method. Development of own infrastructure plays however a crucial role in supporting the Sports Cards segment.

With regard to the most attractively located fitness clubs, the Group concentrates on such club's role in the entire sports facilities network rather than profitability of a single location. Fitness club's location in the immediate vicinity of place to live and/or work or of a trade and service center can effectively persuade, to engage in physical activities, even the most hard-working Poles who see lack of time as the main reason (even 46%) why they do not practice any sport (Eurobarometr survey, March 2018).

A drop in Profitability before tax is mainly attributable to higher costs of sales and overheads. The total growth in the said costs amounted to PLN 16.4 million, whereby one half of the said amount is attributable to inclusion, in the segment reporting, of new companies that had not been consolidated in the comparable period. Inclusion of new companies and new facilities in the structures of the Group also resulted in an increased number of processes and FTP's in the back-office departments which are in particular grouped in the holding company (finance, legal, investment and management departments).

Participation in the profit or loss of the entities accounted for using the equity method materially changed as compared to year 2017 mainly due to a decrease in the results of Calypso Fitness S.A., which affected the profit (before tax) of the whole Capital Group by PLN +1.7 million in 2017 and PLN -4.8 million in 2018. The main reason for that decline are the costs generated by new clubs opened in the locations of the Jatomi chain, a brand which has withdrawn from the Polish market.

The balance of financial revenues and expenses reported a negative movement by PLN 2.4 million, due to higher costs of new loans and guarantees that Benefit Systems S.A. extended to the companies of the Fitness segment.

Effect of change in the classification of the Fitness and Foreign segments on historical data (12 months of 2017)

Starting from 2018, a change was made in the presentation of foreign fitness clubs operated by companies Fit Invest EOOD, Fitness Place S.R.O. and Beck Box Club Praha S.R.O., which are now reported in the Foreign segment, taking into account their complementary character towards the activity of Sports Cards segment abroad. The comparable data for year 2017 have been restated in line with the change in the method of classification of companies into segments.

Table 9: Effect of change in segment classification to the comparable data of the Fitness segment.

In thousands of PLN	**4 quarters of 2017 after change in classification**	**4 quarters of 2017 before change in classification**	**Change**
Sales revenues	**163 985**	**180 173**	**(16 188)**
Costs of sales	(138 269)	(153 161)	14 892
Gross profit on sales	**25 716**	**27 012**	**(1 296)**
Selling expenses	(12 186)	(13 327)	1 141
General and administrative expenses	(19 092)	(24 190)	5 098
Other operating income and expenses	(2 736)	(2 908)	172
Loss from the sale of subsidiaries	(199)	(199)	0
Loss from operations	**(8 497)**	**(13 612)**	**5 115**
Financial income and expenses	(8 150)	(10 360)	2 210
Share in the profits of associates accounted for using the equity method	3 176	3 176	0
Loss before tax	**(13 471)**	**(20 796)**	**7 325**
EBITDA	**13 481**	**9 145**	**4 336**
Gross margin on sales	15.7%	*15.0%*	*0.7 p.p.*
*Number of clubs **	*77*	*146*	*(69)*

** Fully consolidated*

2.2.3. FOREIGN SEGMENT

The segment is comprised of companies that develop the MultiSport programme and companies operating fitness clubs in the foreign markets. MultiSport programme is currently being developed in 5 foreign markets, while fitness clubs are operated in the Czech Republic and Bulgaria. The segment is comprised of the following companies: Benefit Systems International Sp. z o.o., MultiSport Benefit S.R.O, Benefit Systems Bulgaria EOOD, Benefit Systems Slovakia S.R.O., Benefit Systems D.O.O., Benefit Systems Greece MIKE, Fit Invest Bulgaria EOOD, Form Factory S.R.O., Beck Box Club Praha S.R.O. and Fit Invest International Sp. z o.o.

Benefit Systems International Sp. z o.o. is the dominant entity in relation to other segment companies. The results of all listed companies are consolidated using the full method.

Table 10: Selected financial data from the Foreign segment

In thousands of PLN	12 months of 2018	12 months of 2017	Change
Sales revenues	**217 993**	**106 147**	**105.4%**
Costs of sales	(179 181)	(84 546)	111.9%
Gross profit on sales	**38 812**	**21 601**	**79.7%**
Selling expenses	(26 412)	(13 201)	100.1%
General and administrative expenses	(29 697)	(18 742)	58.5%
Other operating income and expenses	496	442	12.2%
Loss from operations	**(16 801)**	**(9 900)**	**69.7%**
Financial income and expenses	(2 752)	(1 261)	118.2%
Loss before tax	**(19 553)**	**(11 161)**	**75.2%**
EBITDA	**(10 083)**	**(8 823)**	**14.3%**
Gross margin on sales	*17.8%*	*20.4%*	*(2.6 p.p.)*
Number of sports cards (in thousands)	*222.9*	*131.1*	*91.8*
*Number of clubs **	*18*	*11*	*7*

** Fully consolidated*

222.9 thousand active sports cards were reported in December 2018, which marks an increase of 91.8 thousand cards compared to December 2017.

Table 11. Number of sports cards (thousands) in the countries of the Foreign segment*

Country	4 quarter 2018	4 quarter 2017	Change
Czech Republic	121.9	74.1	47.8
Bulgaria	75.5	48.1	27.4
Slovakia	22.0	8.9	13.1
Croatia	3.5	0	3.5
Total	**222.9**	**131.1**	**91.8**

** weighted average number of cards for the last month of the period indicated*

In the period under review, all the markets opened before 2018 were characterised by dynamic growth in the number of sports cards (over 50% in total), which was as much as 147% in Slovakia.

In 1Q 2018, one (1) entity was incorporated in Croatia, and at the end of 2Q 2018, another one (1) was established in Greece with a view to developing the MultiSport programme on the local markets. In the first phase of operation, the new entities primarily focused on product development (acquisition of partner facilities). In Croatia, the product development process was carried out sufficiently fast and effectively so that the company could start selling sportscards already in the second half of 2018.

The increased number of active sports cards is chiefly due to the growing number of sales teams and their effective operation, broadly scoped activities aimed at promotion of healthy and active lifestyle (including among others: distribution of test cards) and new partner facilities and locations joining the brand chain, including in particular investment clubs on the Bulgarian and Czech markets. The partnership network is being continuously developed both in the capital cities and in smaller locations in individual countries. This allows the Group to also reach out to customers from outside of capital cities with the Multisport product. As at the end of 2018, the number of foreign partner outlets amounted to: 1565 in the Czech Republic, 737 in Bulgaria, 584 in Slovakia, 215 in Croatia, and 93 in Greece, respectively.

The highest revenues continue to be generated on the Czech market, on which the Benefit Systems Group has been operating since 2011. As of the end of 2018, the Czech market was responsible for over 57% of revenues of that portion of the segment. In combination with the complementary Slovakian market, they reported an over double growth in the sales revenues in comparison with the analogous period (which, partially, is an effect of growth in the average prices of sports cards) of 2017 with the gross profitability approximating the operations in Poland.

The total margin on sales of sports cards as part of the Foreign segment remained at over 22% which was a stable level as compared year on year, even though the item also included costs of business development in new countries: Greece and Croatia.

Segment, in the part related to the sport cards, reported EBITDA loss of PLN -2.0 million, with the costs of operations in Croatia and Greece in the result reached PLN -4.5 million in 2018. Selling costs in the period analyzed increased by PLN 9.0 million, while G&As went up by PLN 7.4 million (in total by 65%). In spite of entering the phase of robust development of the sales and administrative structures in the new countries and reinforcement of the centralised functions in the holding company, the Group managed to keep the dynamics of the costs of sales and overheads much below the dynamics of the revenues from sales in the part of the segment under review (23.7% in relation to revenues for 12 months of 2018, and 27.7% in relation to revenues for the analogous period of 2017).

FOREIGN SEGMENT – FITNESS CLUBS OPERATIONS

Table 12: Number of fitness clubs operated by the Group in foreign markets.

Company	The Group's share in equity at end of 2018	Number of fitness clubs		
		31.12.2018	31.12.2017	Change
Fitness Place S.R.O.	100.00%	9	3*	6
Beck Box Club Praha S.R.O	100.00%	6	6	0
Fit Invest Bulgaria EOOD	100.00%	3	2	1
Total	-	18	11	7

** Clubs were owned by Form Factory S.R.O. aquired by Fitness Place S.R.O. on 1 September 2017.*

The profit or loss of the Foreign segment for 2018, in its part pertinent to the activity of the fitness clubs, represented operating expenses of the clubs on the following markets:

- Bulgaria – three (3) operating clubs (FitInvest EOOD)

- Czech Republic – fifteen (15) operating clubs (Beck Box Club S.R.O. and Form Factory S.R.O.)

as well as the operating expenses of Fit Invest International Sp. z o.o., the entity managing the clubs.

In 2019, the Group is planning to open subsequent clubs on local markets.

Gross margin decline vs. 2017 in the fitness operations of the Foreign segment is a result of consolidation of new fitness facilities, in which the scale of revenues does not cover all the fixed costs, which are primarily included in costs of goods sold.

Form Factory S.R.O. (former Fitness Place S.R.O.), which has been consolidated by the Group since 2018, contributed to the result of the Foreign segment with its revenue at the level of PLN 25 million and operating loss on EBITDA of PLN -3.7 million, which had a significant impact on the segment result.

In the period under review, entities providing the fitness services generated revenues from sale of services at PLN 50.5 million (over triple as much as in the comparable period). Consolidation of the foreign fitness networks had a negative effect on the profit or loss of the Foreign segment in 2018, thus contributing to the total loss on EBITDA of PLN -16.2 million from that part of business. The results are attributable to an originally small base of customers of the new facilities in the chain and to relatively high fixed costs and to the initial costs of launching and administering the new locations.

Effect of change in the classification of the Fitness and Foreign segments on historical data (12 months of 2017)

Since 2018, a change occurred in the presentation of foreign fitness clubs run by Fit Invest EOOD, Form Factory Place S.R.O. and Beck Box Club Praha S.R.O., which are now reported in the Foreign segment. The comparable data for the period of 12 months of year 2017 were restated so as to conform to the change in the classification of companies into specific segments.

Table 13: Effect of change in segment classification to the comparable data of the Foreign segment.

In thousands of PLN	4 quarters of 2017 after change in classification	4 quarters of 2017 before change in classification	Change
Sales revenues	**106 147**	**91 936**	**14 211**
Costs of sales	(84 546)	(71 720)	(12 826)
Gross profit on sales	**21 601**	**20 216**	**1 385**
Selling expenses	(13 201)	(12 059)	(1 142)
General and administrative expenses	(18 742)	(13 617)	(5 125)
Other operating income and expenses	442	(79)	521
Loss from operations	**(9 900)**	**(5 539)**	**(4 361)**
Financial income and expenses	(1 261)	(891)	(370)
Loss before tax	**(11 161)**	**(6 430)**	**(4 731)**
EBITDA	**(8 823)**	**(5 241)**	**(3 582)**
Gross margin on sales	*20.4%*	*22.0%*	*(1.6 p.p.)*

In thousands of PLN	4 quarters of 2017 after change in classification	4 quarters of 2017 before change in classification	Change
Number of sports cards (in thousands)	*131.1*	*131.1*	*0*
*Number of clubs **	*11*	*0*	*11*

** Fully consolidated*

2.2.4. CAFETERIA SEGMENT

The Cafeterias segment is responsible for development of the MyBenefit and MultiKafeteria cafeteria platforms which offer a vast range of products and services, including the Benefit Systems Group's own products. The offer of the cafeteria platforms is focused on non-payroll benefits in the area of culture, entertainment, sports, recreation, catering, education, wellness, leisure, and the domestic and foreign tourism. The benefits are delivered by proven providers, and the partnership network, which continues to develop, already groups a few thousand entities.

MyBenefit and MultiKafeteria allow employee users to freely choose from among the benefits offered by the platforms within limited ranges and budgets as defined by employers. Users can choose benefits directly from Cafeteria - a web plaftorm in which each user has an individual account. The popularity of the solution, which allow full control of the spent benefits and settlement of accounts thereof in a simple manner, ranges from production, service and trade companies to financial and governmental institutions with sizes of employment ranging from fifty to several thousand persons. The Cafeteria programmes include benefits ranging from sports and health to tourism and culture combined with shopping vouchers of Polish renowned chain stores and brands.

A cinema programme: MultiBilet, is an independent part of the cultural and entertainment programme offered by the Group. MultiBilet offers tickets to over 200 partner cinemas in all of Poland (including in particular: Cinema City, Helios and Multikino, in addition to many local cinemas).

QlturaProfit voucher offered by Vanity Style company grants access to specific theatre spectacles, movie screenings, and exhibitions forming parts of the cultural offer of approximately 55 theatres, 170 cinemas and 50 museums across Poland.

Apart from the Cafeteria platforms and the Cinema Programme in Group's offer there are:

MultiTeatr vouchers for theatrical performances in the most popular theaters.

MultiMuzeum gives access to museums and art galleries in the largest Polish cities.

BenefitLunch offers a subscription or pass access for lunch in nearly 260 premises.

Table 14: Selected financial data from the Cafeteria segment

In thousands of PLN	12 months of 2018	12 months of 2017	Change
Sales revenues*	**44 040**	**53 638**	**(17.9%)**
Costs of sales*	(27 447)	(30 381)	(9.7%)
Gross profit on sales	**16 593**	**23 257**	**(28.7%)**
Selling expenses	(5 046)	(3 742)	34.8%

In thousands of PLN	12 months of 2018	12 months of 2017	Change
General and administrative expenses	(5 202)	(6 866)	(24.2%)
Other operating income and expenses	(325)	(91)	257.1%
Operating profit	**6 020**	**12 558**	**(52.1%)**
Financial income and expenses	507	(194)	-
Profit before tax	**6 527**	**12 364**	**(47.2%)**
EBITDA	**7 719**	**13 932**	**(44.6%)**
Gross margin on sales	*37.7%*	*43.4%*	*(5.7 p.p.)*
*Turnover (in millions of PLN) ** *	*295*	*246*	*49*
Number of users (in thousands)	*381*	*296*	*85*

** Data reclassified as a result of a presentation correction of revenues and costs of goods sold in the amount of PLN 13 809 thousand related to the implementation of IFRS 15.*
*** Based on the value of services provided and settlement of intermediation of payments in the e-platform cafeteria systems of MultiKafeteria and MyBenefit.*

The number of users of e-platforms MyBenefit and MultiKafeteria amounted to nearly 381 thousand in aggregate as at the end of 2018, representing growth by more than 85 thousand users y-o-y. The exceptionally high growth in the number of users by nearly one third part has translated into growth in the turnovers generated by the cafeteria platforms by 20% (net of the effect of the “MultiSport na Lato” summer campaign) and also contributed to growth in the revenues of the entire segment (consisting primarily of commission fees from suppliers on account of turnover in vouchers, codes and other coupons qualifying for use of vouchers and goods). An exceptionally high level of revenues in the comparable period is primarily attributable to the sale of cinema and theatre tickets (with the value of PLN 18.9 million) to Benefit Systems S.A. as part of the “MultiSport na lato” campaign. The effect of the campaign on the gross profit on sales of the segment in question amounted to PLN 5.6 million. In 2018, launch of subsequent edition of seasonal campaign addressed to the sports Cardholders had no significant impact on the profit or loss of the Cafeterias segment (contributing additional revenues of PLN 1.8 million and a respective margin of PLN 0.7 million to the profit for 2018).

Aside from the effects that the special campaigns had on the results of the Cafeterias segment, the growth in the revenues of the segment amounted to 18% and gross margin on sales dropped by nearly 13% (whereby the profitability was lower by 10 p.p.). Profit or loss for base year 2017 also comprises a non-recurring accounting event, i.e. an accumulated large order (outside the turnovers of e-platform) for employee benefits addressed to the Customer’s staff, with its effect on gross margin on sales amounting to PLN 1.5 million for the entire year, and which was reported in full in Q4.

The main reason behind a lower profitability in the year under review (following the reported exemptions) is an increase in own costs of sales in the portion attributable to fixed costs that are allocated to this item on account of a higher level of employment in MyBenefit and higher investments into sales support technologies. Furthermore, as a result of development of the organizational structures of MyBenefit, in particular, in terms of new projects and technologies (growth in the level of employment by 24% y-o-y), in Q4 2018, functions within the existing departments that had been increasingly specialized were reviewed and allocated to the respective level of the production and marketing expenses and overheads with the effect of the latter on the full twelve month period.

The structure of sales of benefits that are offered via the Cafeterias distribution channel shows that the Sports category invariably enjoys the greatest success. In the 2018 period under review, Sports already accounted for 50% of turnover of the e-platforms (as compared to slightly over 40% in the analogous period of 2017).

Higher level of employment in the sales and marketing departments and in the key account support team and increase in the expenditures on promotion and communication with customers and users of the Cafeteria platform have translated into growth in the value of the costs of sales by ca. PLN 1.3 million.

A drop in the overheads of the segment by PLN 1.7 million year-on-year is in particular attributable to the effect of recognizing of a non-recurring supplementary gain derived from sale of shares in MyBenefit Sp. z o.o. in the amount of PLN 0.94 million in the expenses of 2017; the said drop was partially offset by higher payroll costs in that group of expenses (attributable mainly to growth in the employment level) and by the already mentioned reorganization of individual divisions and functions within the evolving corporate structure of MyBenefit.

The total pool of indirect expenses of the Cafeterias segment grew by PLN 3.7 million, representing primarily personnel costs that are attributable to the increased employment level and costs of development of new projects and services that will be continued over subsequent calendar quarters of 2019.

Table 15: Effect of change in revenues classification to the comparable data in the Cafeteria segment (related to the implementation of IFRS 15)

In thousands of PLN	4 quarters of 2017 after change in classification	4 quarters of 2017 before change in classification	Change
Sales revenues	**53 638**	**67 447**	**(13 809)**
Costs of sales	(30 381)	(44 190)	13 809
Gross profit on sales	**23 257**	**23 257**	0
Selling expenses	(3 742)	(3 742)	0
General and administrative expenses	(6 866)	(6 866)	0
Other operating income and expenses	(91)	(91)	0
Operating profit	**12 558**	**12 558**	0
Financial income and expenses	(195)	(194)	0
Profit before tax	**12 364**	**12 364**	0
EBITDA	**13 932**	**13 932**	0
Gross margin on sales	43.4%	34.5%	*8.9 p.p.*

2.2.5. OTHER ACTIVITIES AND ARRANGEMENTS

Other activities and arrangements include revenues other than from the sale of non-wage incentive products and indirect costs that are not allocated to these revenues. Revenues primarily include the elimination of transactions between segments. The costs are associated with management and administration activities, strategic activities in Benefit Systems Group and the cost of the Incentive Programme, support functions and other activities not allocated to separate operating segments.

Table 16: Other activities and arrangements

In thousands of PLN	12 months of 2018	12 months of 2017	Change
Sales revenues	**(136 982)**	**(103 537)**	**32.3%**
Costs of sales	142 926	107 400	33.1%
Gross profit on sales	**5 944**	**3 863**	**53.9%**
Selling expenses	(182)	(94)	93.6%
General and administrative expenses	(22 876)	(13 874)	64.9%
including the cost of the Incentive Programme	*(16 433)*	*(9 141)*	*79.8%*
Other operating income and expenses	2 566	4 897	(47.6%)
Loss from operations	**(14 548)**	**(5 208)**	**179.3%**
Financial income and expenses	10 015	1 419	605.8%
Share in the profits of associates accounted for using the equity method	835	(110)	-
Loss before tax	**(3 698)**	**(3 899)**	**(5.2%)**
EBITDA	**(14 011)**	**(4 352)**	**221.9%**

The increase in the value of inter-segment exclusions is mainly related to the growing number of investment clubs accepting sports cards issued by Benefit Systems Group, and the growth in the number of sports card users, as well as the growing share of the cafeteria segment as a distribution channel for sports cards. Gross profit on sales reflects income from marketing activities and activities not assigned to segments. It is also a result of the consolidation exclusions for the amortisation of trademarks owned by Benefit IP Spółka z ograniczoną odpowiedzialnością sp.k. The increase in costs of the Incentive Programme is caused by a lower annual number of campaigns and the higher price of including campaigns in the Programme for 2017-2020. The material growth in the financial income is an effect of the growing scale of loans given inside the Capital Group, the current costs of which are presented in the Fitness and Foreign segments, while the revenues are presented in Other activities and arrangments segment.

Table 17: Effect of change in segment classification to the comparable data of the Other activities and arrangements segment.

In thousands of PLN	4 quarters of 2017 after change in classification	4 quarters of 2017 before change in classification	Change
Sales revenues	(103 537)	(105 514)	1 977
Costs of sales	107 400	109 466	(2 066)
Gross profit on sales	3 863	3 952	(89)
Selling expenses	(94)	(95)	1
General and administrative expenses	(13 874)	(13 901)	27
including the cost of the Incentive Programme	*(9 141)*	*(9 141)*	0
Other operating income and expenses	4 897	5 590	(693)
Loss from operations	(5 208)	(4 454)	(754)
Financial income and expenses	1 419	3 259	(1 840)

In thousands of PLN	4 quarters of 2017 after change in classification	4 quarters of 2017 before change in classification	Change
Share in the profits of associates accounted for using the equity method	(110)	(110)	0
Loss before tax	(3 899)	(1 305)	(2 594)
EBITDA	(4 352)	(3 598)	(754)

2.3. OTHER FINANCIAL DATA

Table 18: Financial income and expenses

In thousands of PLN	12 months of 2018	12 months of 2017	Change
Financial income	21 663	3 915	453.3%
Dividends	*277*	*112*	*147.3%*
Interest income	*3 987*	*1 611*	*147.5%*
Financial expenses	(13 781)	(12 101)	13.9%
Write-downs of financial assets	*(964)*	*(1 836)*	*(47.5%)*
Share of profits (loss) for entities accounted for using the equity method	(4 015)	3 066	-

The main impact on the result on the financial operations of the Group in the period under review 2018 was attributable to the participation, in the profit or loss, of entities accounted for using the equity method, mostly Calypso Fitness S.A., which results affected the profit (before tax) of the whole Capital Group by PLN +1.7 million in the 2017 and PLN -4.8 million in the 2018. This loss is however offset by the higher results of LangMedia Sp. z o.o. and X-Code Sp. z o.o., compared to the previous year 2017.

Revenues from financial activities, which were higher by nearly 450% as compared to the analogous period of the previous year, primarily included revenues under loans extended to affiliates and to strategic partners of the Group.

As of the date of this report, the parent company, granted loans at the total carrying amount of PLN 662.4 million (as of 31 December 2017: PLN 392.9 million), of which loans extended to subsidiaries amounted to PLN 555.5 million. The above-described capital support is mainly intended for investments into entities operating in the fitness sector. The support is in particular provided as part of a programme of loans granted to independent companies (10.4%). Long-term loans account for eighty-nine percent (89%) of the carrying amount of the granted loans.

All the loan agreements were concluded on terms not departing from the arm's length principle, and bear variable interest based on such generally applied indices as WIBOR 3M, LIBOR Euro 3M, LIBOR Euro 12M, PRIBOR 3M, PRIBOR 12 M, or ZIBOR 12M. The latter is aimed at the limiting of the lender's risk in the event of an adverse movement in the interest rates.

As of the date of the report, the Dominant Entity had debt on account of three-year bonds in the amount of PLN 69.9 million, along with interest, borrowings from affiliates in the amount of PLN 47.5 million, overdraft investment account of PLN 51.3 million and financial lease of PLN 15.2 million. An increase in the financial expenses in year 2018 was mainly attributable to interest on bonds amounting to PLN 3 million, interest on bank loans in the amount of PLN 1.4 million, interest on borrowings from affiliates in the amount of PLN 2.3 milliion, and impairment loss on the extended loans in the amount of PLN 1 million. Item: Financial expenses, also included the costs of financial lease of the fitness equipment in the amount of PLN 0.7 million.

The profit or loss from the affiliates accounted for using the equity method affected the result of the Capital Group by PLN -4.0 millions in 2018 and comprised, in the part corresponding to the percentage share, of the results of the following companies: Instytut Rozwoju Fitness Sp. z o.o. (PLN +0.4 million), LangMedia Sp. z o.o. (PLN +0.8 million), and X-Code Sp. z o.o. (PLN +0.3 million), as well as Calypso Fitness S.A. (PLN -4.8 million) and FitFabric Sp. z o.o. (PLN -0.3 million) – for the period in which these entites has been consolidated using the equity method. In the comparable period the impact of these companies on Group result stood at PLN 2.0 million.

Table 19: Statement of financial position

In thousands of PLN	31st December 2018	31st December 2017	Change
Non-current assets	791 668	517 998	52.8%
share in balance sheet total	*72.7%*	*68.7%*	*4.0 p.p.*
Current assets	296 997	236 115	25.8%
share in balance sheet total	*27.3%*	*31.3%*	*(4.0 p.p.)*
Total assets	**1 088 665**	**754 113**	**44.4%**
Capital equity of the shareholders in the parent company	564 727	202 033	179.5%
share in balance sheet total	*51.9%*	*26.8%*	*25.1 p.p.*
non-controlling interests	2 242	17 844	(87.4%)
share in balance sheet total	*0.2%*	*2.4%*	*(2.2 p.p.)*
Long-term provisions and liabilities	148 454	193 791	(23.4%)
share in balance sheet total	*13.6%*	*25.7%*	*(12.1 p.p)*
Short-term provisions and liabilities	373 242	340 445	9.6%
share in balance sheet total	*34.3%*	*45.1%*	*(10.8 p.p.)*
Total equity and liabilities	**1 088 665**	**754 113**	**44.4%**

Non-current assets

Non-current assets of the Benefit Systems Group grew by PLN 273.7 million as compared to December 2017. Item: Tangible fixed assets, reported growth by PLN 73.9 million, which was mainly attributable to the fact that new subsidiaries were fully consolidated, and to purchase of fitness equipment by subsidiaries. Deferred income tax assets also reported growth by PLN 3.0 million, and Intangible assets by PLN 25.2 million (owing to investment into an ERP system and other technologies).

Additionally, in 2018, the Group acquired the assets of Jatomi in the Czech Republic and Fitness Club S4 in Poland, with their goodwills recognized at PLN 9.7 million and PLN 12.4 million, respectively. The Group also acquired shares in subsidiaries: Fit Fabric Sp. z o.o. (with the goodwill recognized at PLN 51.2 million), and the entities after the transformation of Calypso Fitness S.A., that is Masovian Sport Center Sp. z o.o., NewCo2 Sp. z o.o. and NewCo3 Sp. z o.o. (with the total goodwill recognized at PLN 89.1 million).

On the other hand, the value of investments in affliates dropped (PLN -22.5 million) due to change in their measurement, and also as a consequence of the write-off of shares in Calypso Fitness S.A. (PLN 9.3 million)

Current assets

Over the year under review, total current assets reported growth by PLN 60.9 million, and item: Cash and cash equivalents, grew by PLN 23.4 million. Such a significant increase was mainly attributable to issuance of shares in 2Q 2018 and sale of treasury shares, owing to which Benefit Systems S.A. jointly acquired PLN 293.9 million (net of the transaction costs).

Long-term provisions and liabilities

Total long-term liabilities of the Group dropped by PLN 45.3 million as compared to end of 2017. Item: Other liabilities, saw drop by PLN 13.1 million, which was attributable to a reversal of provision for put options for shares in subsidiary Zdrofit Sp. z o. o. Financial lease liabilities dropped by PLN 6.2 million (leaseback for sports equipment).

The liability on account of bank loans and borrowings saw significant drop (by PLN 42.6 million), which was in particular attributable to a change in the classification of bonds of PLN 70 million from long-, into short-term ones (their redemption date was changed to 30 June 2019). Item: Long-term accruals and deferred income saw increase by PLN 17.0 million.

Short-term provisions and liabilities

In 2018, short-term liabilities grew in total by PLN 32.8 million (i.e. by 9.6%). This was primarily attributable to increase in trade liabilities by PLN 24.1, in item: Loans, borrowings and other debt instruments, which was mainly due to a change in the classification of the bonds issued by Benefit Systems from long-, into short-term ones, by PLN 70 million, in connection with the forthcoming redemption deadline in the 12-month time horizon and to growth in item: Liabilities and provisions for employee benefits, by PLN 7.3 million.

The period under review saw drop in trade liabilities: by PLN 3.5 million; current income tax liability: by PLN 2.7 million; lease liabilities: by PLN 1.3 million; and short-term accruals and deferred income: by PLN 12.4 million.

STATEMENT OF CASH FLOWS

Table 20: Statement of cash flows

In thousands of PLN	12 months of 2018	12 months of 2017	Change
Net cash flows from operating activities	139 989	139 161	0.6%
Net cash flows from investment activities	(263 000)	(161 847)	62.5%
Net cash flows from financing activities	146 372	9 949	-
Net change in cash and cash equivalents	23 361	(12 737)	-
Cash and cash equivalents at end of period	**75 819**	**52 458**	**44.5%**

As of 31 December, 2018, the Group was holding cash of PLN 75.8 million, which was accumlated predominantly on the bank accounts of the Dominant Entity: Benefit Systems S.A. (PLN 19.4 million) and of subsidiaries: MultiSport Benefit S.R.O. (PLN 11.5 million), and Zdrofit Sp. z o.o. (PLN 10.5 million).

Neither in 2018 nor in 2017, the Benefit Systems Group was engaged in any currency options or any other hedge or speculative derivatives.

As of the date of this report, considering the own funds held by the Group (in particular, those derived from the secondary issuance of shares in 2Q 2018 and sale of the treasury shares) and the available overdrafts, the Group does not anticipate any problems with financial liquidity in connection with implementation of its investment plans (including in particular the capital investments).

Operating activities

Cash generated from operating activities amounted to PLN 140.0 million as at 31 December, 2018, which was more, by PLN 1 million, than at the beginning of the year. The main movements recognized in that category of cash flows included: financial result higher by PLN 26.7 million (at the EBITDA level, adjusted by the costs of the Incentive Plan) and paid income tax higher by PLN 21.6 million than in the comparable period.

Investment activities

Net cash flows from investment operations generated negative balance of PLN 263.0 million. The said item included in particular: expenses on acquisition of shares in subisidiaries (PLN 134.0 million), expenses on purchase of fixed assets and intangible assets (PLN 75.1 million), including mainly acquisition of the fitness equipment for newly opened clubs (and Form Factory (Fitness Place) S.R.O.'s and Fitness Management Sp. z o.o.'s investments into the clubs of the Jatomi and Fitness Club S4 brands).

The most important expenses on shares in subsidiaries in the period under review pertained to: Masovian Sports Center Sp. z o.o. and NewCo3 Sp. z o.o (total of PLN 73.4 million), Zdrofit Sp. z o.o. (PLN 41.1 million), Fabryka Formy SA (PLN 12.0 million), Fit Fabric Sp. z o.o (PLN 9.7 million), Tiger Sp. z o.o. (PLN 7.8 million), and MyBenefit Sp. z o.o. (PLN 1.9 million).

In the period under review, the Group extended loans of PLN 52.6 million, mainly to affiliates and to the partners of the Multisport programme.

Proceeds from investment activities were attributable to repayments, along with interest (PLN 11.2 million), of loans extended by the Group and to revenues from sale of tangible fixed assets (PLN 1.5 million).

Financing activities

Cash flows from finacial operations as at 31 December, 2018, amounted to PLN 146.4 mln and were extremely high due to issuance of shares in 2Q 2018 and sale of own shares which jointly contributed to proceeds in the amount of PLN 289.7 million (following deduction of the principal costs of share issuance). Additionally, the said period saw proceeds from bank loans and borrowings with the value of PLN 50.4 million, mainly attributable to investment loan at PLN 50.4 million incurred by Fit Invest Sp. z o.o.

In this category of cash flows, the main expenses were attributable to repayment of bonds at PLN 50.0 million on 30 May, 2018, transactions with the non-controlling entities in the amount of 58.6 million, and to buy-back of own shares in 3Q 2018, which cost PLN 51.0 million and was a part of the policy of distribution of profits to the shareholders of Benefit Systems S.A.

Additionally, net cash flows from financial operations were heavily impacted by: repayment of loans and borrowings at PLN 17.5 million, repayment of lease liabilities at PLN 8.6 million and interest paid at PLN 7.9 million.

2.4. SELECTED FINANCIAL INDICATORS

Table 21: Selected financial indicators

Profitability ratios	**12 months of 2018**	**12 months of 2017**	**Change**
Gross margin	27.7%	27.5%	0.2 p.p.
EBITDA margin	16.2%	16.1%	0.1 p.p.
EBIT margin	12.6%	12.6%	-
Pre-tax margin	12.6%	11.9%	0.7 p.p.
Net margin	9.3%	8.9%	0.4 p.p.
Return on equity (ROE)	20.5%	39.4%	(18.9 p.p.)
Return on assets (ROA)	10.7%	11.5%	(0.8 p.p.)

Liquidity ratios	**12 months of 2018**	**12 months of 2017**	**Change**
Current liquidity	0.80	0.69	15.9%
Quick ratio	0.74	0.61	21.3%

The profitability assessment was carried out on the basis of the following indicators defined below:

- *gross margin: gross profit from sales / revenues from sales,*
- *EBITDA margin: EBITDA / revenues from sales,*
- *EBIT margin: operating profit / revenues from sales,*
- *pre-tax margin: gross profit / (operating income + financial income + extraordinary profits),*
- *net margin: net profit / (operating income + financial income + extraordinary profits),*
- *return on equity (ROE): net profit / equity (end of period),*
- *return on assets (ROA): net profit / total assets (end of period),*
- *current liquidity: current assets / current liabilities,*
- *quick ratio: (current assets - inventory - short-term prepayments) / current liabilities.*

3. ADDITIONAL INFORMATION

3.1. EMPLOYMENT

As at 31st December, 2018, Benefit Systems Group recorded an increase in employment from 1 170 to 1 264 employees, which translates into a change of 8% year on year. The increase in employment results mainly from the growing scale of the Group's operations, including activities on new markets, consolidation of new companies, as well as from the need to specialise in functions supporting those operations. Due to the specific nature of its operations Benefit Systems Group attaches great importance to the continuous improvement of its employees' qualifications and over 80% of them are university graduates.

3.2 MANAGEMENT OF FINANCIAL RESOURCES AT BENEFIT SYSTEMS GROUP

In 2018, there were no threats to Benefit Systems Group relating to the management of financial resources, with particular emphasis on the Group's ability to meet its liabilities, and there were no significant liabilities arising from the purchase of fixed assets.

3.3. AN EVALUATION OF THE FEASIBILITY OF IMPLEMENTING THE INVESTMENT PLANS COMPARED WITH THE FUNDS HELD

In the opinion of Benefit Systems Group, the implementation of the investment plans is feasible based on its financial resources and the available external financing.

3.4. SIGNIFICANT EVENTS IN BENEFIT SYSTEMS GROUP IN 2018

Information on subsidiaries of Benefit Systems Group

Withdrawal of the application for a concentration consisting in takeover of control of Calypso Fitness S.A.

On 2 January 2018, Benefit Systems S.A. filed, with the Office of Competition and Consumer Protection (hereinafter, the “OCCP”), a letter containing: withdrawal of application concerning concentration consisting in the Issuer’s taking over control of Calypso Fitness S.A. with its registered seat in Warsaw, and application for discontinuance of proceedings conducted by the President of the Office of Competition and Consumer Protection in connection with the filed notification.

The said application was filed as a consequence of expiry of conditional binding agreement for sale of stocks in Calypso Fitness S.A., which was concluded among: Fit Invest Sp. z o.o., Glastonbury Ventures Limited (Ltd) and Mr. Mikołaj Nawacki.

The acquisition process of shares in companies taking over a portion of assets spun off from Calypso Fitness S.A.

On 19 February 2018, Benefit Systems S.A. concluded agreement with Fit Invest Sp. z o.o., Glastonbury Ventures Limited (Ltd) with its registered seat in Limassol (hereinafter, the “GVL”), and a related party (Note 23 in the Consolidated Financial Report of the Capital Group Benefit Systems for year 2018). Fitness

Investment Sp. z o.o. The subject matter of the agreement consisted in particular in sale of shares in the companies controlled by shareholders in Calypso Fitness S.A. other than Fit Invest Sp. z o.o., to whom portions of assets separated from Calypso Fitness S.A. would be transferred.

As a result of the spin-off and implementation of the provisions of aforementioned agreement, Fit Invest Sp. z o.o. became the sole shareholder in NewCo1 Sp. z o.o., NewCo2 Sp. z o.o. and NewCo3 Sp. z o.o., i.e. in companies that were created as a result of the division and spin-off within Calypso Fitness S.A.

On 9 August, 2018, the Parties to the aforementioned agreement executed annex No. 3., which changed, in comparison to the status envisaged in the Agreement, the composition of the assets that are to be spun off Calypso Fitness S.A.

Acquisition of 100% of shares in Masovian Sports Center sp. z o.o. and in NewCo3 sp. z o.o. by subsidiary of the Parent Company

On 31 October 2018 (date of entry into the register of business entities of the National Court Register) the division of Calypso Fitness S.A. by way of spin-off was effected. As a result, inter alia, a portion of assets of Calypso Fitness S.A., i.e. of the divided entity, was transferred to Parent Company's indirect subsidiary: company under the business name of NewCo2 sp. z o.o. in the form of property (assets and liabilities) of four fitness clubs that were separated within the structures of Calypso Fitness: "Filia Calypso Europlex," "Filia Calypso Arkadia," "Filia Calypso Mokotów," and "Filia Wawer."

On 2 November 2018 Fit Invest Sp. z o.o. acquired 100% of shares in the share capital of company under the business name of Masovian Sports Center Sp. z o.o. (formerly defined as "NewCo1"), and 100% of shares in the share capital of company under the business name of NewCo3 sp. z o.o.

In line with the provisions of the Agreement Fit Invest Sp. z o.o. paid the price of PLN 69 million, furthermore the Seller is entitled to additional sums totaling no more than PLN 37.0 million in the period of 2018 – 2021. As part of the additional consideration, the total amount paid to the Seller amounted to PLN 4.3 million as of the publication date of the report.

Acquisition of shares in Zdrofit Sp. z o.o.

On 30 January 2018, the shareholders of Zdrofit Sp. z o.o., Benefit Systems S.A. and Fit Invest Sp. z o.o. executed Annex 2 to Investment Agreement of 2 December 2013. On the basis of the Annex and as a result of concluded transaction Fit Invest Sp z o.o. holds 100% shares in the share capital of Zdrofit Sp. z o.o.

Consent of the Supervisory Board of the Parent Company for the restructuring of debts of subsidiaries of the Fitness segment

On 13 February 2018, the Supervisory Board of Benefit Systems S.A., acting upon request of the Management Board of the Parent Company, granted consent for performance of the restructuring of debts of selected companies of the Fitness Segment, consisting in increase of the share capital of Fit Invest Sp. z o.o. in exchange for cash contribution from the parent company in the amount of PLN 61 million and capital increas in selected subsidiaries.

Acquisition of the enterprise of Fitness Club S4 sp. z o.o. sp. k.

On 4 April 2018, Fitness Management Sp z o.o. (a 100% owned subsidiary) acquired the enterprise of the company Fitness Club S4, comprising a chain of 14 fitness clubs situated mostly in Warsaw, at the price in the amount of PLN 22.2 million.

Merger of Tiger Sp. z o.o. and Zdrofit Sp. z o.o.

On 1 August 2018 a merger was performed (merger by acquisition) of companies Zdrofit Sp. z o.o. (acquirer) and Tiger Sp. z o.o. (acquiree).

Purchase of the Jatomi clubs by Fitness Place S.R.O.

On 26 April 2018, a Czech company: Fitness Place S.R.O., acquired a part of enterprise consisting of five (5) fitness clubs locations (four (4) in Prague and one (1) in Ostrava) that had been operated as part of international fitness club chain under the Jatomi brand.

Loan agreements extended within the Benefit Systems Group

In the reported period of 12 months of 2018, the following loan agreements were executed between Benefit Systems S.A. (the Lender) and affiliates (the Borrowers):

- Fitness Place Sp. z o.o. for PLN 4.0 million, PLN 3.0 million, and for PLN 5 million, for financing the modernization of acquired fitness clubs;

- Fit Invest Sp. z o.o., for the total amount of PLN 149.1 million (PLN 66 million, PLN 73.4 million and PLN 9.7 million). The loans were extended with a view to allowing the Borrower to fulfil their obligation to pay the price for the purchase of shares in Zdrofit Sp. z o.o., in order to allow the Borrower to finance their current activity, in particular related with the investments in companies and assets spun off after the transformation of Calypso Fitness S.A.;

- Fitness Place S.R.O. for EUR 4.3 million and CZK 7 million;

- Benefit Partners Sp. z o.o. for PLN 25 million, the purpose of which was to finance the purchase of equipment for the needs of the growing number of clubs in fitness companies;

- Fitness Management Sp. z o.o., for PLN 35 million, the purpose of which was to finance the purchase of fitness clubs in the S4 network, some of which required modernization and replacement of equipment;

- Zdrofit Sp. z o.o., for PLN 18.0 million, the purpose of which was financing of new clubs openings;

- Benefit Systems International Sp. z o.o. for PLN 12.5 million, the purpose of which was financing of current activities in new markets and investments in fitness facilities.

The loans bear variable interest rate that was set at market terms. The loan agreements do not contain either conditions precedent or subsequent, or provide for contractual penalties. Other loan agreement terms are not different than the terms generally applied in agreements of this kind.

Establishing limits for loans as part of the Partner Support Plan at Benefit Systems S.A.

On 13 February 2018, the Supervisory Board of the Parent Company granted consent to increasing of the limit for loans granted by the Parent Company as part of the Partner Support Plan up to the total amount of PLN 35 million. On 14 December 2018, the limit amount was further increased to PLN 45 million.

Other information

Conclusion with Bank Zachodni WBK S.A. of an annex to the agreement for a limit for the bank guarantees and annex to a loan agreement

On 6 April 2018, the Benefit Systems S.A. and Bank Zachodni WBK S.A. executed annex to agreement of 2 April 2012 for a limit for the bank guarantees. The subject-matter of the annex consisted in particular of a change of the amount of the Bank's commitment to provide guarantee on the basis of the principal's order/instruction up to the amount of PLN 54 million (in the period until 30 April 2019).

On the same day, an annex to agreement for multi-purpose and multi-currency credit facility line was executed. The subject-matter of the annex consisted in particular of change of the period of availability of the overdraft limit and extending it until 30 April 2019.

Conclusion of investment loan agreement with Powszechna Kasa Oszczędności Bank Polski

On 19 March 2018 Fit Invest Sp. z o.o., Fitness Place Sp. z o.o and bank Powszechna Kasa Oszczędności Bank Polski S.A. entered into investment loan agreement up to the total amount of PLN 100 million, according to the agreed objective

Issuance of series F ordinary bearer shares of the Parent Company

In March 2018, the Management Board of Benefit Systems decided to proceed with an increase in the share capital of the Company by way of issuance of up to 184,000 series F ordinary bearer shares. The objective of the Company was to procure funds for further development of the Group and taking advantage of the growth potential, in particular on the foreign markets, both in the Sports Card segment and the supporting investments into the fitness sector. The Company received appropriate approvals of the Supervisory Board and Extraordinary General Meeting of the parent company.

Series F shares were offered as part of private subscription as part of public offering.

Costs incurred by the parent company with reference to the offering reached PLN 4.2 million.

Disposal of treasury shares by the parent company

On 15 May 2018, according to the resolution of the EGM, Benefit Systems S.A. sold 100 000 treasury shares of the Company in block trades on the regulated market maintained by the Warsaw Stock Exchange. Sold shares represented 3.74% of the share capital of the Company entitling to exercise 3.74% of the total number of votes in the general meeting of the Company. Total value of the transaction reached PLN 103.5mln. Following the transaction, the Company had 8 448 treasury shares

Notice of the exceeding of the threshold of 5% of the total number of votes in the Parent Company

Benefit Systems S.A. received from Invesco (UK) Ltd., who was acting on behalf of the entities controlled thereby: Invesco Canada Ltd. and Invesco Advisers, Inc., notification on exceeding the threshold of 5% of the total number of votes in the Parent Company. As of the notification date Invesco held 147 496 shares in the Parent Company, accounting for 5.51% of the share capital and entitling to 147 496 votes in the General Meeting.

Appointment of members of the Supervisory Board of Benefit Systems S.A.

Due to the fact that the hitherto term of office of members of the Supervisory Board of the Company has elapsed, on 12 June 2018, the Ordinary General Meeting of the Company appointed the following persons to the Supervisory Board of the Company:

- Mr James Van Bergh,
- Mr Marcin Marczuk,
- Mr Artur Osuchowski,
- Mr Michael Rohde Pedersen,
- Mr Michael Sanderson

for a joint five-year term of office which will elapse on the date when General Meeting of the Company approving the financial statements for year 2022 will be held.

Notice of initiation of anti-monopoly proceedings

On 28 June 2018, Issuer's subsidiary: Fit Invest Sp. z o.o., received decision of the President of the Office of Competition and Consumer Protection to initiate antimonopoly proceedings, against, among others, Fit Invest Sp z o.o. and Benefit Systems S.A., concerning possible violation of provisions of the Competition and Consumer Protection Act and the Treaty on the Functioning of the European Union.

The proceedings were initiated in connection with suspicions that an agreement has been concluded concerning division of the fitness club market, arrangements have been made concerning exclusivity of cooperation with fitness clubs, and the possibility of offering services as part of sports and recreation services packages has been limited.

A business entity that, even unintentionally, has violated the prohibition specified in Article 6 of CCPA may face a financial penalty in an amount not exceeding 10% of the revenue generated in the financial year preceding the year in which the penalty was imposed. The penalty is imposed by the President of the OCCP in a respective decision.

The parent company does not agree with the objections of the President of the OCCP (Office of Competition and Consumer Protection) and presented their position in the case at hand within the deadlines as prescribed by the President of OCCP.

The risk that the present explanatory activities conducted by the President of OCCP may be transformed into proceedings against the Company as well as the risk of penalty faced by the Company were announced by the Issuer in interim reports for 1Q 2018 and in annual reports.

The expected date of completion of the antimonopoly proceeding, in accordance with the notification of the President of OCCP received on 28 November 2018, will be on 30 April 2019. The President of the Office pointed out that due to the complex nature of the proceedings and the need for further analysis of the case, it is not possible to end the proceedings at this stage.

Changes to the Management Board

On 23 July 2018, on the basis of resolution of the Supervisory Board, Mr Wojciech Szwarc joined the Management Board of Benefit Systems S.A. as the Management Board member responsible for Partner relations.

On 20 November 2018 Mr Grzegorz Haftarczyk and Mr Arkadiusz Hanszke handed in their resignations from the positions of Management Board Members, effective from the resignation date.

Buy-back of own shares of parent company

On 10 May, 2018, in connection with the Distribution of Profits to Shareholders Policy applicable to the Company in 2016-2019, the Management Board of the Company adopted resolution concerning submission of a proposal to the Ordinary General Meeting regarding appropriation of the entire profit reported in the financial statements of the Company for year 2017, in the amount of PLN 100.2 million, for the supplementary capital of the Company and to recommend it to the Ordinary General Meeting to appropriate the sum of PLN 51.0 million for a dividend-based share buy-back.

On 11 September, 2018, the parent company announced the share buyback in way of an offer to purchase own shares; the transaction was settled on 28 September 2018. Benefit Systems S.A. acquired 46 363 own shares in aggregate, for the price of PLN 1 100/share and for the total amount of PLN 50 999 300.

Prior to settlement of accounts of the transaction, the Company held 8 448 own shares. After settlement the Company held 54 811 own shares. The Company does not exercise the shareholder's rights from its treasury shares, i.e. its own shares that are in its possession.

Material contracts - Poczta Polska S.A.

On 12 September, 2018, Benefit Systems S.A. entered into agreement with Poczta Polska S.A. (which was also acting in the name and on behalf of Pocztowe Towarzystwo Ubezpieczeń Wzajemnych and Pocztowe Towarzystwo Ubezpieczeń na Życie). The subject-matter of the agreement was to make services in the field of sports and recreation available to the employees of Poczta Polska S.A., the employees of the Poczta Polska Capital Group, as well as to their family members and close persons.

The Agreement was concluded as part of a public contract awarding procedure. The maximum remuneration of Benefit Systems S.A. for performance of the agreement amounts to PLN 51.1 million (including VAT) and covers the period of 26 months.

Material contracts – Ghelamco GP 15 Sp. z o.o.

As a result of execution, as of 30 August, 2018 (date of receipt), of an annex to agreement of 23 January 2015 for lease of office building at Plac Europejski in Warsaw that had been made between Benefit Systems S.A. and Ghelamco GP 15 Sp. z o.o., the term of lease was extended by 36 months, i.e. until 1 January 2024. In accordance with the estimations of the Management Board of the Issuer, the annual value of the Agreement amounts to approximately PLN 6.8 million (plus VAT).

Fiscal inspection underway

On 25 January, 2018, a customs and fiscal inspection started with the Dominant Entity. The inspection was initiated on the basis of an authorisation to perform customs and fiscal inspection which was granted by the Head of the Małopolski Customs and Revenue Office in Kraków. The inspection is aimed at checking compliance with Corporate Income Tax Act of 15 February 1992 in terms of taxation of the income generated in 2012-2016. At the present phase of the inspection, the dominant Company makes accounting ledgers and the underlying accounting documents available to fiscal authorities whenever requested by the Head of the Małopolski Fiscal-Customs Office in Kraków. In their letter of 17 December, 2018, the Head of the Małopolski Customs and Fiscal Office in Kraków presented the outcome of the customs and fiscal inspection regarding taxation of income generated in 2012 and stated that no irregularity was ascertained.

Decision to launch reorganisation of the Capital Group

On the basis of resolutions of the Supervisory and Management Boards of the Issuer of 4 October, 2018, reorganisation of the structure of the capital group of Benefit Systems was launched. The objective of the reorganisation was to streamline the structure of the Group in such a way that the Dominant Entity would take over the businesses of most of the member companies of the Capital Group operating in the segment of fitness services on the Polish market.

The progress of the reorganisation process is being communicated on a current basis at the corporate web site of Benefit Systems S.A.: https://www.benefitsystems.pl/o-nas/reorganizacja/

At the final stage of the reorganisation, Benefit Systems S.A. will assume all the rights and obligations of the acquired companies.

The reorganisation process is expected to be completed by the end of September 2019.

Execution of an annex to investment agreement and agreements for sale of shares in Fit Fabric sp. z o.o.

On 11 October, 2018, Fit Invest sp. z o.o., Fit Fabric sp. z o.o. and the existing shareholders in the latter company (4 natural persons) executed an annex to investment agreement, and an agreement for sale of shares in Fit Fabric sp. z o.o.

On the basis of the agremeents, Fit Invest sp. z o. o. acquired a block of 22.5% shares in the share capital of Fit Fabric sp. z o.o. at the price of PLN 9.6 million. After the transaction, Fit Invest sp. o.o.'s shareholding in Fit Fabric sp. z o.o. grew up to 52.5%. Acquisition of the aforesaid block of shares did not require a clearance for merger from the President of OCCP.

Further to the execution of and in performance of the above-described agreements, the remaining 47.5% shares in the share capital of Fit Fabric sp. z o.o. will be acquired until 31 July 2021 at the latest, at a price not higher than PLN 30,875 million. The ultimate price will be established on the basis of the financial results of Fit Fabric sp. z o.o.

Sale of Fit Invest International Sp. z o.o.

On 11 October 2018, Benefit Systems S.A. entered into agreement for sale of 100% of shares in Fit Invest International Sp z o.o. with Benefit Systems International Sp. z o.o. A change in the organizational structure of the Group is aimed at the streamlining of the procedure of management of processes and assets, while taking into account the specifics of individual operational segments.

Change in Benefit Systems International's stake in MultiSport Benefit S.R.O.

On 12 October 2018 in Prague an agreement was concluded, based on which Benefit Systems International Sp. z o.o. acquired 4.8% stake in MultiSport Benefit S.R.O. (effective as of subsequent payment date). As a result, stake of natural persons in MultiSport Benefit S.R.O. (Managing Directors) declined. Transaction was an execution of call option on the indicated stake.

3.5. SIGNIFICANT EVENTS IN BENEFIT SYSTEMS GROUP AFTER THE BALANCE SHEET DATE

Acquisition of controlling stake in Benefit Partners sp. z o.o.

On 15 January 2019, Benefit Systems S.A. entered into agreement with Cal Capital Sp. z o.o. for acquisition of 47.5% of shares in Benefit Partners sp. z o.o. (the "Benefit Partners") at the price of PLN 2.6 million. As a result of the transaction, the parent company now holds 95% of the share capital of Benefit Partners, which from 2017 was an associated entity of the parent company.

Execution of an annex to the preliminary agreement with Platinium Wellness sp. z o.o.

On 16 January 2019, Benefit Systems S.A. and Fitness Place sp. z o.o. entered into annex to the preliminary conditional agreement for sale of the organized parts of the enterprise in the form of fitness clubs with Platinium Wellness sp. z o.o. as the Seller.

On the same day, preliminary conditional agreement for sale of the organized part of enterprise in the form of fitness club was entered into among Benefit Systems S.A., the Purchaser, and Mr Bartosz Gibała, conducting business activity under the name of Bartosz Gibała Platinium with its registered seat in Kraków (BGP).

In accordance with the content of the amended Agreement, the object of sale now consists of two organized parts of enterprise of the Seller situated in the Małopolskie voivodship at the aggregate price not exceeding PLN 11.3 million. A change in the amount of the sale price with respect to the price established in accordance with the inital Agreement, resulted from change in the object of the final sale agreement and from the fact that the Seller had incurred expenditures to perform the fit-out works with respect to the additional floorage of the premises in which the business activity of one of the organized parts of the enterprise is conducted.

In accordance with the content of a separate agreement, the current owner and the Purchasers undertook to enter into final agreement for sale of the organized part of enterprise situated in the Małopolskie voivodiship at the price not exceeding PLN 4.671 million until 31 January 2019. Agreement provided for a number of conditions precedent regarding execution of the final agreement for sale of the organized parts of enterprise PBG that are reserved in favour of the Purchaser.

On 1 February 2019 in performance of the preliminary conditional agreement for sale of the organized part of enterprise the final agreement was concluded.

Conclusion with Santander Bank Polska S.A. of an annex to the agreement for a limit for the bank guarantees

On 18 February 2019 Benefit Systems S.A. and Santander Bank Polska S.A. entered into annex to the agreement of 2 April 2012. The subject-matter of the annex consists in particular of a change of the amount of the Bank's commitment to provide guarantee on the basis of the principal's order/instruction up to the amount of PLN 60 million during the loan availability period until 30 April 2019. The limit applies to guarantees for payment of all kinds of liabilities arising from tenancy agreements.

Implementation of subsequent phases of reorganisation of the Capital Group of Benefit Systems

On 14 January, 2019, Benefit Systems S.A. (acquiring company) merged Fit Invest Sp. z o.o. (acquiree) by way of transferring all the assets of the acquiree to the acquiror on the basis of resolution of the Extraordinary Shareholders Meeting of Benefit Systems S.A. adopted on 30 November, 2018. The activity of Fit Invest Sp. z o.o. is now carried out in a form of a branch of Benefit Systems S.A. with self-balancing set of accounts.

On 1 March, 2019 (date of entry in the relevant court register) a meger by acquisition occurred. Zdrofit Sp. z o.o. took over:

- Wesolandia Sp. z o.o.;
- Fitness Management Sp. z o.o.;
- NewCo2 Sp. z o.o., NewCo3 Sp. z o.o., and Masovian Sports Center Sp. z o.o.;

on the basis of Resolution of Extraordinary Shareholders Meeting of Zdrofit Sp. z o.o. adopted on 1 February, 2019.

On 14 March, 2019 (date of entry in the relevant court register), company undergoing transformation: Fitness Academy spółka z ograniczoną odpowiedzialnoscią spółka komandytowo-akcyjna (limited liability partnership) was transformed into limited liability company under the business name of Fitness Academy Bis Sp. z o.o. The transformation resolution was adopted by the General Meeting of Fitness Academy spółka z ograniczoną odpowiedzialnoscią spółka komandytowo-akcyjna on 22 January, 2019.

3.6. A DESCRIPTION OF FACTORS AND EVENTS, INCLUDING UNUSUAL ONES, HAVING A SIGNIFICANT IMPACT ON THE FINANCIAL RESULTS ACHIEVED

In the period presented, there were no unusual or extraordinary events having a significant impact on the financial results achieved by Benefit Systems Group. All material, non-standard business events or their financial impact that could affect the analysis in relation to comparative periods are described in detail in the comments to individual operating segments (or in *Other activities and arrangements*).

3.7. EXPLANATIONS CONCERNING THE SEASONAL OR CYCLICAL NATURE OF OPERATIONS IN THE PERIOD PRESENTED

A characteristic feature of the industry in which Benefit Systems Group operates is the seasonal activity of sports cardholders. Traditionally, in the third quarter of the calendar year (the third quarter of the financial year for Benefit Systems Group) the activity of cardholders is lower than in the first, second and fourth quarters of the financial year.

3.8. MARKETS FOR SALES AND SUPPLIES; DEPENDENCY ON CUSTOMERS AND SUPPLIERS

In 2018, Benefit Systems Group carried out its operations and generated its revenues primarily on the domestic market with increasing importance of foreign markets. The customers of Benefit Systems Group are companies and institutions from all sectors. The share in the total turnover of Benefit Systems Group of any individual customer did not exceed 3% during this period. Therefore, in the opinion of Benefit Systems Group, it is not dependent on any of its customers for its services. The main suppliers of Benefit Systems Group include companies offering access to sports facilities and activities offered by Benefit Systems Group to its customers as part of the MultiSport sports programmes. On the date of preparing the report, Benefit Systems Group was not dependent on services provided by any of the partners.

3.9. INFORMATION ON IMPAIRMENT LOSSES ON FINANCIAL ASSETS, FIXED ASSETS, INTANGIBLE ASSETS OR OTHER ASSETS AND ON REVERSING IMPAIRMENT LOSSES ON SUCH ASSETS

On the basis of impairment tests, the parent company made a write-down for loans granted in the amount of 8 990 thousand PLN, of which 6 606 thousand PLN concerns loans granted to subsidiaries, 1 669 thousand PLN concerns loans granted to Partners of the MultiSport programme, and 715 thousand PLN for loans granted to unrelated parties. Apart from these write-downs, Benefit Systems Group has not found it necessary to make any other write-downs for each of the following categories: financial assets, fixed assets, intangible assets. It also did not revoke these write-downs.

3.10. INFORMATION ON CHANGES IN THE ECONOMIC SITUATION AND CONDITIONS OF CONDUCTING BUSINESS ACTIVITY, WHICH HAVE A SIGNIFICANT IMPACT ON THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In 2018, there were no significant changes in the economic situation and conditions of conducting business activity, which could have had a significant impact on the fair value of the financial assets of Benefit Systems Group.

3.11. INFORMATION ON NON-REPAYMENT OF A CREDIT OR LOAN OR BREACH OF MATERIAL PROVISIONS OF A CREDIT OR LOAN AGREEMENT, IN RELATION TO WHICH NO REPAIR ACTIVITIES WERE UNDERTAKEN BY THE END OF THE REPORTING PERIOD

As at 31st December, 2018, and as at the date of approving the financial statements for publication, none of the companies in Benefit Systems Group had breached any provisions of their credit or loan agreements.

3.12. INFORMATION ON SIGNIFICANT PURCHASE AND SALE TRANSACTIONS FOR PROPERTY, PLANT, AND EQUIPMENT

In 2018, the Group acquired property, plant and equipment in the form of equipment and fixtures and fittings for fitness clubs to the total amount of 58 670 thousand PLN (excl. Fitness Management Sp. z o.o., NewCo2 Sp. z o.o., Masovian Sports Center Sp. z o.o., NewCo3 Sp. z o.o. and Fit Fabric Sp. z o.o.). Furthermore, the Group acquired property, plant and equipment in the form of an organised part of enterprise of the company under the name of Jatomi Fitness and Fitness Club S4 in the total amount of 2.3 million PLN. The Group received fixed assets contributed to the company NewCo2 Sp. z o.o. in the total amount of 5.0 million PLN.

3.13. INFORMATION ON A SIGNIFICANT LIABILITY DUE TO THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

As at the balance sheet date, the Group did not incur any significant liabilities due to the purchase of property, plant or equipment.

3.14. INFORMATION ON WRITE-DOWNS OF INVENTORIES TO NET REALISABLE VALUE AND REVERSALS OF WRITE-DOWNS

In 2018, Benefit Systems Group did not make any impairment of inventory.

3.15. INFORMATION ON A CHANGE IN THE CLASSIFICATION OF FINANCIAL ASSETS AS A RESULT OF A CHANGE IN THE PURPOSE OR USE MADE OF THEM

In 2018, Benefit Systems Group did not reclassify any financial assets.

3.16. INFORMATION ON A CHANGE IN THE METHOD OF MEASURING FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

In 2018, Benefit Systems Group did not change the measurement method for financial instruments, aprt from those related to chanage in accounting rules (IFRS 9).

3.17. INCENTIVE PROGRAMME

On the basis of resolutions of the General Meeting of Shareholders, an Incentive Programme (hereinafter the Programme or IP) existis at Benefit Systems Group. Specified employees, both among senior executives and employees from middle management can participate in the Incentive Programme. Under this Programme, eligible employees receive subscription warrants, which are convertible into shares of the parent company. A necessary condition for starting the Incentive Programme in a given year is the attainment of a specific level of pre-tax profit (the programme for the years 2017-2020) adjusted for the book cost of the programme attributable to the financial year.

On 10th February, 2016, the Supervisory Board of the parent company adopted a proposal for the next edition of the Incentive Programme for the period 2017-2020. The aim of the programme is to create an incentive system that will promote efficient and loyal work aimed at achieving high financial results and a long-term increase in the value of the parent company. During the Incentive Programme for the period 2017-2020 its participants (at most 149 people) will be able to receive a maximum of 100,000 subscription warrants (which after conversion into shares will represent 3.38% of the share capital of the parent company, increased by the maximum number of warrants), which will give an entitlement to subscribe to the specific number of shares in the parent company at their nominal value in four equal tranches.

The condition for acquiring rights to subscribe for the warrants is to meet the three criteria:

- Loyalty criterium – that is to remain in the employment contract, which is not terminated, at the end of the calendar year, for which the options are being granted,
- Quality criterium – evaluated after the Group reaches the agreed level of pre-tax profit adjusted for the book cost of the programme attributable to the financial year,
- Evaluation criterium – understood as a positive evaluation of a member of the Programme's work based on the adopted in the Parent Company internal regulations and the annual goals.

The necessary condition for initiating the Incentive Programme in a a given year is the attainment of a specific level of pre-tax profit (the programme for the years 2017-2020) adjusted for the book cost of the programme attributable to the financial year. The options granted may be exercised up to 30th September, 2021.

The assumptions of the Incentive Programme for the period 2017-2020 were adopted in the form of a resolution at the Annual General Meeting on 15th June, 2016.

Table 22: Performance thresholds for the Incentive Programme

	Share in the maximum number of warrants for the year		**Level of adjusted consolidated gross profit (in millions of PLN)**			
			2017	**2018**	**2019**	**2020**
Thresholds in millions of PLN - adjusted consolidated pre-tax profit (excl. IP cost)	100%	25,000	90	105	120	140
	75%	18,750	85	97.5	110	130
	50%	12,500	80	91	106	121

The fair value of the subscription warrants granted to the employees has been estimated as at the grant date, using the Black-Scholes Model.

Table 23: Valuation of options - Incentive Programme

Valuation of the Incentive Programme options - Black and Scholes model	
Data	**2018**
X (t) - quotation of shares at the valuation date (PLN)	1 130,00
P - option exercise price (PLN)	491.93
r - risk-free rate for PLN	1.82%
T - date of expiration	2018-12-31
t - current day (for pricing)	2018-02-13
Sigma - daily variation	31.62%

The expected shares volatility has been estimated on the basis of the historical quotations of the Parent Company's shares on the Warsaw Stock Exchange in the period from 02.01.2016 untill 31.12.2016 (for options for 2017) and in the period from 02.01.2017 untill 30.12.2017 (for options for 2018).

According to the above, the date of granting 25 000 warrants was 13 February 2018. The cost of the Incentive Programme in the period under review amounted to 16 433 thousand PLN.

Since the inception of the Incentive Programme (in 2011), the Company has been using the same methods to measure the cost of the provision for the Program in the income statement.

3.18. DIVIDEND

On 10th February, 2016, the Management Board for the parent company adopted its Shareholder Profit Distribution Policy for the years 2016 to 2019, which was subsequently approved by the Supervisory Board and Annual General Meeting of the parent company. In each year of the Profit Distribution Policy the buyback of shares will be carried out for at least 50% of the net profit of the parent company for the previous financial year. The policy takes into account the financial situation and investment requirements of the parent company and Group's companies, including those related to the implementation of investment agreements, as well as the demand for liquid cash with companies. The Profit Distribution Policy is in force and applied commencing with the distribution of net profit of the parent company for the year ended 31st December, 2015, and constitutes a continuation of the Dividend Policy of 25th September, 2012.

In line with the recommendations of the Management and Supervisory Boards of the Parent Company on 12 June 2018, the Ordinary General Meeting of the Parent Company adopted a resolution on the allocation of the net profit of the Parent Company for 2017. Considering the plans of the Parent Company's Management Board regarding the purchase of own shares, in accordance with the above-mentioned Distribution Policy, a net profit of PLN 100.2 million was allocated in full to supplementary capital to secure subsequent payments in accordance with the adopted resolutions.

In share buyback executed in September 2018 in accordance with the dividend policy, Benefit Systems S.A. spent PLN 51.0 million for the purchase of a total of 46 363 own shares, which constituted 1.62% of the share capital of the Parent Company, accounted for 46 363 votes and constituted 1.62% of votes at the General Meeting of the Parent Company.

The parent company does not anticipate changes to the Profit Distribution Policy in the coming years.

3.19. DESCRIPTION OF TRANSACTIONS WITH RELATED ENTITIES, IF INDIVIDUALLY OR COLLECTIVELY THEY ARE SIGNIFICANT AND HAVE BEEN CONCLUDED ON OTHER THAN MARKET TERMS

In the reporting period, Benefit Systems Group did not conclude transactions with related entities, which either individually or together could be considered significant or were concluded on other than market terms. Transactions with related parties are presented in detail in the consolidated financial statements of Benefit Systems Group for the 12 month period of 2018(note 23).

3.20. ASSESSMENT AND JUSTIFICATION OF THE MANAGEMENT OF FINANCIAL RESOURCES

Information on the assessment and its justification regarding the management of financial resources is presented in Note 25 to the consolidated financial statements of Benefit Systems Group for the 12 month period of 2018.

3.21. AGREEMENTS WITH THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS

PricewaterhouseCoopers Sp. z o.o. is the auditor responsible for auditing and reviewing the consolidated financial statements of the Parent Company and Benefit Systems Group for the financial years 2017 and 2018. The company did not conclude other agreements than those related to the research itself and activities related to it.

On 28 February 2019, the Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. to audit financial statements of the Company and the Benefit Systems Capital Group for the years 2019 and 2020.

3.22. INFORMATION ON LOANS OBTAINED, LOANS RECEIVED AND GUARANTEES AND SURETIES GRANTED TO BENEFIT SYSTEMS GROUP

On 6 April, 2019, Benefit Systems S.A. (the "Company") and Bank Zachodni WBK S.A. (presently: Santander Bank Polska S.A.) with its registered office in Wrocław, executed annex to agreement of 2 April, 2012, providing for bank guarantee limits. The annex was executed, in particular, to change the amount of the bank's commitment to provide, acting upon instruction from the customer, guarantee of up to PLN 54 million over the availability period (elapsing on 30 April, 2019).

On the same day, also annex to multi-purpose multi-currency credit line facility agreement was executed to amend, in particular, the availability period of overdraft by extending it until 30 April, 2019.

On 19 March, 2018, Benefit Systems S.A., Fit Invest Sp. z o.o., Fitness Place Sp. z o.o. executed investment loan facility agreement with bank: Powszechna Kasa Oszczędności Bank Polski S.A. The agreement provided for an investment loan up to the total amount of PLN 100 million, to be extended to Benefit Systems S.A., Fit Invest Sp. z o.o. and Fitness Place Sp. z o.o. for the purpose specified in the agreement.

Used loan amounts will carry interest charged at WIBOR 1M plus the bank's margin.

In 2018, member companies of the Benefit Systems Group had borrowings at the total amount of PLN 730.1 million (including intracompany loans among members of the Benefit Systems Group of PLN 616.8 million.). Information concerning the loan amounts and interest is provided in the annual consolidated financial statements of the Benefit Systems Group for 12 months of 2018.

3.23. INFORMATION ON LOANS GRANTED, INCLUDING THEIR MATURITY DATES, AS WELL AS SURETIES AND GUARANTEES GIVEN

Table 24: Contingent liabilities

Contingent liabilities	As at the date of 2018 report publication	As at the date of 3Q 2018 report publication	Change
Sureties and guarantees	46 087	43 723	2 364

In the period under review, Benefit Systems S.A. and the companies of its Capital Group have not extended any surety or guarantee for a bank loan or a loan nor provided a guarantee to a single entity or a subsidiary of such entity whereby the total value of such surety and/or guarantees would be significant with respect to the level of the equity of Benefit Systems S.A. A significant value of equity was adopted in accordance with the Individual Reporting Standards which has been in place since July 2016. Therefore, a significant value of equity is recognized at the threshold of 10% of the equity of the Dominant Entity as established on the basis of the most recently published annual consolidated financial statements.

These contingent liabilities are related to the companies of the Fitness segment and their main subject are leasing payments for the use of fitness equipment and rent guarantees. The increase in the value of guarantees in 2018 results from the increase in the number of guarantees granted, which is a consequence of increasing number of fitness clubs in the Group's structures, and thus results in new obligations requiring a surety. In addition, the PLN weakening in relation to the Euro contributed to the increase in the value of the guarantee.

3.24. DESCRIPTION OF THE USE OF PROCEEDS FROM SHARE ISSUES

A secondary issuance of shares and sale of the treasury shares occurred in 2Q 2018, owing to which Benefit Systems S.A. jointly acquired PLN 293.9 million (net of the transaction costs).

In accordance with the assumptions, the funds are to be earmarked to support continued development of the Group and help exploiting its growth potential, in particular on foreign markets, whether in the sports cards segment or by way of supporting investments into the fitness segment.

As of the date of this report, the acquired funds were spent, in the total amount of PLN 95.5 million, in line with the assumed objectives (in particular, on investments into the shareholding in Zdrofit Sp. z o.o., the fitness clubs of the Calypso chain that had been spun off into new entities and to equip Polish and foreign sports facilities with fitness equipment).

3.25. CORRECTIONS OF ERRORS FROM PREVIOUS PERIODS

In 2018, there were no changes to the accounting policy other than those resulting from changes in the accounting standards used (mainly IFRS 9).

3.26. POSITION OF THE MANAGEMENT BOARD REGARDING THE IMPLEMENTATION OF FINANCIAL FORECASTS

Benefit Systems Group has not published any forecasts of results for 2018.

3.27. INFORMATION ABOUT AGREEMENTS KNOWN TO BENEFIT SYSTEMS GROUP, WHICH IN FUTURE MAY RESULT IN CHANGES IN THE PROPORTIONS OF SHARES HELD BY THE EXISTING SHAREHOLDERS

Benefit Systems Group is not aware of any such agreements.

3.28. INFORMATION ON SHAREHOLDERS WITH SIGNIFICANT HOLDINGS

The percentage of the Parent company's share capital and voting rights takes into account the parent company's share capital increase made under the conditional capital issuance. Series D shares were acquired as part of the conditional share capital issuance by the holders of subscription warrants for series D and E, granted by the parent company in accordance with the provisions of the Incentive Programme for the years 2014-2016.

Table 25: Shareholder structure

Shareholder	As at the date of submitting the report for 2018			As at the date of submitting the report for the three quarters of 2018			Change
	Number of shares*	Share in equity	Share in the total no. of votes at GM	Number of shares	Share in equity	Share in the total no. of votes at GM	
James van Bergh	565 432	19.78%	19.78%	575 432	20.13%	20.13%	(10 000)
Benefit Invest Ltd.	316 634	11.08%	11.08%	316 634	11.08%	11.08%	-
Marek Kamola	254 000	8.88%	8.88%	254 000	8.88%	8.88%	-
Fundacja Benefit Systems**	245 372	8.58%	8.58%	245 372	8.58%	8.58%	-
MetLife OFE	226 468	7.92%	7.92%	226 468	7.92%	7.92%	-
NN OFE	150 000	5.25%	5.25%	150 000	5.25%	5.25%	-
Invesco Ltd.	147 496	5.16%	5.16%	147 496	5.16%	5.16%	-
Others	953 440	33.35%	33.35%	943 440	33.00%	33.00%	10 000
including Benefit Systems S.A. (own shares)	*54 811*	*1.92%*	*1.92%*	*54 811*	*1.92%*	*1.92%*	-
Total	2 858 842	100.00%	100.00%	2 858 842	100.00%	100.00%	-

** based on received notifications and registrations for General Shareholders Meetings in 2018*

*** Entities related personally and/or affiliated entities according to the Note 23. Transactions with subsidiaries in the Consolidated Financial Report of the Capital Group of Benefit Systems for 2018.*

The Company's share capital amounts to 2,858,842 PLN. Number of shares in the share capital: 2,858,842 shares, including 2,204,842 shares of series A, 200,000 shares of series B, 150,000 shares of series C, 120,000 shares of series D and 184,000 shares of series F. The shares of all series have a nominal value of 1 PLN each. The total number of votes resulting from all the shares issued amounts to 2,858,842. Percetange share in capital of shareholders is equal to the percentage share in votes at the General Meeting, wherein, as of publication date if tis report the Company had 54 811 own shares, from which it does not exercise voting rights.

3.29. STATEMENT OF CHANGES IN THE OWNERSHIP OF SHARES OR RIGHTS BY MANAGING AND SUPERVISING PERSONS

Ownership of shares in Benefit Systems S.A. or other rights to them (subscription warrants) by Members of the Management Board and Members of the Supervisory Board on the date of the report's submission is as follows:

Table 26: Shares held by members of the Management Board of Benefit Systems S.A.

Management Board	As at the date of submitting the report for 2018		As at the date of submitting the report for the 3 quarters of 2018		
	Number of shares	Percentage of share capital	Number of shares	Percentage of share capital	Change
Adam Radzki	3 020	0.11%	3 020	0.11%	-
Emilia Rogalewicz	1 081	0.04%	1 081	0.04%	-
Wojciech Szwarc	0	0.00%	0	0.00%	-
Izabela Walczewska-Schneyder	6 099	0.21%	5 974	0.21%	125
Total	10 200	0.36%	10 075	0.36%	125

Table 27: Shares held by members of the Supervisory Board of Benefit Systems S.A.

Supervisory Board	As at the date of submitting the report for 2018		As at the date of submitting the report for the 3 quarters of 2018		
	Number of shares	Percentage of share capital	Number of shares	Percentage of share capital	Change
James van Bergh*	565 432	19.78%	575 432	20.13%	(10 000)
Marcin Marczuk	0	0.00%	0	0.00%	-
Michael Sanderson	0	0.00%	0	0.00%	-
Artur Osuchowski	0	0.00%	0	0.00%	-
Michael Pedersen	0	0.00%	0	0.00%	-
Total	**565 432**	**19.78%**	**575 432**	**20.13%**	**(10 000)**

** Direct holding; additionally, a person closely related to the Chairman of the Supervisory Board (within the meaning of article 160, paragraph 2, point 1 of the act on trading) controls Benefit Invest Ltd. as a shareholder with a holding of 93.3%, where this company holds shares in Benefit Systems S.A. in the number of 316 634 representing 11.08% of the share capital and of the total number of votes (as at the date of submitting the report for 2018); in addition, a person closely related to the Chairman of the Supervisory Board is the Chairwoman of the Council of Fundacja Benefit Systems, which holds a 8.6% stake in share capital of Benefit Systems S.A.*

The members of the Management Board and Supervisory Board of the parent company do not hold interests in subsidiaries.

3.30. AGREEMENTS CONCLUDED BETWEEN BENEFIT SYSTEMS GROUP AND ITS MANAGERS PROVIDING FOR COMPENSATION IN THE EVENT OF THEIR RESIGNATION OR DISMISSAL FROM THEIR POSITIONS WITHOUT A VALID REASON

In the event of the termination of an employment contract with a Member of the Management Board by the Employer (after the lapse of 12 months of the employment contract), the Employer guarantees to pay the Employee a severance pay equal to three times the average monthly remuneration of the Employee gross salary from the last 12 months in two equal instalments, the first paid on the day of termination of the contract, and the second on the lapse of 90 days from the day of termination of the contract. In addition, a non-competition agreement will apply for 12 months. In return for refraining from competitive activity, the Employer pays 25% of the basic gross monthly remuneration as of the last day of the employment contract, for each month of the term of the Agreement.

In 2018, Benefit Systems Group did not have any liabilities resulting from retirement pensions or benefits of a similar nature for former management personnel supervising the parent company.

3.31. THE VALUE OF REMUNERATION, REWARDS OR BENEFITS, INCLUDING THOSE RESULTING FROM INCENTIVE OR BONUS PROGRAMMES BASED ON THE CAPITAL OF BENEFIT SYSTEMS S.A., FOR MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

Table 28: Remuneration of Members of the Management Board at Benefit Systems S.A. from 1st January to 31st December, 2018. Management Board Members did not receive any remuneration from subsidiaries.

Member of the Management Board	Remuneration	Other benefits	Total
Grzegorz Haftarczyk*	507	14	521
Arkadiusz Hanszke*	620	8	628
Adam Radzki	449	16	465
Emilia Rogalewicz	522	15	537
Wojciech Szwarc*	215	9	224
Izabela Walczewska-Schneyder	720	17	737
Razem	**3 034**	**78**	**3 113**

*for the period of holding the position of Management Board Member of Benefit Systems S.A.

Table 29: Benefits for Members of the Management Board in the form of due and potentially due G and H series warrants at the end of 2018

Member of the Management Board	Series G warrants granted for 2017	Series H warrants granted for 2018	Total	Value*
Adam Radzki	1 750	2 250	4 000	3 097
Emilia Rogalewicz	2 500	2 250	4 750	3 575
Wojciech Szwarc	1 900	2 250	4 150	3 192
Izabela Walczewska-Schneyder	2 500	2 250	4 150	3 575
Total	**8 650**	**9 000**	**17 650**	**13 439**

**The value of the benefits from the subscription warrants granted is the difference between the exercise price and the share price on the valuation date. The valuation of series G warrants was based on the prices and conditions from the warrant pool for 2017 (357.17 PLN), and the valuation of series H warrants was based on the prices and conditions from the warrant pool for 2018 (638.07 PLN).*

Table 30: Remuneration of Members of the Supervisor Board at Benefit Systems S.A. from 1st January, 2018, to 31st December, 2018 (no remuneration from subsidiaries)

Supervisory Board	Remuneration	Other benefits	Total
James van Bergh	138	0	138
Marcin Marczuk	88	0.4	88
Artur Osuchowski	64	0	64
Michael Sanderson	46	0.4	46
Michael Pedersen*	30	0	30
Zofia Dzik*	16	0	16
Total	**382**	**0.8**	**383**

* for the period of holding the position of Supervisory Board Member of Benefit Systems S.A.

3.32. INFORMATION ON THE CONTROL SYSTEM FOR EMPLOYEE SHARE OWNERSHIP PROGRAMMES

Described in point *3.17. Incentive Programme* The Management Board's report on the operations of Benefit Systems Group in 2018.

3.33. INFORMATION ON INSTITUTED PROCEEDINGS BEFORE A COURT OR ADMINISTRATIVE AUTHORITY AND INFORMATION ON SIGNIFICANT SETTLEMENTS FROM COURT CASES

On 2 January 2018, Benefit Systems S.A. filed, with the Office of Competition and Consumer Protection (hereinafter, the "OCCP"), a letter containing: withdrawal of application of 10 October 2017 (concerning control over Calypso Fitness S.A.), and the proceedings in that matter were discontinued.

On 29 June, 2018, the dominant Company was notified that the Chairman of the OCCP initiated antimonopoly proceedings against Benefit Systems S.A. and against fifteen other undertakings in connection with a suspicion of a scheme that could result in a limitation of the competition on the local or the national market for fitness services or on other relevant markets. The proceedings also involved six (6) managers, three (3) of whom worked for the Capital Group of Benefit Systems. The proceedings pertain to issues dating back to 2012-2015.

The dominant Company disagrees with the objections raised by the Chairman of OCCP and, on 27 July, 2018, submitted their reply, in which, in addition to taking a detailed stance on specific objections, described a positive role that the Company has been playing on the Polish market for fitness services.

The anticipated deadline to complete the antimonopoly proceedings is set on 30 April, 2019. The Chairman of OCCP noted that due to the complex character of the proceedings and due to the fact that the matter needed to be further examined, the proceedings could not be completed at the present stage.

In accordance with the regulations, a penalty potentially imposed on the dominant Company may be as high as the equivalent of 10% of the dominant Company's turnover volume in the year preceding issuance of the decision. Additionally, specific members of the dominant Company's Management Board may face individual penalties, up to PLN 2 million. The Management Board of the dominant Company has analysed the situation. The dominant Company will appeal against penalty, if any is imposed, to the Court for Competition and Consumers Protection.

In accordance with law and in line with good practice, the Management Board of the dominant Company will keep the market informed about any subsequent steps taken as part of the proceedings initiated by the OCCP.

Furthermore, on 25 January, 2018, fiscal and customs authorties launched an inspection with the dominant Company on the basis of authorization to carry out fiscal and customs inspection that was obtained from the Head of the Małopolski Customs and Fiscal Office in Kraków. The inspection is aimed at checking compliance with Corporate Income Tax Act of 15 February 1992 in terms of taxation of the income generated in 2012-2016.

In their letter of 17 December, 2018, the Head of the Małopolski Customs and Fiscal Office in Kraków presented the outcome of the customs and fiscal inspection regarding taxation of income generated in 2012 and stated that no irregularity was ascertained.

Acting in response to the inquiries received by the dominant Company from the Head of the Małopolski Customs and Revenue Office in Kraków, at the current stage of the inspection, the Dominant Entity is presenting their tax ledgers along with the underlying evidence to the inspectors.

As of the date of publication of this report, the inspection has not yet been completed.

During the past reporting period, the Benefit Systems Capital Group has neither initiated nor was a party to legal proceedings with the total value of claim(s) representing more than 10% of the equity of the Group. In the period under review, the Company had no major settlement of accounts in relation to court cases.

In 2018, the Benefit Systems Group was not a party to any court proceedings with the subject-matter exceeding 10% of the value of the Group's equity.

3.34. INFORMATION ON ONE OR MORE TRANSACTIONS CONCLUDED BY BENEFIT SYSTEMS GROUP WITH RELATED ENTITIES

In 2018, there were no significant transactions by Benefit Systems Group with related entities concluded on terms other than market terms.

3.35. INFORMATION ON THE GRANTING BY BENEFIT SYSTEMS GROUP OF SURETIES, CREDITS, LOANS OR GUARANTEES - JOINTLY TO ONE ENTITY - IF THE VALUE OF SURETIES OR GUARANTEES IS EQUIVALENT TO AT LEAST 10% OF THE EQUITY CAPITAL

In 2018, Benefit Systems Group did not grant any credit or loan sureties or guarantees with a value exceeding 10% of the Company's equity.

3.36. OPERATING SEGMENTS

Benefit Systems Group's operating segments have been described in section 2.2. of this Management Board's Report on operations.

3.37. CHANGES IN THE PRINCIPLES FOR MANAGING THE BUSINESS AT BENEFIT SYSTEMS GROUP

In 2018, there were no changes in the principles for managing the business at Benefit Systems Group.

3.38. INFORMATION ABOUT AGREEMENTS KNOWN TO BENEFIT SYSTEMS GROUP (INCLUDING THOSE CONCLUDED AFTER THE BALANCE SHEET DATE), WHICH IN FUTURE MAY RESULT IN CHANGES IN THE PROPORTIONS OF SHARES HELD BY THE EXISTING SHAREHOLDERS AND BONDHOLDERS

According to the information available to Benefit Systems Group, no agreements have been concluded or are in force as a result of which changes in the proportions of shares held by the existing Shareholders and Bondholders may occur in the future.

3.39. ENTITY AUTHORISED TO AUDIT THE FINANCIAL STATEMENTS

On 9th November, 2016, the Supervisory Board of the parent company selected PricewaterhouseCoopers Sp. z o.o. to carry out an audit of the separate and consolidated annual financial statements and to review the separate and consolidated interim financial statements of Benefit Systems Group for the financial years 2017 and 2018 and to issue opinions and reports on the audits and reviews carried out. The agreement was signed on 15th May, 2017.

Information on the auditor's remuneration is presented in note 27.5 to the Consolidated financial statements of Benefit Systems Group for the 12 month period of 2018.

On 28 February 2019 the Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. for the auditing of financial statements of the Company and the Capital Group of Benefit Systems for financial years 2019 and 2020.

3.40. DESCRIPTION OF SIGNIFICANT RISK FACTORS AND THREATS AND THE EXTENT OF THE GROUP'S EXPOSURE

The most important risks defined by the parent company are:

Risk of not adapting the business model to the specificity of an intermediary on the sports services market

Benefit System's unique business model consists of providing solutions supporting physical activity and providing intermediary services in the sports and recreation services market through the distribution of MultiSport cards. The key element of its growth is the stable increase in the number of sports cards.

In setting the price of a card, the Group companies use its own estimates regarding the frequency of cardholders' visits to sports clubs. The main cost of the parent company are payments to partners for visits by cardholders. The parent company is exposed to the risk of underestimating the number of visits, which may result in lower than expected profitability of individual contracts. Such impact is limited by concluding agreements with short notice periods and by the possibility of renegotiating unprofitable contracts.

In addition, the risk of a decrease in the profitability of cards is minimized by a continuous increase in the number of cards operated by the Group, which results from favorable labor market trends and the growing popularity of healthy lifestyle in Poland and other countries of Group's operations.

The risks related to the management of a large Capital group and difficulties in achieving the assumed operating efficiency

As at 31st December, 2018, Benefit Systems Group comprises 33 subsidiaries and 8 associated companies. The parent company consistently pursues its strategy of investing in the sports and recreation services sector, and increases the number of owned clubs. Currently, the Group manages a network of 190 clubs in Poland (of which 144 are owned by Group's subsidiaries and 46 by group's affiliates) and 18 clubs abroad.

The size of the Capital group, the planned development and increase in number of clubs in the future contribute to the growing complexity of the Group's operations and its management. Reducing this risk requires significant commitment of resources and additional expenses related to the integration of new companies, the introduction of unified corporate governance principles, the design and implementation of elements of the internal control system as well as the management of sports club.

The proces of reorganization of Group structure was initiated. It will involve simplification of the Group structure by way of taking over by Benefit Systems S.A. most of the Group companies operating in the fitness segment in Poland.

Regulatory risk, including the risk inherent in concentration and competition and the legal-tax risk

The regulatory risk and the legal-tax risk include in particular possibility of decisions delivered in any pending or potential proceedings before administrative authorities, including the President of OCCP and/or fiscal administration that might be adverse for the dominant Company.

The proceedings pending against Benefit Systems S.A. (and the other entities) was initiated by the President of OCCP on 22 June, 2018.

The proceedings was launched in connection with suspicion of actions potentially limiting competition on the national market for sports and recreation service packages or on the national or local fitness clubs markets or other relevant markets.

On 28 November, 2018, Benefit Systems S.A. received decision from the Chairman of the Office of Competition and Consumer Protection providing that the anticipated date of completion of the antimonopoly proceedings would be extended, and the implied completion date was identified as 30 April, 2019. In the grounds to the decision, the Chairman of OCCP explained that due to the complex character of the proceedings and due to the fact that the matter needed to be further examined, the proceedings could not be completed at the present stage.

The regulatory risk is adequately managed and monitored and the Group attaches much importance to treating fairly all its business partners, including its customers, users of sports-recreation cards and providers of sports services. However, an adverse decision of the competition protection authorities cannot be ruled out in particular in relation to events of the past. In the opinion of the Company, a potential decision of the Chairman of OCCP might, to a limited extent, contribute to the risk of continued activity of Benefit Systems S.A., and, consequently, of the entire Group.

Legal-tax risk in particular pertains to the regulations and interpretation of the tax laws applicable to business activity. Many of the applicable regulations are not sufficiently precise. Quite often, they lack a unambigious interpretation. Interpretations of tax regulations delivered by fiscal authorities and courts vary and are not consistent.

Like all other business entities, member companies of the Group face the risk that fiscal authorities will present an interpretation of the regulations that is different from the one applied by the member companies of the Group.

However, it should be noted, that the Group does not engage into aggresive tax strategies, and the effective corporate income tax rate applicable to Benefit Systems S.A. amounted to 20.7% for year 2017 and to 21% for year 2018. Therefore materialisation of the said risk will have a limited impact on the activity of the Benefit Systems Group whether in terms of its financial standing or development perspectives.

Market risk - the risk of the emergence of new competitors or the risk of expansion of existing competitors due to the lack of entry barriers on the markets of non-wage benefits and sports services

The parent company sees a risk of new competitors emerging. It may appear from organised entities offering sports and recreational services, through the establishment of an entity operating similarly to the parent company, or by entring the market by large domestic and foreign entities, which have so far been absent in this area.

The parent company sees a similar risk in relation to new products, whose innovative solutions on the market may be duplicated in the future by competitive companies. In response to this risk, the parent company takes appropriate actions to ensure its competitive advantages, which, among others, include implementing distribution platforms and investing in sports clubs.

The parent company sees a risk of potential consolidation on the sports and recreation services market. A large network of sports clubs, which would be able to compete with the parent company's products by offering corporate customers subscriptions to their own fitness facilities, could exert downward pressure on the prices of the parent company's services.

Risks in the area of personal data processing and protection, inter alia, related to adaptation to the GDPR regulations, in legal, organisational and technical terms

The risk results from the need to adjust the parent company's activities to the new guidelines resulting from the GDPR provisions (Regulation of the European Parliament and Council (EU) 2016/679 of 27th April, 2016).

The extent of the necessary changes and adjustments to requirements is apparent on different levels of the parent company's activity, including legal, organisational and systemic solutions with emphasis on the security of network resources and IT systems.

The parent company undertook a number of activities aimed at adjusting to the requirements resulting from the regulations, for example, concerning updating processes, adjusting IT systems and updating agreements with Benefit Systems S.A. Customers with respect to entrusting the processing of personal data.

Risk related to conducting business activity and expansion on foreign markets, including political and currency risk

As part of its business expansion strategy, Benefit Systems Group continues to expand on foreign markets, including the Czech Republic (MultiSport Benefit S.R.O., Fitness Place S.R.O., Beck Box Club Praha S.R.O.), Slovakia (Benefit Systems Slovakia S.R.O.) and Bulgaria (Benefit Systems Bulgaria EOOD , Fit Invest Bulgaria EOOD) since 2015. In 2018 the Group started its operations in Croatia (Benefit Systems D.O.O. HR) and in Greece (Benefit Systems Greece MIKE).

On the Czech and Bulgarian markets, Benefit Systems Group reports further dynamic growth. On the remaining markets the business continues to be built up. It is not certain that the business model of Benefit Systems S.A., which has proved its worth in Poland, will be fully accepted in the new markets where legal, cultural and sports differences exist, as well as differences in the level of sports activity and proposals for the non-wage motivation of employees.

Failure to execute plans in any of the new markets may have a negative impact on the financial results of Benefit Systems Group. However, it should be noted that before making a decision on entering a given market, Benefit Systems Group carries out research on market potential together with an analysis of potential threats. In addition, the Group adopted a strategy of the gradual incurring of capital expenditures in a manner that takes into account the current market situation, currency risk and observed business growth in a given country. All activities reduce the size of potential losses in the event of an investment failure.

Risk of changes in the demographic status in Poland and in the countries where Benefit Systems Group operates

In the long run, the Group's operations may be affected by changes in Poland's demographic structure, in particular, the ageing of the population. It cannot be precluded that with this phenomenon and the resulting decrease in the target group (professionally active), the products currently offered by the parent company may cease to enjoy such a high level of interest, which may have a negative impact on its financial results in the long run. However, in the parent company's opinion the impact of this risk will be limited by the fact that, as in the developed countries of Western Europe, we can also observe in Poland an increase in physical activity among older age groups, which may constitute a potential for entering a new market segment.

Risk related to implementation and maintenance of IT systems and cyber security

The parent company manages the risk of IT systems by introducing appropriate procedures and control mechanisms, which enable effective prevention and limitation of the effects of these risks materialising.

In particular, the parent company develops procedures and mechanisms concerning development and maintenance of systems, change management and information security. The parent company uses redundant hardware and system solutions in order to minimize the risk of disruption to key IT systems.

As part of cyber security management, it continuously updates its network security systems. The parent company uses solutions that are tried and tested on the market.

The parent company's activity related to its main product is based on an integrated terminal system, allowing for the registration of visits using sports cards. The parent company mitigates the risk of a failure of the terminal system by using redundancy and appropriate network protection.

Financial risk, in particular credit risk and liquidity risk

The financial risk arises mainly from the debt of Benefit Systems Group, which includes, among others, loans and issued bonds.

Failure to meet the financial targets (EBITDA) may result in the risk of non-performance of covenants concluded in the terms of the bond issues and credit agreements, in particular with respect to the debt ratio. As a consequence, this may result in the necessity to repay the liabilities resulting from these agreements, which would affect the parent's company's financial liquidity.

In response to the existing risks within the liquidity risk management process, the parent company forecasts future cash flows and monitors liquidity ratios. In addition, the parent company's Management Board renegotiates the terms of the agreements as well as considers alternative methods of external financing.

Risk of acquiring and managing human resources, including the risk of losing key employees

The factors influencing the parent company's operations are the work and skills of key personnel, including the management staff, as well as other teams and employees. The Management Boards of companies with Benefits Systems Group are of the opinion that the pace of Group's development also depends on its ability to employ and maintain highly qualified management staff and key employees. The loss of a significant number of such persons may have a negative impact on the operating activities of the parent company. The Group successfully obtains appropriate human resources, which is supported by its position as a valued employer and the atmosphere at work. The Group has adopted a strategy of additional motivation through an incentive programme for the management personnel and key employees.

The risk factors related to human resources include changes on the labour market related to the increase in financial expectations of employees, which may cause an increase in operating costs incurred by the parent company.

3.41. STATEMENT ON THE NON-FINANCIAL REPORT OF THE CAPITAL GROUP BENEFIT SYSTEMS

Benefit Systems Group has chosen the option of preparing a non-financial report for the year 2018 in the form of a separate report, according to art. 55 par. 2c Ustawa o Rachunkowości.

4. CONSOLIDATED FINANCIAL STATEMENTS OF BENEFIT SYSTEMS GROUP AS AT 31ST DECEMBER, 2018, AND FOR THE 12 MONTHS ENDED 31ST DECEMBER, 2018

4.1. SELECTED FINANCIAL DATA FOR BENEFIT SYSTEMS GROUP

Table 31: Selected financial data

	12 months of 2018 ('000s PLN)	12 months of 2017 ('000s PLN)	12 months of 2018 ('000s EUR)	12 months of 2017 ('000s EUR)
Sales revenues	1 219 571	964 786	285 821	227 292
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	197 917	155 529	46 384	36 641
Operating profit	153 555	121 411	35 987	28 603
Profit before tax	157 422	116 291	36 894	27 397
Net profit	116 190	86 708	27 231	20 427
Net profit attributable to shareholders of the parent company	114 645	88 103	26 868	20 756
Net cash from operating activities	139 989	139 161	32 808	32 785
Net cash from investment activities	(263 000)	(161 847)	(61 637)	(38 129)
Net cash from financial activities	146 372	9 949	34 304	2 344
Net change in cash and cash equivalents	23 361	(12 737)	5 475	(3 001)
Weighted average number of ordinary shares	2 785 746	2 620 245	2 785 746	2 620 245
Diluted weighted average number of ordinary shares	2 811 396	2 632 894	2 811 396	2 632 894
Earnings per ordinary share attributable to shareholders of the parent company (in PLN/EUR)	41.71	33.09	9.77	7.80
Diluted earnings per ordinary share attributable to shareholders of the parent company (in PLN/EUR)	41.33	32.93	9.69	7.76

	31st December 2018 ('000s PLN)	31st December 2017 ('000s PLN)	31st December 2018 ('000s EUR)	31st December 2017 ('000s EUR)
Non-current assets	791 668	517 998	184 109	124 193
Current assets	296 997	236 115	69 069	56 610
Total assets	1 088 665	754 113	253 178	180 803
Non-current liabilities	148 454	193 791	34 524	46 463
Current liabilities	373 242	340 445	86 800	81 624
Equity	566 969	219 877	131 853	52 717
Equity attributable to shareholders of the parent company	564 727	202 033	131 332	48 439
Share capital	2 859	2 675	665	641
Number of ordinary shares	2 858 842	2 674 842	2 858 842	2 674 842
Book value per share attributable to shareholders of the parent company (in PLN/EUR per share)	197.54	75.53	45.94	18.11

In the periods covered by the financial statements, the following average exchange rates for the zloty against the Euro, established by the National Bank of Poland, were adopted for the conversion of selected financial data:

- the rate applicable on the last day of the reporting period:

31/12/2018: 4.3000 PLN/EUR

31/12/2017: 4.1709 PLN/EUR,

- the average exchange rate in the period, calculated as the arithmetic average of the rates prevailing on the last day of each month in the period:

01/01 - 31/12/2018: 4.2669 PLN/EUR

01/01 - 31/12/2017: 4.2447 PLN/EUR,

The highest rate applicable in each period was as follows:

01/01 - 31/12/2018: 4.3616 PLN/EUR

01/01 - 31/12/2017: 4.3308 PLN/EUR.

The lowest rate applicable in each period was as follows:

01/01 - 31/12/2018: 4.1488 PLN/EUR

01/01 - 31/12/2017: 4.1709 PLN/EUR.

4.2. CONSOLIDATED INCOME STATEMENT

Table 32: Consolidated income statement

In thousands of PLN	12 months of 2018	12 months of 2017
Sales revenues	**1 219 571**	**964 786**
Revenues from rendering services	1 209 362	959 359
Revenues from sales of goods and materials	10 209	5 427
Costs of sales	**(881 553)**	**(699 127)**
Cost of services rendered	(875 470)	(695 509)
Cost of goods and materials sold	(6 083)	(3 618)
Gross profit on sales	**338 018**	**265 659**
Selling expenses	(84 625)	(57 747)
General and administrative expenses	(120 490)	(87 944)
Other operating income	6 610	9 085
Other operating costs	(7 562)	(7 443)
Re-measurement to fair value of existing holdings	21 604	0
Loss on sales of subsidiaries	0	(199)
Operating profit	**153 555**	**121 411**
Financial income, of which	21 663	3 915
Dividends	*277*	*112*
Interest income	*3 987*	*1 611*
Financial expenses	(13 781)	(12 101)
Write-downs of financial assets	*(964)*	*(1 836)*
Share of profits (loss) of associates accounted for using the equity method (+/-)	(4 015)	3 066
Profit before tax	**157 422**	**116 291**
Income tax	(41 232)	(29 583)
Net profit from continuing operations	**116 190**	**86 708**
Net profit	**116 190**	**86 708**
Net profit attributable to:		
- shareholders of the parent company	114 645	88 103
- non-controlling interests	1 545	(1 395)

Table 33: Earnings per ordinary share (PLN)

	12 months of 2018	12 months of 2017
from continuing operations		
- basic	41.73	33.09
- diluted	41.33	32.93
from continuing and discontinued operations		
- basic	41.73	33.09
- diluted	41.33	32.93

Table 34: Statement of other comprehensive income

In thousands of PLN	12 months of 2018	12 months of 2017
Net profit	**116 190**	**86 708**
Financial assets available for sale:		
- gains (losses) for the period in other comprehensive income	0	0
Income tax relating to components reclassified to profit and loss	0	0
Other comprehensive income after tax	0	0
Currency translation on foreign operations	(1 008)	489
Total comprehensive income	**115 182**	**87 197**
Total comprehensive income attributable to:		
- shareholders of the parent company	113 637	88 592
- non-controlling interests	1 545	(1 395)

4.3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Table 35: Assets

In thousands of PLN	31st December 2018	31st December 2017
Non-current assets		
Goodwill	348 547	191 558
Intangible assets	52 189	26 976
Property, plant and equipment	270 755	196 866
Investments in associates	14 149	36 624
Receivables	5 335	4 535
Loans	88 932	51 631
Other long-term financial assets	97	619
Long-term prepayments	947	1 458
Deferred tax assets	10 717	7 731
Non-current assets	**791 668**	**517 998**
Current assets		
Inventories	5 798	7 823
Trade receivables and other receivables	172 179	131 248
Income tax receivable	1 428	352
Loans	25 024	23 424
Other short-term financial assets	9 276	187
Accruals	16 633	20 623
Cash and cash equivalents	75 819	52 458
Fixed assets classified as held for sale	0	0
Current assets	**296 997**	**236 115**
Total assets	**1 088 665**	**754 113**

Table 36: Liabilities

In thousands of PLN	31st December 2018	31st December 2017
Equity		
Equity attributable to shareholders of the parent company		
Share capital	2 859	2 675
Own shares	(61 157)	(100 094)
Share premium	272 107	60 586
Exchange differences from consolidation	(617)	339
Reserve capital	(31 194)	(50 951)
Other capital	332 655	216 018
Retained earnings:	50 074	73 460
- accumulated earnings for the previous reporting periods	(64 571)	(14 643)
- net profit attributable to shareholders of the parent company	114 645	88 103
Equity attributable to shareholders of the parent company	564 727	202 033
Non-controlling interests	2 242	17 844
Equity	**566 969**	**219 877**
Non-current liabilities		
Interest-bearing loans, borrowings and debt instruments	79 393	122 036
Finance leases	9 327	15 571
Other liabilities	31 850	44 925
Deferred income tax liabilities:	1 109	1 471
Long-term prepayments	26 775	9 788
Total non-current liabilities	**148 454**	**193 791**
Current liabilities		
Trade payables and other liabilities	145 148	130 556
Income tax payable	24 586	21 890
Interest-bearing loans, borrowings and debt instruments	94 704	70 594
Finance leases	7 398	8 711
Liabilities and provisions for employee benefits	25 942	18 604
Other short-term provisions:	800	3 070
Accruals	72 664	87 020
Total current liabilities	**373 242**	**340 445**
Total liabilities	**521 696**	**534 236**
Total equity and liabilities	**1 088 665**	**754 113**

4.4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Table 37: Consolidated statement of changes in equity

In thousands of PLN	Share capital	Own shares	Share premium	FX differences from consolidation	Reserve capital	Other capital	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 01 January 2018	**2 675**	**(100 094)**	**60 586**	**339**	**(50 951)**	**216 018**	**73 460**	**202 033**	**17 844**	**219 877**
Correction due to the application of IFRS 9 (including tax)	**2 675**	**(100 094)**	**60 586**	**339**	**(50 951)**	**216 018**	**76 753**	**205 326**	**17 844**	**223 170**
Changes in equity in the period from 01 January to 31 December 2018										
Issue of shares	184	0	185 983	0	0	0	0	**186 167**	0	186 167
Costs of the Incentive Programme (share-based)	0	0	0	0	0	16 433	0	**16 433**	0	16 433
Change in the structure of the Group (transactions with non-controlling interests)	0	0	0	0	35 757	0	(35 936)	**(179)**	(16 568)	(16 747)
Payment with shares	0	8 042	3 933	0	0	0	0	**11 975**	0	11 975
Realised options	0	0	0	0	4 630	0	(5 184)	**(554)**	(305)	(859)
Valuation of PUT option for non-controlling shares	0	0	0	0	(20 630)	0	0	**(20 630)**	0	(20 630)
Share buyback	0	(51 000)	0	0	(51 000)	51 000	0	**(51 000)**	0	(51 000)
Sale of treasury shares	0	81 895	21 605	0	0	0	0	**103 500**	0	103 500
Dividends	0	0	0	0	0	0	0	**0**	(222)	(222)
Transfer of supplementary capital to reserve capital	0	0	0	0	51 000	(51 000)	0	**0**	0	0
Transfer of net profit to capital	0	0	0	0	0	100 204	(100 204)	**0**	0	0
Total transactions with owners	**184**	**38 937**	**211 521**	**0**	**19 757**	**116 637**	**(141 324)**	**245 712**	**(17 095)**	**228 617**

Net profit (loss) for the financials year of 2018	0	0	0	0	0	0	114 645	**114 645**	1 545	116 190
Currency translation on foreign operations	0	0	0	(956)	0	0	0	**(956)**	(52)	(1 008)
Total comprehensive income	**0**	**0**	**0**	**(956)**	**0**	**0**	**114 645**	**113 689**	**1 496**	**115 182**
As at 31 December 2018	**2 859**	**(61 157)**	**272 107**	**(617)**	**(31 194)**	**332 655**	**50 074**	**564 727**	**2 242**	**566 969**

Table 38: Consolidated statement of changes in equity cont.

In thousands of PLN	Share capital	Own shares	Share premium	FX differences from consolidation	Reserve capital	Other capital	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 01 January 2017	**2 600**	**(57 594)**	**51 444**	**(131)**	**(50 951)**	**131 347**	**83 718**	**160 433**	**17 251**	**177 684**
Changes in equity in the period from 01 January to 31 December 2017										
Issue of shares	75	0	0	0	0	11 243	0	**11 318**	0	11 318
Share buyback	0	(42 500)	0	0	(42 500)	42 500	0	**(42 500)**	0	(42 500)
Valuation of options (share-based payment programme)	0	0	9 142	0	0	0	0	**9 142**	0	9 142
Change in the structure of the Group (transactions with non-controlling interests)	0	0	0	0	0	0	(24 577)	**(24 577)**	2 276	(22 301)
Transfer of supplementary capital to reserve capital	0	0	0	0	42 500	(42 500)	0	**0**	0	0
Dividends	0	0	0	0	0	0	(356)	**(356)**	(307)	(663)
Transfer of net profit to capital	0	0	0	0	0	73 428	(73 428)	**0**	0	0
Total transactions with owners	**75**	**(42 500)**	**9 142**	**0**	**0**	**84 671**	**(98 361)**	**(46 503)**	**1 969**	**(45 004)**
Net profit (loss) for the financials year of 2017	0	0	0	0	0	0	88 103	**88 103**	(1 395)	86 708
Exchange differences from consolidation	0	0	0	470	0	0	0	**470**	19	489
Total comprehensive income	**0**	**0**	**0**	**470**	**0**	**0**	**88 103**	**88 573**	**(1 376)**	**87 197**
As at 31 December 2017	**2 675**	**(100 094)**	**60 586**	**339**	**(50 951)**	**216 018**	**73 460**	**202 033**	**17 844**	**219 877**

4.5. CONSOLIDATED STATEMENT OF CASH FLOWS

Table 39: Consolidated statement of cash flows

In thousands of PLN	12 months of 2018	12 months of 2017
Cash flows from operating activities		
Profit before tax	**157 422**	**116 291**
Total adjustments	56 045	41 633
Changes in working capital	(28 258)	4 904
Income tax paid	(45 220)	(23 667)
Net cash from operating activities	**139 989**	**139 161**
Cash flows from investment activities		
Expenditures on the acquisition of intangible assets	(15 374)	(42 570)
Proceeds from the sale of intangible assets	0	6
Expenditures on the acquisition of property, plant and equipment	(75 092)	(69 150)
Proceeds from the sale of property, plant, equipment	1 512	479
Net expenses on the acquisition of subsidiaries	(132 918)	(31 688)
Loans collected	8 313	5 084
Loans granted	(52 606)	(19 632)
Expenditure on the acquisition of other financial assets	0	(5 928)
Proceeds from the sale of other financial assets	0	545
Interest received	2 888	896
Dividends received	277	111
Net cash from investment activities	**(263 000)**	**(161 847)**
Cash flows from financing activities		
Net proceeds from the issue of shares	289 667	11 318
Purchase of own shares	(51 000)	(42 500)
Transactions with non-controlling entities	(58 603)	0
Proceeds from the issue of debt securities	(50 000)	0
Proceeds from loans and borrowings	50 418	67 866
Repayment of borrowings	(17 452)	(10 709)
Lease payments	(8 550)	(9 739)
Interest paid	(7 886)	(5 624)
Dividends paid	(222)	(663)
Net cash from financial activities	**146 372**	**9 949**
Net change in cash and cash equivalents	**23 361**	**(12 737)**
Cash and cash equivalents at beginning of period	52 458	65 195
Cash and cash equivalents at end of period	**75 819**	**52 458**

APPROVAL FOR PUBLICATION

The consolidated annual report of Benefit Systems Group prepared for the 12 month period ending 31st December, 2018 (with comparative data) was approved for publication by the parent company's Management Board on 3rd April, 2019.

Date	Forename and surname	Signature
3rd April, 2019	Wojciech Szwarc Member of the Management Board	
3rd April, 2019	Adam Radzki Member of the Management Board	
3rd April, 2019	Emilia Rogalewicz Member of the Management Board	
3rd April, 2019	Izabela Walczewska-Schneyder Member of the Management Board	

STATEMENT ON THE APPLICATION OF CORPORATE GOVERNANCE AT BENEFIT SYSTEMS S.A. IN 2018 - AN APPENDIX TO THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF BENEFIT SYSTEMS S.A. GROUP FOR 2018

1. *Specification of the collection of the corporate governance principles that are applicable to the company and information about the place where the text of the collection of principles is publicly available.*

The Management Board of Benefit Systems S.A. hereby represents that in 2018, the Company used every endeavour to comply with the corporate governance principles, which are provided in the Code of Best Practice for WSE Listed Companies 2016 (Exhibit to Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange (WSE) of 13 October, 2015.

The text of the Code of Best Practice for WSE Listed Companies 2016 that was applicable to the Company in 2018 is available at website: *https://www.gpw.pl/pub/GPW/o-nas/DPSN2016_EN.pdf*

2. *Information on the status of the company's compliance with the recommendations and principles complied in the "Code of Best Practice for WSE Listed Companies 2016".*

In 2018, the Company was applying the recommendations and specific principles comprised in the Code of Best Practice for WSE Listed Companies 2016, with the following exceptions:

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.

and

IV.Z.2. If it is justified in light of the ownership structure of the Company, the Company provides a generally available broadcast of the general meeting sessions in the real time.

Given the relative concentration of the ownership structure of the Company, a significant share of Polish entities therein, and given the fact that no Shareholder has notified the Company of any expectations that the general meeting sessions should be held using means of remote communications, the Company neither broadcasts the general meeting sessions in the real time nor provides for a two-way communication with the shareholders.

The Management Board of the Company enables Shareholders or their proxies to exercise the right to vote in the course of the general meeting in person or through a proxy, however, without an option to use means of electronic communication to this end. Shareholders regularly avail themselves of the option of exercising the voting right through a proxy in a general meeting.

In the opinion of the Management Board of the Company, the existing principles of holding and participating in the general meetings guarantee that the Shareholders may exercise the rights from shares and protect their interests.

The Management Board of the Company publishes resolutions adopted by the General Meeting in the form of current reports which are available at the Company's website and provides access to the minutes of the general meetings at the registered seat of the Company. In the opinion of the Management Board, that form of documenting the course of the general meeting sessions ensures their transparency.

Since the company does not broadcast the sessions of the General Meeting, principle I.Z.1.16. (The Company runs its corporate website, where (...) information about planned broadcast(s) of the sessions of the general meeting shall be placed no later than within seven (7) days before the date of the general meeting), is not applicable).

I.Z.1.20. Recording the course of the general meeting in the audio or video format.

The principle was not applied in 2018.

VI.Z.2. With a view to aligning the remuneration of the members of the Management Board and the key managers with the long-term business and financial objectives of the Company, the time interval between the granting of an option as part of the Incentive Programme or other instrument(s) linked with the Company's shares and the possibility of exercising such option or instrument should be not shorter than two (2) years.

The principle has not been applied. The Incentive Programme for years 2017 - 2020 as adopted by the General Shareholders Meeting on 15 June, 2016, which is applicable to the Company, provides that the time interval between the granting of the subscription warrant(s) to the eligible individuals as part of the Incentive Programme and the moment when such individuals may take up and/or transfer the stocks in the Company shall not be shorter than eight (8) months. As far as the part of the incentive programme applicable to profits for years 2017 and 2018 is concerned, the time interval between the moment warrants are granted and the moment when related stocks may be transferred shall be 20 months, and 14 months, respectively.

A document presenting information regarding application of Best Practices for the WSE Listed Companies 2016 at the Company in more detail can be found at the Company's website.

3. *Description of the main features of internal control and risk management systems applied in the company in relation to the process of preparing financial statements and consolidated financial statements.*

Within its structures the Company distinguishes units supporting the implementation of tasks related to internal control, risk management and supervision of compliance with the law, as well as the internal audit function. The Management Board is responsible for implementing and maintaining an effective internal control system and the aforementioned functions.

The internal audit team is a part of the Finance and Accounting Department and administratively reports to the member of the Management Board responsible for financial affairs.

The key functions of the Finance and Accounting Department in the area of internal control are:

1) Identification and assessment of risks for particular processes in the Company, including the financial reporting process,

2) Cooperation in designing effective control mechanisms for the Company's processes,

3) Monitoring the risk management process,

4) Preparation of recommendations for improvement of control mechanisms,

5) Preparation of information for management purposes,

6) Cooperation with the internal and external auditor.

As part of their advisory role, the internal audit function and the compliance officer coordinate the preparation of resolutions, procedures and instructions regarding the Company's operating activities in order to design an effective internal control system.

In the process of preparing financial statements, data from the financial and accounting system of Microsoft Dynamics AX 2012 are used (up until 31 October 2018 the Company used financial and accounting system Symfonia). Preparation of data in source systems is subject to formalized operational and acceptance procedures.

The financial statements are prepared by the Finance and Accounting Department, which is an organizationally separate unit reporting directly to the Member of the Management Board responsible for Financial Affairs. The preparation of the financial statements is subject to substantive and organizational supervision by the Chief Financial Officer. The prepared financial statements are then submitted to other members of the Management Board for verification. The annual and semi-annual financial statements of the Company are subject to an independent audit and to review by a certified auditor, respectively.

The Company monitors the changes in the rules and regulations concerning the financial reporting and updates the accounting principles on an ongoing basis. The Company performs control functions in relation to subsidiaries which are consolidated for the purposes of preparing the Group's financial statements, inter alia, through the agency of financial controllers and its representatives on the Supervisory Boards of those companies.

4. *Shareholders holding, directly or indirectly, significant blocks of shares with an indication of the number of shares held by such entities, their percentage share in equity, the number of votes and their percentage share in the total number of votes at General Meeting of Shareholders.*

	As at the date of submitting the report for 2018			As at the date of submitting the report for the 3 quarters of 2018			
Shareholder	Number of shares	Share in equity	Share in the total no. of votes at GM	Number of shares	Share in equity	Share in the total no. of votes at GM	Change
James Van Bergh	565 432	19.78%	19.78%	575 432	20.13%	20.13%	(10 000)
Benefit Invest Ltd.	316 634	11.08%	11.08%	316 634	11.08%	11.08%	-
Marek Kamola	254 000	8.88%	8.88%	254 000	8.88%	8.88%	-
Fundacja Benefit Systems	245 372	8.58%	8.58%	245 372	8.58%	8.58%	-
MetLife OFE	226 468	7.92%	7.92%	226 468	7.92%	7.92%	-
Nationale-Nederlanden OFE	150 000	5.25%	5.25%	150 000	5.25%	5.25%	-
Invesco Ltd.	147 496	5.16%	5.16%	147 496	5.16%	5.16%	-
Others	953 440	33.35%	33.35%	943 440	33.00%	33.00%	10 000

including Benefit Systems S.A. (own shares)	*54 811*	*1.92%*	*1.92%*	*54 811*	*1.92%*	*1.92%*	-
TOTAL	2 858 842	100.00	100.00%	2 858 842	100.00%	100.00%	-

The Company's share capital amounts to 2,858,842 PLN. Number of shares in the share capital: 2,858,842 shares, including 2,204,842 shares of series A, 200,000 shares of series B, 150,000 shares of series C, 120,000 shares of series D and 184,000 shares of series F. The shares of all series have a nominal value of 1 PLN each. The total number of votes resulting from all the shares issued amounts to 2,858,842 wherein as at the date of publishing this report the Company held 54,811 of its own shares, for which it cannot exercise voting rights. Therefore, the share in the share capital of Benefit Systems S.A. of individual shareholders is not equal to their participation in the total number of votes at the General Meeting of Shareholders.

5. *The holders of any securities with special control rights, including a description of such rights.*

The Company is not aware of any holders of securities with special rights. The Company's Articles of Associations do not grant any holders of the Company's shares or other securities any special rights.

6. *Limitations on voting rights, such as limitations on voting rights by holders of a specific part or number of votes, time limitations on voting rights or provisions according to which, with the cooperation of the company, capital rights related to securities are separated from holding securities.*

The Company's Articles of Association do not provide for any restrictions with respect to the exercise of voting rights. Voting rights are not exercised from the Company's own shares.

7. *An indication of any limitations concerning transfer of ownership rights to the Company's securities.*

In 2018, there were restrictions on the transfer of ownership to the Company's securities related to the series E shares which could have been subscribed for in exchange for the series G warrants. Restrictions concerned the lock-up of the sale of these shares until 1st September, 2019. However, none of the persons entitled to subscribe to series E shares in exchange for series G warrants subscribed for the shares at the first possible date, i.e. in the period from 1st September, 2018, to 30th September, 2018.

8. *Description of the principles concerning the appointment or dismissal of management personnel and their rights, in particular the right to make decisions on the issue or redemption of shares.*

Members of the Company's Management Board are appointed for a joint five-year term of office and dismissed on the basis of a resolution of the Company's Supervisory Board. The Supervisory Board adopts resolutions by a 3/5 majority of votes in the presence of at least half of the members of the Supervisory Board. In the event of a tied votes, the Chairman of the Supervisory Board shall have the casting vote. Resolutions of the Supervisory Board shall be valid only if all members of the Supervisory Board have been invited to the meeting.

Members of the Management Board may be appointed for further terms of office.

The Company's Management Board manages the Company's operations and assets, and represents the Company externally before courts, state authorities and third parties.

The Management Board is authorized to conduct the Company's affairs within the scope set forth in the Company's Articles of Association and not reserved to the competence of other Company bodies on the basis of the Company's Articles of Association and the provisions of generally applicable law.

The right to make statements on behalf of the Company, in the case of one-man Management Board, is held by the member of the Management Board acting independently, or in the case of a Management Board comprised of more than one member, by two members of the Management Board acting jointly or a member of the Management Board acting jointly with a proxy. Resolutions of the Management Board are adopted by an absolute majority of votes.

Pursuant to the Company's Shareholder Profit Distribution Policy for the Years 2016-2019, under Resolution No. 21/12.06.2015 of the Company's Annual General Meeting of Shareholders dated 12th June, 2015, Resolution No 22/15.06.2016 and 24/15.06.2016 of the Annual General Meeting of the Company of 15th June, 2016, Resolution No 23/20.06.2017 of the Annual General Meeting of the Company of 20th June, 2017, and Resolution No nr 30/12.06.2018 of the Annual General Meeting of the Company of 12th June 2018, adopted pursuant to and in accordance with Article 362, § 1, point 8 of the Code for Commercial Companies, the Company's Management Board was authorized to acquire the Company's own shares.

Except for the cases indicated above, the Company's Articles of Association does not contain any provisions granting additional rights to the management personnel, including the right to make decisions on the issue or redemption of shares.

9. *A description of the rules for amending the Company's Articles of Association.*

Any amendment to the Company's Articles of Association falls within the competence of the General Meeting of Shareholders and requires the adoption of a resolution by the General Meeting of the Company by an absolute majority of votes, while observing the specific requirements set forth in the provisions of generally applicable law.

Pursuant to the provisions of the Code for Commercial Companies, in the event of an intended amendment to the Articles of Association, the announcement of convening the General Meeting, which is published on the Company's website, and in accordance with the rules of providing current and periodic information, includes the hitherto binding provisions and the content of the proposed amendments.

After the General Meeting adopts a resolution on amendments to the Company's Articles of Association, the Management Board of the Company shall report this fact to the court of registration. An amendment to the Articles of Association shall be effective upon its registration by the court.

Then, the Supervisory Board shall determine the consolidated text of the Articles of Association taking into account the amendments introduced, provided that the General Meeting grants the Supervisory Board the appropriate authorization in this respect.

10. *The mode of procedure of the general meeting and its core powers, and description of the rights vested in shareholders and the method of their exercise, including in particular the principles arising from the By-laws of the General Meeting.*

General Meeting holds its sessions in line with the principles as set forth in the Code of Commercial Companies, the Articles of Association of the Company and the By-laws of the General Meeting of Benefit Systems S.A. The Articles of Association of the Company and the By-laws of the General Meeting are publicly available and accessible from the website of the Company.

Convening General Meeting of the Company.

The key principles applicable to the convening of the General Meeting include the following:

1. A General Meeting may be convened as ordinary or extraordinary. Ordinary General Meeting is held within six (6) months after the lapse of each financial year.

2. General Meetings are held at the registered seat of the Company.

3. General Shareholders Meeting is convened by the Management Board of the Company, or, under specific circumstances, by the Supervisory Board of the Company, or by the Management Board acting upon request of the Supervisory Board, or upon request from any member of the Management Board. Shareholder(s) representing at least one half (1/2) of the share capital or at least one half (1/2) of the total number of votes in the Company may convene extraordinary general meetings. Shareholder(s) representing at least one twentieth (1/20) part of the share capital may request that extraordinary general meeting is convened and that specific matters are included in the agenda of such meeting.

4. Information on the convening of the General Meeting (specifying the venue, date and time of the meeting) is announced in the form of a current report and placed on the Company's website.

5. Draft resolutions proposed to be adopted by the General Meeting and other important materials should be presented to shareholders along with statement of grounds and an opinion of the Supervisory Board, provided that the Supervisory Board considers it reasonable to issue the opinion, within a time limit sufficient for the shareholders to read and evaluate the above documents, bearing in mind the provisions of the Code of Commercial Companies.

Core powers of the General Meeting.

The powers of the General Meeting of the Company follow from the Code of Commercial Companies, the By-laws of the General Meeting and the Articles of Association of the Company and include in particular:

1. Approval of the annual reports of the Management Board and the financial statements.

2. Adoption of resolution on distribution of profit or the covering of loss.

3. Discharging members of the Company's governing bodies from liability for the performance of their duties.

4. Disposal and lease of the Company's enterprise or an organised part thereof and establishing a limited tangible right thereon.

5. Acquisition or transfer of real property, right of perpetual usufruct or a stake in a property.

6. Issuance of convertible bonds or bonds with priority rights and issuance of subscription warrants; acquisition of treasury shares in the instances as provided in the Code of Commercial Companies.

7. Setting the date as at which the list of shareholders entitled to dividend for specific financial year is established.

8. Amendments to the Articles of Association of the Company, share capital increase or decrease.

9. Appointment of members to the Supervisory Board.

10. Establishing the remuneration of the Supervisory Board.

11. Merger, transformation, dissolution or liquidation of the Company.

12. Considering matters submitted by the Supervisory or the Management Board or by shareholder(s).

Principles for participation in General Meeting.

Substantive principles for participation in General Meeting include:

1. A shareholder who is a natural person may participate in the General Meeting and exercise the voting right in person or by a proxy.

2. A shareholder who is not a natural person may participate in the General Meeting and exercise the voting right by a person authorised to represent the shareholder or by a proxy.

3. The power of attorney should be prepared in writing on pain of invalidity or granted via e-mail.

4. A shareholder may vote differently for each share held.

5. Members of the Management and the Supervisory Boards should participate in the General Meeting in a panel allowing them to provide a substantive answer to question(s) asked during the General Meeting. Experts and other individuals invited by the body convening the General Meeting may participate in the General Meeting.

Principles for the voting at General Meeting.

1. In principle, the General Meeting adopts their decisions in open ballots.

2. As an exception to the above, secret ballot is ordered for elections and voting on motions to recall members of the Company's governing bodies or liquidators, for holding them to account as well as on issues concerning the personal matters.

3. Resolutions concerning a material change to the Company's business profile are adopted in an open ballot by roll-call and should be announced.

4. Resolutions of the General Meeting are adopted with an absolute majority of votes, unless the Articles of Association or the Code of Commercial Companies provide otherwise. Resolutions concerning: (i) removal of an item that has already been included in the agenda from the debates; (ii) liability of a Shareholder vis-á-vis the Company for whatever reason; require an absolute majority of three fourths (3/4) of votes cast, with the shareholders representing at least 50% of the share capital of the Company being present.

5. Resolutions of the General Meeting are included in minutes that are drawn up by a notary on pain of invalidity.

6. Within one (1) week of the closing of a General Meeting, the Company places the results of voting on its website. The results of voting should be made available starting from the date of elapse of the deadline to appeal against a resolution of the General Meeting.

7. One (1) share entitles to one (1) vote at the General Meeting of the Company. The Company has not issued any shares preferred as to the voting rights. In accordance with the Code of Commercial Companies, the Company does not exercise any voting right from the treasury shares.

11. *Composition and changes in composition during the last financial year and a description of the activities of the management, supervisory or administrative bodies of the company and their committees.*

As at 31st December, 2018, the Company's Management Board was comprised of the following members:

1) Izabela Walczewska-Schneyder – Member of the Management Board,
2) Emila Rogalewicz – Member of the Management Board,
3) Adam Radzki – Member of the Management Board,
4) Wojciech Szwarc – Member of the Management Board.

The Company's Management Board operates on the basis of By-Laws of the Management Board, the Company's Articles of Association and generally applicable legal regulations.

As at 31st December, 2018, the Company's Supervisory Board was comprised of the following members:

1) James Van Bergh – Chairman of the Supervisory Board,
2) Marcin Marczuk – Deputy Chairman of the Supervisory Board,
3) Michael Rohde Pedersen – Member of the Supervisory Board,
4) Artur Osuchowski – Member of the Supervisory Board,
5) Michael Sanderson – Member of the Supervisory Board.

The Company's Supervisory Board operates on the basis of By-Laws of the Supervisory Board, the Company's Articles of Association and generally applicable legal regulations. The following Members of the Supervisory Board meet the independence criteria: Marcin Marczuk, Michael Rohde Pedersen and Artur Osuchowski.

On 12th June, 2018, in connection with the expiry of the current term of office of the Company's Supervisory Board members, the AGM of the Company appointed the above-mentioned persons to the Supervisory Board of the Company for a joint five-year term, which will expire on the day of the AGM approving the financial statements for 2022.

In 2018, the Company's governing bodies were subject to the following changes:

1) <u>in the composition of the Management Board, consisting of:</u>

   a) the appointment on 23th July, 2018 Wojciech Szwarc as Member of the Management Board,

   b) the resignation on 20th November, 2018 of Grzegorz Haftarczyk from his position as Member of the Management Board,

   c) the resignation on 20th November, 2018 of Arkadiusz Hanszke from his position as Member of the Management Board.

2) <u>in the composition of the Supervisory Board, consisting of:</u>

   a) the end of the term of office of the Member of the Supervisory Board Zofia Dzik as of 12th June, 2018. AGM did not appoint Ms. Dzik for the next term of office of the Supervisory Board,

   b) the appointment on 12th June, 2018 Michael Rohde Pedersen as Member of the Supervisory Board.

In 2018, the Supervisory Board performed the functions of the Remuneration Committee.

As of 31th December, 2018, the Audit Committee consisted of:

1) Marcin Marczuk - Chairman of the Audit Committee,
2) James Van Bergh - Member of the Audit Committee,
3) Artur Osuchowski - Member of the Audit Committee.

There were no changes in the composition of the Audit Committee in 2018.

The independence criteria is met by the following members of the Audit Committee: Marcin Marczuk and Artur Osuchowski.

Artur Osuchowski is a person with knowledge and skills in accounting or auditing among the members of the Audit Committee. Mr Osuchowski gaines knowledge in that area during his professional practice in Ciech S.A., KPMG Advisory, Ernst & Young and Raiffeisen Bank Polska.

James Van Bergh is a person with knowledge and skills in the sector in which the Company operates among the members of the Audit Committee. Knowledge and sills of Mr Van Bergh in the sector in which the Company operates are related to his broad experience as a founder, long-term CEO and, since 2013, Chairman of the Supervisory Board of Benefit Systems S.A.

In 2018 the Audit Committee held 5 meetings.

The main assumptions of the policy of selecting an audit firm:

- the audit company is selected by the Supervisory Board based on the recommendation of the Audit Committee;
- the Supervisory Board when selecting the audit firm, and the Audit Committee when preparing the recommendation, follow (among other things) the following key guidelines:
  - impartiality of the firm
  - experience in auditing WSE-listed companies and companies with a similar business profile
  - the ability to provide the full range of services required by the company as part of the audit
  - professional qualifications and experience of persons directly involved in the audit
  - price and date
  - the maximum duration of continuous audit orders may not exceed 5 years

The main assumptions underlying the policy of providing the permitted services by the statutory auditor:

- a statutory auditor or an audit firm or any member of the network to which the statutory auditor or the audit firm belongs shall not provide to the audited entity any prohibited non-audit services (as specified in the Statutory Auditors Act of 11 May, 2017, and in Regulation of the European Parliament and of the Council (EU) No. 537/2014).

- provision of non-audit services is allowed:

- only within the scope unrelated to the tax policy of the company

- after the Audit Committee assessed the threats and safeguards of independence and granted their consent

- where necessary, the Audit Committee will also issue guidelines regarding the services.

The detailed scope of activity and mode of work of the Audit Committee are specified in the By-Laws of the Audit Committee of the Supervisory Board of Benefit Systems S.A.

12. *A description of the diversity policy applied to the issuer's administrative, management and supervisory bodies with respect to aspects such as, for example, age, gender or education and professional experience, the objectives of the diversity policy, how it has been implemented and its effect during the reporting period; if the issuer does not apply such a policy, is contained in a statement explaining such a decision.*

In 2018 the Company applied its "Diversity Policy of Benefit Systems" which was adopted by the Management Board in 2017. A description of its elements and the manner of its application is provided in the Company's Non-Financial Report and in the Group's Non-Financial Report for 2018.

Date	Forename and surname	Signature
3rd April, 2019	Wojciech Szwarc Member of the Management Board	
3rd April, 2019	Adam Radzki Member of the Management Board	
3rd April, 2019	Emilia Rogalewicz Member of the Management Board	
3rd April, 2019	Izabela Walczewska-Schneyder Member of the Management Board	