MANAGEMENT BOARD REPORT ON THE ACTIVITIES OF BENEFIT SYSTEMS GROUP

FOR THE PERIOD OF SIX MONTHS ENDED ON 30 JUNE 2019

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1. SELECTED FINANCIAL DATA FOR THE 1ST HALF OF 2019

Table 1: Selected financial data for Benefit Systems Group for the 1st half of 2019

In thousands of PLN	1H 2019	1H 2018 Restated*
Revenues	735 506	581 593
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	161 585	84 371
of which the impact of IFRS 16	63 813	-
Operating profit increased by depreciation and amortisation (EBITDA) excluding the Incentive Programme's costs	161 995	90 533
Earnings before interest, tax (EBIT)	69 779	64 592
of which the impact of IFRS 16	**5 045**	-
Profit before tax	70 918	62 402
of which the impact of IFRS 16	**(4 895)**	-
Net profit attributable to shareholders of the parent company	56 161	45 983
Net cash flows from operating activities	148 024	77 482
Net cash flows from investment activities	(74 227)	(168 695)
Net cash flows from financing activities	(82 885)	270 787
Net change in cash and cash equivalents	(9 088)	179 574
EPS (PLN)	19.64	16.96

** Data restated due to the presentation correction of the deferred-tax asset and reserve, as well as due to the correction of revenues in the Cafeterias segment (IFRS 15)*

In thousands of PLN	As of 30th June, 2019	As of 31st December, 2018
Non-current assets	1 733 663	791 668
of which the impact of IFRS 16	**841 719**	-
Current assets	261 544	296 997
Total assets	1 995 207	1 088 665
of which the impact of IFRS 16	**841 719**	-
Non-current liabilities	923 999	148 454
of which the impact of IFRS 16	**773 645**	-
Current liabilities	447 029	373 242
of which the impact of IFRS 16	**115 137**	-
Equity	624 179	566 969
Equity attributable to shareholders of the parent company	621 457	564 727
Share capital	2 859	2 859
Number of shares	2 858 842	2 858 842

Diluted number of shares	2 869 391	2 811 396
Book value per share (PLN)	217.38	197.54
Book value per share (diluted, PLN)	216.58	200.87

All data in the report (unless otherwise stated) covers the period January - June, 2019, and the comparative data presents the same period of 2018. All figures are presented in thousands PLN, unless stated otherwise.

DEVELOPMENT OF THE BENEFIT SYSTEMS CAPITAL GROUP AND ITS 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 is based on building and maintaining sustainable relations with Customers (business entities), Partners (sports and recreation facilities, fitness clubs, restaurants, catering facilities etc.) and Cardholders (holders of the MultiSport card).

Last year, responsible actions in favour of all stakeholders of the Group was affirmed by US non-governmental organisation B Lab who awarded its B Corp. certificate to Benefit Systems S.A. The Parent Company is the Central and Eastern Europe's first and, at the current time, Poland's only business entity with Polish background in the international community of the B-Corp enterprises which, in addition to generating profits, also contribute to solving social problems and act for the benefit of all stakeholders.

The MultiSport Programme, which has been sucessfully developed both in Poland and on foreign markets, is the flagship product of the Group, which is in particular confirmed by constantly growing number of sports cards.

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

The Benefit Systems Group operates in three (3) segments:

• Poland – the segment is responsible for the sales of sports cards and for the building of its own infrastructure by way of management and investments into fitness clubs on the Polish market. Sports cards allow access to a broad range of over 4400 sports and recreation facilities, a part of which belongs to the subsidiaries of the Group.

As of the end of the 1st half of 2019, the number of sports cards in Poland reached the level of 1 046.5, which represents growth in the number of cards by 13.8% as compared to the 1st half of 2018. As at the end of the analyzed period, companies in which the Group was a major shareholder operated 153 facilities across 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), which enables the Group to maintain a stable growth in the nuber of cards.

• Foreign - the segment is responsible for the sale of sports cards and for the building of its own infrastructure by way of managing and investing into fitness clubs on foreign markets.

As of the end of the 1st half of 2019, the number of sports cards offered by the Benefit Systems Group abroad reached the level of 285.7, which represents growth in the number of cards by 60.6% as compared to the 1st half of 2018. The Group holds shares in the local companies which own 23 fitness clubs in aggregate.

Year on year, the Group has been expanding its business to cover subsequent countries and thus MultiSport cards are already present in the Czech Republic, Slovakia, Bulgaria, Croatia, and from the 1st half of 2019 also in Greece. Analogously to the Polish market, the foreign investments into fitness infrastructure also support the development of the Group's flagship product.

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

In the 1st half of 2019, more than 400.5 thousand Users have been already registered in the Cafeterias segment, with the Sports category being most popular among them.

Market environment

In 2018, the value of the Polish market for non-payroll benefits grew by nearly 8%, i.e. up to ca. PLN 12 billion. The lowest-ever unemployment rate and demand on the labour market contribute to the growth of employers' expenditure. In accordance with the survey on the budgets for non-payroll benefits carried out by ARC Rynek i Opinia commissioned by Benefit Systems S.A., every third company increased their funds for incentives in 2018. On average, employers earmarked PLN 1,995.00 per employee on non-payroll benefits, which is more by PLN 80 than in 2017. As many as 87% of employees advantage from non-payroll benefits. According to experts, the market for non-payroll benefits will continue its growth also in its part related to employee health care. It follows from the "Well HR" report that in the forthcoming three years, 80% of employers intend to focus on the expanding of the offer of sports activities for their employees (Well HR, Source: 2017 Poland Benefits Trends Survey, Willis Towers Watson).

The changes in the sports-and-recreation non-payroll benefits are a result of both the macroeconomic factors and the growing employee awareness. Survey by ICAN Research & Diagnostic: "Employee Health 2018," shows that employees are highly aware of how important caring for their own health is. Most of them engage into active disease prevention by exercising outdoors, maintain healthy diet and undergo periodic medical check-ups. Currently, as many as 28% of them consider sports as an important component of disease prevention strategy.

In 2019, the level of physical activity of Poles (which means physical effort undertaken at least once a month, including recreation activities such as biking for transport or for ride) grew by 2 percentage points up to 64% (representing nearly 21 million people aged 15+) (Source: Multisport Index Report 2019). An increased awareness of the importance of healthy lifestyle is also manifested by a growing percentage of those engaging in physical activity five times a week (accounting for 19%) which grew by 3 percentage points year-on-year. Physically active Poles primarily include people who are young (as much as 80% of respondents aged 15 -24 declare that they are physically active), university graduates (78%) and live in big cities (64%). Nearly one half of physically active Poles (48%) exercise at least once a week. Gyms and swimming pools, visited by every fifth physically active Pole, are the most popular sports facilities. The holders of the MultiSport card, whose number amounted to 1,046.5 thousand across Poland as at the end of Q2 2019 (growth by 127 thousand annually), are strongly represented among Poles engaging in the athletic activities. Sports cards belong to Poland's most popular non-payroll benefits. In accordance with study: "Non-payroll benefits as seen by employees in 2019," as many as 49.4% employees are holders of gym and fitness club membership cards.

The attractiveness of the most important product of the Benefit Systems Group, i.e. sports cards, favourable trends on the labour market and the popularity of active and healthy lifestyle surging in Europe, as well as the dynamic development of the sports industry, all show that the Benefit Systems Group has the potential to continue its growth both in Poland and on the foreign markets in the years to come.

2. IMPORTANT INFORMATION ON THE BENEFIT SYSTEMS CAPITAL GROUP

2.1. GENERAL INFORMATION ON THE GROUP AND THE MEMBER COMPANIES OF THE GROUP

The Benefit Systems Group is comprised of Benefit Systems S.A. The Parent Company, which is responsible for the sale of sports cards in Poland, and entities operating on the market for non-payroll employee benefits and on the sports market. Currently, the customers of the Benefit Systems Group in the sports cards segment include over 16,5 thousand business entities and institutions.

Since April 2011, Benefit Systems S.A. has been quoted in the main list of the Warsaw Stock Exchange (WSE). The flagship product of the Benefit Systems Group: the MultiSport Programme, provides access to over 4 400 sports facilities in approx. 650 locations across Poland. The offer of the Group also includes other sports cards, like e.g. FitProfit, which are described in more detail further herein. The total number of users of merely the sports products offered by the Benefit Systems Group represents over 1 046.5 thousand people in Poland and 285.7 thousand users abroad. The MultiSport Programme is one of Poland's most popular non-payroll benefits that allows leading active, and, therefore, a more beneficial in the health terms lifestyle.

With a view to support the dynamic development of the flagship product in the years to come, the Benefit Systems Group has been investing into the fitness market thus providing an appropriate infrastructure for the holders of the MultiSport cards. In accordance with a survey carried out by the Benefit Systems Group, one half (50%) of the cards issued by the Group goes to rookie users. This means that fitness clubs and other sports facilities get several thousand new customers annually. Thanks to investing into companies operating fitness clubs, the Benefit Systems Group can guarantee the sports cards users well outfitted with state-of-the-art equipment sports clubs offering a wide range of professional services. A high level of integration between sports cards and the fitness operations in the Group has also translated into its structure; December, 2018, saw a formal incorporation of a self-balancing branch of Benefit Systems S.A. as a target to ultimately hold all the fitness clubs and concentrate all of the fitness operations. The concept of the MultiSport Programme supported by investments into the fitness sector is also exploited in the foreign business development. The Benefit Systems Group is already present on the Czech (since 2011), and also on the Slovakian and Bulgarian (since 2015) markets, as well as in Croatia and Greece (since 2018). The aggregate business development potential in the said countries (mainly in the capital cities) may even surmount the capacity of the Polish market.

The Benefit Systems Group also offers cafeteria-type platforms: MyBenefit and MultiKafeteria, which offer employees non-payroll benefits of their choice from a list pre-approved by the employer; from the point of view of the Group, the platforms are primarily distribution channels for the main product, i.e. sports cards. The cafeteria systems offer the Group's own products, such as cultural-entertainment programme: MultiBilet, which allows for seeing films of choice at one of several hundred cinemas across Poland; MultiTeatr, providing tickets to the most popular theatre spectacles; and BenefitLunch, offering catering for employees.

SUBSIDIARIES AND AFFILIATES

COMPANIES OF THE POLISH SEGMENT

Benefit Systems S.A. is responsible for sale of the MultiSport cards. Since 2011, Benefit Systems S.A. has been quoted in the main list of the Warsaw Stock Exchange (WSE).

Benefit Systems S.A. established its branch as a result of merging Fit Invest Sp. z o.o. into Benefit Systems S.A. and spinning it off into newly established self-balancing Fitness Branch. The Branch is an entity that manages the Group's investments into the fitness clubs operating on the Polish market. Together with the spun off branch, Benefit Systems S.A. holds shares in Fabryka Formy S.A., Fitness Academy BIS Sp. z o.o., Zdrofit Sp. z o.o., Fitness Place Sp. z o.o, FitFabric Sp. z o.o. and oraz Fitness Academy Sp. z o.o.

FitSport Polska Sp. z o.o. offers sports cards to small and medium enterprises and acts as a distributor of the products of Benefit Systems S.A.

VanityStyle Sp. z o.o. specialises in offering sports and recreation solutions. The company provides FitProfit and FitSport cards to big and medium enterprises; FitProfit and FitSport are similar to the products of Benefit Systems S.A.; meant to be less expensive, they have less business Partners and offer smaller range of services. Furthermore, in its offer the company also has product a named: Bilet CinemaProfit and Qltura Profit.

Fitness Academy BIS Sp. z o.o. (together with its subsidiaries) runs twenty (20) fitness clubs in Wrocław, Katowice, Kraków and Legnica. Fitness Academy Sp. z o.o. holds 100% of shares in AM Classic Sp. z o.o. and Jupiter Sport Sp. z o.o.

Fabryka Formy S.A. operates twenty-eight (28) fitness clubs in Poznań and in the neighbouring areas. During the first six months of 2019, Fabryka Formy S.A. merged by takeover Fitness za Rogiem Sp. z o.o.

Fitness Place Sp. z o.o. operates fifteen (15) fitness clubs under the brand name of My Fitness Place, which are predominantly located in the Małopolskie voivodship.

FitFabric Sp. z o.o. operates thirteen (13) fitness clubs, which are predominantly located in the Łódź voivodship. The Company has been consolidated using the full method since 31 October, 2018.

Zdrofit Sp. z o.o. runs seventy-seven (77) fitness clubs, fifty-nine (59) of which are situated in the Warsaw agglomeration, and the other ones are mainly located in the Pomorskie and Zachodniopomorskie voivodships and is the owner of Aquapark Wesolandia - a recreation complex that is situated in the Wesoła borough of Warsaw and comprises a set of pools, a fitness club and a tennis court.

In the first six months of 2019, Zdrofit Sp. z o.o. merged by takeover Wesolandia Sp. z o.o., M Group Sp. z o.o., Fitness Management Sp. z o.o., NewCo2 Sp. z o.o. Masovian Sports Center Sp. z o.o., and NewCo3 Sp. z o.o.

Benefit Partners Sp. z o.o. is a Benefit Systems' subsidiary (affiliate until 15 January, 2019), which has been providing fitness equipment to sports clubs owned by the companies of the Group on the basis of lease contracts.

COMPANIES OF THE FOREIGN SEGEMENT

Benefit Systems International Sp. z o.o. is a vehicle through which the Benefit Systems Group conducts the foreign activity. Benefit Systems International Sp. z o. o. is a majority shareholder in the following international companies: MultiSport Benefit S.R.O. (Czech Republic), Benefit Systems Slovakia S.R.O. (Slovakia), Benefit Systems Bulgaria EOOD (Bulgaria), Benefit Systems D.O.O. (Croatia) and Benefit Systems Greece MIKE (Greece), which, in turn, are responsible for sale of sports cards in the countries of their domicile.

Form Factory S.R.O. (formerly Fitness Place S.R.O) and Fit Invest Bulgaria EOOD are responsible for investments into fitness clubs abroad, in particular, for acquisition of the existing ones and the opening of new clubs, in the Czech Republic and in Bulgaria, respectively. Form Factory S.R.O. operates nine (9) fitness clubs and Fit Invest Bulgaria EOOD runs eight (8) clubs.

Beck Box Club Praha S.R.O. operates six (6) fitness clubs in Prague, the Czech Republic.

Fit Invest International Sp. z o.o. manages Benefit Systems Group's investments into the Foreign segment.

Fit Invest Slovakia S.R.O. was registered on 4 June 2019, with the aim of managing fitness clubs in Slovakia. Due to its minor importance, the company was not consolidated in the period under review.

COMPANIES OF THE CAFETERIAS SEGMENT

MyBenefit Sp. z o.o. deals with development and sales (through a special cafeteria platform) of products that business entities may use as incentives and bonuses for their employees. Currently, the company's portfolio includes a bespoke cafeteria system that offers in particular: chain store gift cards, a cinema programme, touristic vouchers and a leisure activities subsidizing system.

The activity conducted by MultiBenefit Sp. z o.o. in the scope of non-payroll benefits includes running the MultiKafeteria platform as well as the MultiBilet, MultiTeatr, MultiMuzeum and BenefitLunch programmes.

OTHER COMPANIES

The business objective of Benefit IP Spółka z ograniczoną odpowiedzialnością sp.k. consists in the management of the marketing activities of the Benefit Systems Group within the framework of a centralised model and management (i.e. granting licenses to use trademarks) of all trademarks and industrial property rights belonging to the member companies of the Benefit Systems Group. Benefit IP Sp. z o.o. is the general partner and minority shareholder in the latter company.

The total number of votes held by the Benefit Systems Group in its subsidiaries equals the Group's equity interest in those companies.

Table 2: Subsidiaries

Operating segment	Name of the subsidiary	Registered office of the subsidiary	Group's share in equity	
			30.06.2019	30.06.2018
SEGMENT POLAND	VanityStyle Sp. z o.o.	ul. Jasna 24 00-054 Warsaw, Poland	100.00%	100.00%
	FitSport Polska Sp. z o.o.	Plac Europejski 2 00-844 Warsaw, Poland	100.00%	100.00%
	Benefit IP Sp. z o.o.	Plac Europejski 2 00-844 Warsaw, Poland	100.00%	100.00%
	Benefit IP Spółka z ograniczoną odpowiedzialnością sp. k.	Plac Europejski 2 00-844 Warsaw, Poland	100.00%	100.00%
	Fit Invest Sp. z o.o.1)	Plac Europejski 3 00-844 Warsaw, Poland	0.00%	100.00%
	Fitness Academy Sp. z o.o.	Plac Europejski 2 00-844 Warsaw, Poland	100.00%	100.00%
	Fitness Academy BIS Sp. z o.o. 2)	ul. Powstańców Śląskich 95 53-332 Wrocław, Poland	100.00%	100.00%
	AM Classic Sp. z o.o. 10)	Plac Dominikański 3 53-209 Wrocław, Poland	100.00%	100.00%
	Jupiter Sport Sp. z o.o. 10)	ul. Żegiestowska 11 50-542 Wrocław, Poland	100.00%	100.00%
	Fabryka Formy S.A. 3)	ul. Rolna 16 62-070 Dopiewo, Poland	100.00%	100,00%
	Fitness za Rogiem Sp. z o.o.3)	ul. Rolna 16 62-070 Dopiewo, Poland	0,00%	100.00%
	Fitness Place Sp. z o.o.	Plac Europejski 3 00-844 Warsaw, Poland	100.00%	100.00%
	Zdrofit Sp. z o.o. 4)	ul. Mangalia 4 02-758 Warsaw, Poland	100.00%	100.00%
	Tiger Sp. z o.o. 5)	Aleja Grunwaldzka 82 80-244 Gdańsk, Poland	0.00%	100.00%
	Wesolandia Sp. z o.o. 4)	ul. Wspólna 4 05-075 Warsaw-Wesoła, Poland	0.00%	100.00%
	Fitness Management Sp. z o.o. 4)	Plac Europejski 3 00-844 Warsaw, Poland	0.00%	100,00%
	M Group Sp. z o.o. 6)	ul. Reymonta 16 80-290 Gdańsk, Poland	0.00%	100.00%
	Masovian Sports Center Sp. z o.o. 4)	Plac Europejski 3 00-844 Warsaw, Poland	0.00%	0.00%
	NewCo2 Sp. z o.o. 4)	Plac Europejski 3 00-844 Warsaw, Poland	0.00%	0.00%
	NewCo3 Sp. z o.o. 4)	Plac Europejski 3 00-844 Warsaw, Poland	0.00%	0.00%
	FitFabric Sp. z o.o. 7)	ul. 1go Maja 119/121 90-766 Łódź, Poland	52.50%	30.00%
	Benefit Partners Sp. z o.o.	Plac Europejski 2 00-844 Warsaw, Poland	95.00%	47.51%

Operating segment	Name of the subsidiary	Registered office of the subsidiary	Group's share in equity	
			30.06.2019	30.06.2018
FOREIGN SEGMENT	Benefit Systems International Sp. z o.o.	Ul. Młynarska 8/12 00-844 Warsaw, Poland	100.00%	100.00%
	MultiSport Benefit S.R.O.	Lomnickeho 1705/9 140 00 Praha4, Czech Republic	78.80%	74.00%
	Benefit Systems Slovakia S.R.O.	Ružová dolina 6 Bratislava - mestská časť Ružinov 821 08, Slovakia	83.00%	83.00%
	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%	100.00%
	Fit Invest Bulgaria EOOD	Atanas Dukov 32 M-Plaza building 1407 Sofia, Bulgaria	100.00%	100.00%
	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.	ul. Młynarska 8/12, 00-844 Warsaw, Poland	100.00%	0.00%
	Form Factory S.R.O. 8)	Vinohradská 2405/190 Vinohrady, 130 00 Praha 3 Czech Republic	100.00%	100.00%
	Fit Invest Slovakia S.R.O. 9)	Ružová dolina 480/6 Bratislava - mestská časť Ružinov 821 08, Slovakia	100.00%	0.00%
CAFETERIA SEGMENT	MyBenefit Sp. z o.o.	ul. Powstańców Śląskich 28/30, 53-333 Wrocław, Poland	100.00%	100.00%
	MultiBenefit Sp. z o.o.	Plac Europejski 2 00-844 Warsaw, Poland	100.00%	100.00%
OTHER	MW Legal 24 Sp. z o.o. 11)	Plac Europejski 2 00-844 Warszawa, Poland	100,00%	100,00%

1) On 14 January, 2019, Fit Invest Sp. z o.o. merged with Benefit Systems S.A. and was subsequently spun off into a newly established Fitness Branch.

2) On 14 March, 2019, Fitness Academy Sp. z o.o SKA was transformed into Fitness Academy BIS Sp. z o.o.

3) On 17 January, 2019, Fitness za Rogiem Sp. z o.o. merged with Fabryka Formy S.A.

4) On 1 March, 2019, Wesolandia 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. merged by way of their acquisition by Zdrofit Sp. z o.o.

5) On 31 July, 2018, Tiger Sp. z o.o. was merged with Zdrofit Sp. z o.o. by way of takeover by the latter company.

6) On 10 January, 2019, M Group sp. z o.o. merged with Zdrofit Sp. z o.o. by way of its acquisition by Zdrofit Sp. z o.o.

7) FitFabric Sp. z o.o. has been consolidated since 2018 based on assumption of full (100%) control net of minority shares, given the fact that the minority shareholders executed contracts obliging them to dispose of the remaining shares.

8) Form Factory S.R.O. was established on the basis of transformation of Fitness Place S.R.O. on 20 December, 2018.

9) Fit Invest Slovakia S.R.O. was registered on 4 June 2019. The Group holds 100% of company's shares, of which 25% are held by Benefit Systems International Sp. z o.o and 75% are held by Fit Invest International Sp. z o.o. Due to its unimportance, the company was not consolidated in the first six months of the year under review.

10) On 30 July 2019, Fitness Academy BIS Sp. z o.o. merged AM Classic Sp. z o.o. and Jupiter Sport Sp. z o.o.

11) Entity not included in consolidation due to lack of business operations.

Table 3: Associates and others

Operating segment	Name of associate	Registered office of the associate	Group's share in equity	
			30.06.2019	30.06.2018
SEGMENT POLAND	Baltic Fitness Center Sp. z o.o.	ul. Puławska 427 02-801 Warsaw, Poland	49.95%	49.95%
	Instytut Rozwoju Fitness Sp. z o.o.	ul. Puławska 427 02-801 Warsaw, Poland	48.10%	48.10%
	Calypso Fitness S.A.	ul. Puławska 427 02-801 Warsaw, Poland	33.33%	33.33%
	Get Fit Katowice II Sp. z o.o.	ul. Uniwersytecka 13 40-007 Katowice, Poland	20.00%	20.00%
OTHER COMPANIES	LangMedia Sp. z o.o.	ul. Skwierzyńska 25/3 53-521 Wrocław, Poland	37.00%	37.00%
	X-code Sp. z o.o.	ul. Klaudyny 21/4 01-684 Warsaw, Poland	31.15%	31.15%

2.2. INCOME STATEMENT

Table 4: Income Statement of Benefit Systems Group

In thousands of PLN	1H 2019	1H 2018	Change
Sales revenues	**735 506**	**581 953**	**26.4%**
Revenues from services	726 948	574 348	26.6%
Revenues from sales of goods and materials	8 558	7 605	12.5%
Costs of sales	**(551 899)**	**(426 586)**	**29.4%**
Cost of services rendered	(546 146)	(418 362)	30.5%
Cost of goods and materials sold	(5 753)	(8 224)	(30.0%)
Gross profit on sales	**183 607**	**155 367**	**18.2%**
Selling expenses	(49 345)	(37 934)	30.1%
General and administrative expenses	(59 417)	(51 876)	14.5%
Other operating income	3 754	7 688	(51.2%)
Other operating costs	(9 760)	(8 653)	12.8%
Re-measurement to fair value of existing holdings	940	-	-
Operating profit	**69 779**	**64 592**	**8.0%**
Financial income, of which	17 581	5 061	247.4%
Interest income	*1 615*	-	-
Financial expenses, of which	(16 316)	(6 644)	145.6%
Interest expense on liabilities of leasing	*(10 045)*	-	-
Write down of financial assets	(1 158)	-	-
Share of profits (loss) for entities accounted for using the equity method	1 032	(607)	-
Profit before tax	**70 918**	**62 402**	**13.6%**
Income tax	(14 449)	(16 198)	(10.8%)
Net profit from continuing operations	**56 469**	**46 204**	**22.2%**
Gross margin on sales %	*25,0%*	*26,7%*	*(1.7 p.p.)*

2.3. PROSPECTS

The Group generally does not publish its annual budget or short-term financial projections, but rather communicates with the market (concerning its financial prospects among other things) on a current basis.

The Group assesses that the attractive potential of the market for sports cards in Poland and on foreign markets will allow for generating growth in the number of sports cards, which will positively translate into the dynamics of the revenues of the Group. Concurrently, the Management Board of the Dominant Company would like to note that in accordance with current the report of 29 April 2019, they expect pressure on the results of the Capital Group in the current year. Additionally, the Dominant Company has been undertaking activities aimed at optimisation of the costs in individual business segments. Furthermore, the Management Board of the Dominant Company expects that the remedial activities that have been undertaken since 2Q 2019 should, in the long term, translate into higher B2C sales in fitness clubs.

3. FINANCIAL RESULTS FOR THE 1H 2019 BY OPERATING SEGMENTS OF BENEFIT SYSTEMS GROUP

3.1. INTRODUCTION

The Benefit Systems Group has been presenting its results on the basis of operating segments since 2014. 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, the Group has been presenting the segments' data in a broader scope every year.

Until 2018, the Group had presented the results on the basis of four (4) core reporting segments: Sports Cards, Fitness, Foreign and Cafeterias, as well as Other activities and arrangements (other non-segmental operations).

According to the Group, since the origins of the segments, it has been purposive to analyse the results of the Fitness segment jointly with the results of the Sports Cards segment due to numerous synergies occurring between them. Moreover, only the joint results give the true view of the activitiy of the Group in terms of sales of sports cards and investments into fitness clubs on the Polish market.

4Q 2018 saw the start of the Group's reorganisation process with a view to the streamlining of its structure. As a consequence of increasingly closer links between the segments, the Group decided to present their operations jointly in the form of new segment: Poland, whch includes the effects of all dependencies between them.

Such a perspective of the financial standing and economic position of the core activity of the Group is consistent with the approach taken by the dominant entity's Management Board to analyses, allocation of resources and to strategic and operational decision-making.

Starting from 2019, the results of the Sports Cards and Fitness segments are presented jointly as the "Polish" segment on a continuous basis in an analogy to the operations reported in the Foreign segment representing a similar activity on foreign markets. Additionally, description of the results of the segments will not reflect the existing division either.

The Dominant entity made appropriate restatements to the comparable data that it presents in this Report; information regarding the components of the integrated since 2019 Segment will be disclosed to an extent ensuring a transparency of the change.

The revenues of the segments represent revenues generated from sales to third-party customers or from transactions with other segments of the Group, which 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 with the other segments of the Group. The costs follow from the operating activity of specific segments and are directly attributable thereto along with an appropriate portion of the costs of the Capital Group that is clearly attributable to the segment. The costs of income tax are not included in the operating segment's costs. Segment's result is established at the profit before tax level.

Table 5: Selected financial data for operating segments for 1H 2019

In thousands of PLN	Poland	Foreign	Cafeterias	Other activities and arrangements	Total
Sales revenues	**580 132**	**151 033**	**18 534**	**(14 193)**	**735 506**
Costs of sales	(427 545)	(128 469)	(13 861)	17 976	(551 899)
Gross profit on sales	**152 587**	**22 564**	**4 673**	**3 783**	**183 607**
Selling expenses	(29 538)	(16 949)	(2 893)	35	(49 345)
General and administrative expenses	(36 361)	(16 494)	(2 273)	(4 289)	(59 417)
Incentive Programme	-	-	-	*(410)*	*(410)*
Other operating income and expenses	(5 872)	(467)	(71)	1 344	(5 066)
including Re-measurement to fair value of existing holdings	*940*	-	-	-	*940*
Operating profit (loss)	**80 816**	**(11 346)**	**(564)**	**873**	**69 779**
Operating profit (loss) excluding IFRS 16 impact	**76 942**	**(12 041)**	**(604)**	**438**	**64 734**
Financial income and expenses	(7 180)	(3 821)	125	10 983	107
Share in the profits of associates accounted for using the equity method	576			456	1 032
Gross profit (loss)	**74 212**	**(15 167)**	**(439)**	**12 312**	**70 918**
Gross profit (loss) excluding IFRS 16 impact	**79 231**	**(14 710)**	**(358)**	**11 650**	**75 813**
EBITDA	**158 577**	**2 279**	**1 420**	**(691)**	**161 585**

EBITDA excluding IFRS 16 impact	106 426	(7 896)	655	(1 413)	97 772
Segment assets	1 815 213	228 899	115 427	(164 332)	1 995 207
Segment assets excluding IRFS 16 impact	**1 057 964**	**134 940**	**105 053**	**(165 310)**	**1 132 647**

Table 6: Selected financial data for operating segments for 2Q 2019 regarding the change of accounting policy due to IFRS 16

In thousands of PLN	Poland	Foreign	Cafeterias	Other activities and arrangements	Total
Sales revenues	**295 339**	**79 003**	**9 330**	**(5 869)**	**377 803**
Costs of sales	(213 681)	(65 194)	(6 352)	6 890	(278 337)
Gross profit on sales	**81 658**	**13 809**	**2 978**	**1 021**	**99 466**
Selling expenses	(15 368)	(8 869)	(1 438)	36	(25 639)
General and administrative expenses	(19 013)	(9 207)	(1 228)	(3)	(29 451)
Incentive Programme	0	0	0	906	906
Other operating income and expenses	(5 782)	(148)	(18)	(538)	(6 486)
including Re-measurement to fair value of existing holdings	*(1 100)*	*0*	*0*	*0*	*(1 100)*
Operating profit (loss)	**41 495**	**(4 415)**	**294**	**516**	**37 890**
Operating profit (loss) excluding IFRS 16 impact	**39 458**	**(4 804)**	**269**	**266**	**35 189**
Financial income and expenses	5 783	(1 465)	197	7 510	12 025
Share in the profits of associates accounted for using the equity method	152	0	0	16	168
Gross profit (loss)	**47 430**	**(5 880)**	**491**	**(8 042)**	**50 083**
Gross profit (loss) excluding IFRS 16 impact	**49 777**	**(5 675)**	**542**	**7 509**	**52 152**
EBITDA	**77 483**	**850**	**1 175**	**616**	**80 124**
EBITDA excluding IFRS 16 impact	**51 586**	**(4 501)**	**695**	**285**	**48 065**
Segment assets	(320 082)	3 629	8 672	476 888	169 107
Segment assets excluding IRFS 16 impact	**(510 876)**	**(27 977)**	**6 032**	**476 868**	**(55 953)**

Table 7: 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 1H 2019

In thousands of PLN	1H 2019	1H 2018 restated
Segments revenue		
Total revenue of operating segments	749 699	587 590
Total revenue not allocated to segments	1 385	3 714
Excluding revenue from intersegment transactions	(15 578)	(9 351)
Sales revenues	**735 506**	**581 953**
Result of segments		
Operating result of segments	68 906	71 328
Other operating income not allocated to segments	0	0
Others operating expenses not allocated to segments (-)	0	0
Exclusion of result from intersegment transactions (IRFS 16)	591	
Result not allocated to segments	282	(6 736)
Operating profit	**69 779**	**64 592**
Financial income and expenses	107	(1 583)
Share in profit or loss of entities accounted for using the equity method (+/-)	1 032	(607)
Profit before tax	**70 918**	**62 402**
In thousands of PLN	**As of 30 June, 2019**	**As of 31 December, 2018**
Total assets of operating segments	2 159 539	1 735 734
Total assets not allocated to segments	51 462	48 547
Exclusion of intersegment transactions	(215 794)	(695 616)
Total assets	**1 995 207**	**1 088 665**

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.

3.2. INFORMATION ABOUT OPERATING SEGMENTS

3.2.1. SEGMENT POLAND

The Polish segment deals in the sales of sports cards and investments into and management of fitness clubs on the Polish market.

Sports cards are 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 over 4 400 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 2 500 sports facilities providing access to almost 25 different sports;

MultiActive - this card provides access to over 2 300 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 2 800 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 3 500 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.

Considering continued growth in the number of sports Cardholders, the Benefit Systems Group has been investing into fitness clubs, including in particular the Group's own fitness clubs, with a view to securing an adequate base of sports-recreation facilities. Since 4Q 2018, the present subsidiaries and affiliates [of the Group] operating on the fitness market, which included companies running fitness clubs and sports-recreation facilities, and entities managing investments into fitness clubs, have been undergoing a gradual reorganisation consisting in their mergers and inclusion into Benefit Systems S.A., taking the form of a self-balancing branch.

As of the end of the 1st half of 2019, the Benefit Systems Group managed Polish companies running in aggregate one hundred and fifty three (153) sports clubs on their own. Additionally, the Group held interests in companies managing additional 48 facilities. As compared to the 1st half of 2018, the scope of the results consolidated fully to the results of the Group grew by 43 facilities. The facilities represent the following well-known brands (fitness club chains): Zdrofit, Fabryka Formy, Fitness Academy, My Fitness Place, FitFabric, S4, AquaPark Wesolandia and Calypso Fitness.

Table 8: Selected financial data of the Segment Poland

In thousands of PLN	1H 2019	1H 2018 Restated*	Change
Sales revenues	**580 132**	**476 142**	**21.8%**
Costs of sales	(427 545)	(344 793)	24.0%
Gross profit on sales	**152 587**	**131 349**	**16.2%**
Selling expenses	(29 538)	(23 891)	23.2%
General and administrative expenses	(36 361)	(26 767)	35.8%
Other operating income and expenses	(5 872)	(513)	-
including re-measurement to fair value of existing holdings	*940*	*0*	-
Operating profit	**80 816**	**80 088**	**0.9%**
Financial income and expenses	(7 180)	(6 639)	8.1%
Share in the profits of associates accounted for using the equity method	576	(827)	-
Pre-tax profit (loss)	**74 212**	**72 622**	**2.2%**
EBITDA	**158 577**	**96 187**	**64.9%**
Gross margin on sales	*26.3%*	*27.6%*	*(1.3 p.p.)*
Number of sports cards (in thousand)	*1 046.5*	*919.5*	*127.0*
Number of clubs	*153*	*110*	*43*

** The restatement consists in the joining of the Sports Cards and Fitness segments and eliminating of the mutual transactions between the segments presented in 2018.*

The revenues of the Polish segment grew by 21.8% year-on-year as a result of increased sale of sports cards and their price being slightly higher on average, as well as purchases of the majority shareholdings in: - FitFabric Sp. z o.o., Masovian Sports Center Sp. z o.o., NewCo2 Sp. z o.o., NewCo3 Sp. z o.o. and Benefit Partners Sp. z o.o. (PLN 38.8 million in total), and as result of organic growth of the companies controlled by the Group.

As at the end of the first six months of 2019, the Benefit Systems Group reported growth in the number of sports cards in Poland which reached the level of 1 046.5 thousand cards, thus representing accretion of sports cards by 127.0 thousand, i.e. by 13.8%, over the period of 12 months. Furthermore, in the first six months of 2019 alone, ten (10) new fitness clubs were opened: one (1) by Fitness Academy, one (1) by Fabryka Formy, five (5) by Zdrofit, one (1) by My Fitness Place, and two (2) by FitFabric. Both the new facilities and the existing ones are undergoing continued reorganisation; in particular, they are being rebranded, which changes the proportions of the number of clubs in specific club chains. The analogous period represents consolidated results of one hundred and ten (110) clubs.

Gross margin on sales grew by PLN 21.2 million in the period under review. In terms of revenues, the growth of the margin meant a drop in the profitability by 1.3 p.p. as compared to the first six months of 2018, even though, the profitability remains at the high level of 26.3%.

The profitability is lower since, according to observations, card user's activity has been higher than in the analogous period. The activity is also influenced by the non-trading Sundays. It follows from an analysis of the statistics of sports Cardholders' visits again that, even though their activity has already been above average, the frequency of visits of the most active users (the so-called heavy users) to sports facilities has still increased. Additionally, the first six months of 2019 saw a growth of the fixed production costs, which was attributable to a higher number of headcount hired to support sports cards and higher costs of the supporting technologies, including replacement of terminals, installation of QR scanners (amortisation of the completed projects) and projects classified into the current operating expenses, including in particular services additional to the sports cards, such as e.g. access to the Nextbike and Grywalizacja (gamification) projects, allowing for collection of points and exchanging them for attractive awards or a charity donation (school starter kits).

A high stake of new clubs in the ownership structure of the Group also translates into a lower profitability. In the period from their opening until maturity, which usually takes several to a few dozen months, the relation of fixed costs to the revenues from sports facilities is relatively high. In the first stage of their development, new clubs build (or rebuild, if a mature entity was acquired) their customer bases and invest into marketing, whether B2C or B2B (sports cards users).

Overheads grew by 35.8% (PLN 9.6 million) and costs of sales grew by 23.2% (PLN 5.6 million), and the ratio of the sum of those costs to revenues grew by 0.7 p.p. The nominal increase in the level of the above-described fixed costs follows, among others, from seasonal special campaigns that were launched in 2019 to support development of the future market (including in particular the communication and marketing of such campaigns). Furthermore, the gradually increasing scale of operation translates into greater needs in terms of technology and the headcount of the back-office sections of the analyzed segment of the Group, which are, among others, connected with the launching and development of the ERP system. Investments in technologies help to maintain competitive advantage and optimize internal processes.

The major influence on the nominal increases in that expense group was attributable to, development of additional services for sports cardholders, product communication and marketing, promotion of the brand and the sports activity level among the present and potential Cardholders.

The said promotional activities that, among others, take the form of seasonal offers, regularly contribute to the attractiveness of sports cards. In the beginning of 2019, in continuation of the 2018/2019 winter season, 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 more than 8.5 thousand visitors in 98 days. The first six months also saw the launching of gamification project: Grywalizacja, aimed at encouraging the card holders to collect points.

Other income and operating expenses primarily represent write offs on deactivated sports cards (carriers of access) that have already been released and significant write offs for receivables, in particular, at Fitness Academy BIS Sp. z o.o. and Zdrofit Sp. z o.o. The operating result for the first six months of 2019 also represents a profit of PLN 940 thousand attributable to fair value measurement of the shares held in Benefit Partners Sp. z o.o. carried out upon takeover of control of the said company. However, that profit should be treated as a non-recurring event.

Application of new accounting standard IFRS 16 to the Polish segment in the first six months of 2019 resulted in the reduction of the costs of third-party services by PLN 52.2 million, growth of depreciation by PLN 48.3 million and of the financial expenses by PLN 8.9 million. The aggregate impact on the gross result of the Polish segment amounted to PLN 5.0 million in the period under review.

Table 9: The effect of change in the segment classification on the comparable data of the Polish segment.

In thousands of PLN	Poland 1H 2018 after change in classification (A)	Sports Cards 1H 2018 before change in classification (B)	Fitness 1H 2018 before change in classification (C)	Change (A-B-C)
Sales revenues	**476 142**	**416 988**	**117 363**	**(58 209)**
Costs of sales	(344 793)	(300 853)	(102 042)	58 102
Gross profit on sales	**131 349**	**116 135**	**15 321**	**(107)**
Selling expenses	(23 981)	(14 898)	(9 163)	80
General and administrative expenses	(26 767)	(16 216)	(10 674)	123
Other operating income and expenses	(513)	(486)	69	(96)
Operating profit (loss)	**80 088**	**84 535**	**(4 447)**	**0**
Financial income and expenses	(6 639)	0	(6 639)	0
Share in the profits of associates accounted for using the equity method	(827)	0	(827)	0
Pre-tax profit (loss)	**72 622**	**84 535**	**(11 913)**	**0**
EBITDA	**96 187**	**89 011**	**7 176**	**0**

3.2.2. FOREIGN SEGMENT

The segment is comprised of companies that develop the MultiSport Programme and companies operating fitness clubs in the foreign markets. The 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., Fit Invest International Sp. z o.o. and Fit Invest Slovakia S.R.O. (company registered on 4 June 2019; due to its minor importance, the company was not consolidated in the period under review).

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	1H 2019	1H 2018	Change
Sales revenues	**151 033**	**92 994**	**62.4%**
Costs of sales	(128 469)	(79 321)	62.0%
Gross profit on sales	**22 564**	**13 673**	**65.0%**
Selling expenses	(16 949)	(11 734)	44.4%

In thousands of PLN	1H 2019	1H 2018	Change
General and administrative expenses	(16 494)	(12 362)	33.4%
Other operating income and expenses	(467)	399	217.0%
Loss from operations	**(11 346)**	**(10 024)**	**13.2%**
Financial income and expenses	(3 821)	(850)	349.5%
Loss before tax	**(15 167)**	**(10 874)**	**39.5%**
EBITDA	**2 279**	**(7 539)**	**130.2%**
Gross margin on sales	*14.9%*	*14.7%*	*0.2 p.p.*
Number of sports cards (in thousands)	*285.7*	*177.7*	*108.0*
Number of clubs	*23*	*17*	*6*

The revenues of the Segment grew by 62.4% in comparison with the first six months of 2018, what resulted from a high growth rate of the number of cards – the total increase in the Foreign Segment was more tham 60%. At the end of the analyzed period the number of active sports cards equaled 285.7 thousand, that is 108 thousand more than at the end of the first six months of 2018.

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

Country	1H 2019	1H 2018	Change
Czech Republic	150.9	99.8	51.2%
Bulgaria	93.4	63.2	47.8%
Slovakia	30.5	14.7	107.5%
Croatia	10.8	-	-
Greece	0.08	-	-

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

The number of sports cards grew by ca. 50% in the Czech Republic and Bulgaria and by 100% in Slovakia, as compared to the analogous period. Intensive sales were also conducted in the Croatian market, where, owing to sales efforts, the number of active cards exceeded 10 thousand pcs. The first six months of 2019 also saw the beginning of sales on the Greek market.

The Czech market, on which the Benefit Systems Group has been operating since 2011, continues to generate the highest revenues from the sales of sports cards, while the Bulgarian market remains the second largest.

On the foreign markets, networks of partnership facilities are being constantly built and, as at the end of the first half-year of 2019, the number of foreign partner outlets amounted to: 1715 in the Czech Republic, 853 in Bulgaria, 741 in Slovakia, 361 in Croatia and 125 in Greece, respectively. In individual countries, the partnership network is being developed both in the capital cities and in smaller locations. Owing to this, the Group can also reach the customers from outside of capital cities with the Multisport product.

Higher revenues were also attributable to the growth in the number of clubs included in the consolidation. As of the end of the first six months of 2019, companies of the Foreign segment were managing 8 clubs in Bulgaria and 15 clubs in the Czech Republic.

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

Company	Number of fitness clubs		
	30.06.2019	30.06.2018	Change
Form Factory S.R.O.*	9	9	0
Beck Box Club Praha S.R.O.	6	6	0
Fit Invest Bulgaria EOOD	8	2	6
Total	23	17	6

* *formerly: Fitness Place S.R.O.*

In spite of significant growth of revenues, gross margin on sales from the Foreign segment remained at a similar, in the nominal terms, level, which, among others, is attributable to a small base of customers attending new facilities in the chain. The fixed costs remained at a relatively high level, not to mention the initial costs of launching and administering the new locations. The increase in the own costs of sale was also attributable to a higher activity of users on the Slovakian market.

As compared to the 1st half of 2018 selling, general and administarive costs increased considerably, which is related to, among others, business development in Croatia and Greece. The costs of the holding company managing the business structure with its increasingly large scale and geographic extent also increased year over year.

Operating loss was higher by PLN 1.3 million than in the analogous period (the effect of MSSF16 was nearly neutral). On the other hand, the dynamics of growth of revenues exceeded the dynamics of growth of costs in the previous period.

As a result of application of new accounting standard IFRS 16 to the Foreign segment, in the first six months of 2019, the costs of third-party services sank by PLN 10.2 million, depreciation grew by PLN 9.5 million and the financial expenses increased by PLN 1.2 million. The most important items of newly recognized leases represented long-term lease agreements for the premises of the fitness clubs and leases of sports equipment (which were partially eliminated at the level of the consolidated result of the Group), as well as rentals of office premises for the sports cards operations on the local markets.

2.2.3. 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 platforms 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, 50 museums across Poland and 25 thematic parks 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 13: Selected financial data from the Cafeteria segment

In thousands of PLN	1H 2019	1H 2018 Restated*	Change
Sales revenues	**18 534**	**18 454**	**0.4%**
Costs of sales	(13 861)	(11 823)	17.2%
Gross profit on sales	**4 673**	**6 631**	**(29.5%)**
Selling expenses	(2 893)	(2 223)	30.1%
General and administrative expenses	(2 273)	(3 077)	(26.1%)
Other operating income and expenses	(71)	(67)	6.0%
Operating profit	**(564)**	**1 264**	**-**
Financial income and expenses	125	236	(47.0%)
Profit before tax	**(439)**	**1 500**	**-**
EBITDA	**1 420**	**2 085**	**(31.9%)**
Gross margin on sales	*25.2%*	*35.9%*	(10.7 p.p.)
*Turnover (in millions of PLN) ***	*158.7*	*124.7*	34.0
Number of users (in thousands)	*400.5*	*318.1*	82.4

**On the basis of bookkeeping notes, invoices and bills issued by cafeteria platforms: MultiKafeteria and MyBenefit.*

As of the end of the 1st half of 2019, cafeteria-style e-platforms: MyBenefit and MultiKafeteria, were grouping nearly 400.5 thousand Users, whose number grew by over 82 thousand y-o-y.

The structure of sales of the benefits offered via the distribution channel discussed at this point shows that the Sports category invariably enjoys the greatest success. In the 2019 period under review, Sports have already accounted for 52% of turnover of the e-platforms, which only confirms the growth tendency that has been continued for a few years.

High growth in the number of users by 26% has contributed to the increase in the turnover of the cafeteria platforms by 27%, but did not translate into revenues growth (consisting primarily of commission fees from suppliers on account of turnover in the marks qualifying for use of vouchers and goods on the e-platforms). The foregoing follows, among others, from the increase of low-margin in share of the total turnover and margin.

Gross margin on sales dropped by 30% (with the profitability lower by more than 10 p.p.). The main reason behind a lower profitability in the period under review is an increase in the own costs of sales in the portion of fixed costs allocated to this item. The foregoing was attributable to a higher level of employment in MyBenefit Sp. z o.o. and higher investments into technologies supporting sales and customer service. What is more, structure development, higher amortisation, also of investmets from previous years, implementation of IFRS 16 standard, license costs, as well as personal costs connected with higher employment and costs of preparation of new projects and services, development of which will take place in the coming quarters of 2019 also influenced the growth of indirect costs.

Application of new reporting standard IFRS 16 to the Cafeterias segment in the first six months of 2019 resulted in the reduction of the costs of third party services by PLN 0.8 million, increase in depreciation by PLN 0.7 million and in the financial expenses by PLN 0.1 million.

Table 14: 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	1H 2018 after change in classification	1H 2018 before change in classification	Change
Sales revenues	**18 454**	**24 612**	**(6 158)**
Costs of sales	(11 823)	(17 981)	(6 158)
Gross profit on sales	**6 631**	**6 631**	**0**
Selling expenses	(2 223)	(2 223)	0
General and administrative expenses	(3 077)	(3 077)	0
Other operating income and expenses	(67)	(67)	0
Operating profit	**1 264**	**1 264**	**0**
Financial income and expenses	236	236	0
Profit before tax	**1 500**	**1 500**	**0**
EBITDA	**2 085**	**2 084**	**1**
Gross margin on sales	*35.9%*	*26.9%*	*9 p.p.*

3.2.4. OTHER ACTIVITIES AND ARRANGEMENTS

Other activities and arrangements include revenues other than from the sale of non-wage incentive products and supporting activities of fitness investments 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 15: Other activities and arrangements

In thousands of PLN	1H 2019	1H 2018 Restated	Change
Sales revenue	**(14 193)**	**(5 637)**	**151.8%**
Costs of sales	17 976	9 351	92.2%
Gross profit on sales	**3 784**	**3 714**	**1.9%**
Selling expenses	35	4	775%
General and administrative expenses	(4 289)	(9 670)	(55.6%)
Cost of the Incentive Programme	*(410)*	*(6 162)*	(93.3%)
Other operating income and expenses	1 344	(784)	271.4%
Loss from operations	**873**	**(6 736)**	**112.9%**
Financial income and expenses	10 983	5 670	93.7%
Share in the profits of associates accounted for using the equity method	456	220	107.3%
Loss before tax	**12 312**	**(846)**	-
EBITDA	**(691)**	**(6 361)**	**89.1%**

An increase in the value of intrasegmental exclusions is mainly attributable to a growing number of transactions between companies of a growing capital group, and a growing participation of the Cafeterias segment as the sports cards distribution channel.

Gross profit on sales reflects revenues from the marketing activity and from operations not attributed to any segment. It is also an effect of consolidation-related exclusions of amortisation of the trademarks owned by Benefit IP Spółka z ograniczoną odpowiedzialnością sp.k.

The main reason behind the drop in the costs of the Incentive Programme is the fact that it is based on the lower valuation of 50% of the maximum annual pool of vested warrants, while the results of the 1st half of 2018 have included the threshold of 75% and higher valuation. What is more, in the 1st half of 2019 costs of Incentive Programme include only the value of the warrants already assigned by name in 1H 2019. As of the warrants valuation dates in 2018 and 2019, the share prices amounted to PLN 1,130.00 and PLN 904.00, respectively.

Table 16: Effect of change in segment classification to the comparable data of the Other activities and arrangements segment.

In thousands of PLN	1H 2018 after change in classification	1H 2018 before change in classification	Change
Costs of sales	**(5 637)**	**(63 846)**	**58 209**
Gross profit on sales	9 351	67 454	(58 103)
Selling expenses	**3 714**	**3 607**	**106**
General and administrative expenses	4	84	80
Costs of sales	(9 670)	(9 547)	123
Cost of the Incentive Programme	*(6 162)*	*(6 162)*	*0*
Other operating income and expenses	(784)	(880)	(96)
Loss from operations	**(6 736)**	**(6 736)**	-

In thousands of PLN	1H 2018 after change in classification	1H 2018 before change in classification	Change
Financial income and expenses	5 670	5 670	-
Share in the profits of associates accounted for using the equity method	220	220	-
Loss before tax	**(846)**	**(846)**	**-**
EBITDA	**(6 361)**	**(6 361)**	**-**

3.3. OTHER FINANCIAL DATA

Table 17: Financial income and expenses of the Benefit Systems Group

In thousands of PLN	1H 2019	1H 2018	Change
Financial income, including:	17 581	5 061	247.4%
Interest income	*1 615*	-	-
Financial expenses, including:	(16 316)	(6 644)	145.6%
Interest expense on liabilities	*(10 045)*	-	-
Write down of financial assets	(1 158)	-	-
Share of profits (loss) for entities accounted for using the equity method	1 032	(607)	-

The financial revenues were higher than in the first six months of 2018, in particular owing to the acknowledging of the currency translation differences attributable to the measurement of lease liability and to revaluation of the measurement of the financial instruments applied to the contingent payments for the acquired shares as at the balance sheet date.

Higher financial costs of the Group were connected primarily with the change of presentation of lease contracts in accordance with IFRS 16, as well as costs attributable to the issuance of series of notes in the previous periods (including by the newly consolidated Benefit Partners Sp. z o.o.), increase in overdraft limit and liabilities under financial lease (leaseback for the fitness equipment).

The profit or loss from the affiliates accounted for using the equity method grew in the 1st half of 2019 by PLN 1.6 million vs. the comparable period of the 1st half of 2018. The above item comprises, in the part corresponding to the percentage shareholdings, the results of the following companies: Instytut Rozwoju Fitness Sp. z o.o. (PLN 576 thousand); LangMedia Sp. z o.o. (PLN 346 thousand); and X-Code Sp. z o.o. (PLN 110 thousand). The above item does no longer include FitFabric Sp. z o.o. or Benefit Partners Sp. z o.o., which, in the 1st half of 2019, have been included in the full consolidation. Shares in Calypso Fitness S.A. lost their value due to transformation of the company (see a detailed description in the 2018 annual financial statements of the Group).

Table 18: Statement of financial position

In thousands of PLN	As of 30.06.2019	As of 31.12.2018	Change	As of 30.06.2018
Non-current assets	1 733 663	791 668	119.0%	615 069

In thousands of PLN	As of 30.06.2019	As of 31.12.2018	Change	As of 30.06.2018
share in balance sheet total	*86.9%*	*72.7%*	*14.2 p.p.*	*60.4%*
Current assets	261 544	296 997	(11.9%)	402 424
share in balance sheet total	*13.1%*	*27.3%*	*(14.2 p.p.)*	*39.6%*
Total assets	**1 995 207**	**1 088 665**	**83.3%**	**1 017 493**
Equity attributable to the shareholders of the parent company	621 457	564 727	10.0%	554 871
share in balance sheet total	*31.1%*	*51.9%*	*(20.8 p.p.)*	*54.5%*
non-controlling interests	2 722	2 242	21.4%	1 471
share in balance sheet total	*0.1%*	*0.2%*	*(0.1 p.p.)*	0.1%
Long-term liabilities and provisions	923 999	148 454	522.4%	129 219
share in balance sheet total	*46.3%*	*13.6%*	*32.7 p.p.*	*12.7%*
Short-term liabilities and provisions	447 029	373 242	19.8%	331 932
share in balance sheet total	*22.4%*	*34.3%*	*(11.9 p.p.)*	*32.6%*
Total equity and liabilities	**1 995 207**	**1 088 665**	**83.3%**	**1 017 493**

Non-current assets

The value of non-current assets of the Benefit Systems Group grew by over PLN 941 million as compared to December 2018, of which PLN 841 million accounts for recognition of a new right-of-use asset in compliance with IFRS 16.

Property, plant and equipment saw a significant growth (+ PLN 85.3 million), resulting, among other things, from inclusion, in the consolidation, of Benefit Partners Sp. z o.o., with the carrying value of its tangible fixed assets item of PLN 86 million as of the end of the period under review. Furthermore, the Group is constantly investing into acquisition of funds, and the related expenses amounted to PLN 55 million in the first six months of 2019. The balance of intangible assets grew by PLN 7.9 million in the first six months of 2019.

The level of long-term loans significantly dropped (by PLN 27.5 million) in connection with inclusion of Benefit Partners Sp. z o.o., a borrower to Benefit Systems S.A. (creditor) in the full consolidation, and lower balance sheet value of loans granted by the Parent company. At the end of 1st hale of 2019 the amount of loans (capital) granted by Benefit Systems S.A. to Benefit Partners Sp. z o.o. equaled PLN 46.5 million (long-term loans) and PLN 3.8 million (short-term loans).

As compared to end of year 2018, item: Goodwill, grew by PLN 5.2 million as a result of inclusion of Benefit Partners Sp. z o.o. in the consolidation and recognition of additional goodwill in connection with the acquisition of organized parts of enterprise by Fitness Place Sp. z o.o. and Fit Invest Bulgaria EOOD.

In the 1st half of 2019, deferred tax asset grew by PLN 8.6 million, which was mainly attributable to growth in the value of the provisions for Users' visits in fitness facilities.

Current assets

Current assets were lower by PLN 35.4 million (i.e. by 11.9%), as compared to end of year 2018. The movement in the asset level was mainly attributable to reduction in the value of trade receivables by PLN 20.4 million, mainly including trade receivables of MyBenefit Sp. z o.o., what resulted from a seasonally high level of receivables from a company from the Cafeterias segment as at the end of 2018.

The balance of cash was lower by PLN 9.1 million; however, the dominant Company reported cash lower by PLN 13.1 million as compared to end of year 2018.

The lower balance of receivables and loans as compared to December 2018 (PLN – 14.1 million) was mainly attributable to the recognizing of a lower value of loans at the dominant Company and inclusion of Benefit Partners Sp. z o.o. in the full consolidation, as a result of which the related mutual settlments of accounts were eliminated at the Group's level.

In the period under review, significant growth in short-term deferred income, i.e. by PLN 7.5 million, was also reported. It was mainly attributable to the growth in the value of the deferred income item at Zdrofit Sp. z o.o. and to recognizing of future fit-outs of fitness clubs.

Long-term and short-term liabilities and provisions

Total long-term liabilities of the Group grew by nearly PLN 775.5 million as compared to end of year 2018, of which PLN 773 million resulted from application of new IFRS 16 for the first time.

Total short-term liabilities of the Group grew by PLN 73.8 million as compared to end of year 2018, of which PLN 115 million resulted from application of new IFRS 16 for the first time. Trade liabilities were lower by PLN 13.8 million, and income tax liabilities were lower by PLN 10.5 million.

Indebtedness on account of loans incurred from entities and institutions and other long-term and short-term debt instruments totaled PLN 203.1 million, which was more by PLN 29.0 million than at the beginning of year 2019. Such a significant growth in the level of liabilities was attributable to inclusion of Benefit Partners Sp. z o.o. in the full consolidation; as at the end of the first six months 2019, the latter company had a liability for issued bonds totaling PLN 31.8 million.

As a consequence of reporting of a new item: right-of-use asset, in the balance sheet, the value of long-term deferred income from Fitness Academy BIS Sp. z o.o. (in 2018, operating under the name of Fitness Academy ska), Fabryka Formy S.A. and Zdrofit Sp. z o.o., was significantly reduced as compared to end of year 2018 (PLN -26.8 million). The balance of deferred income, taking into account the rent free periods, fit-outs (the outfitting of the fitness clubs) and other lease incentives settled over time, was set off against the initial value of the right-of-use asset.

Tablel 19: Statement of cash flows

In thousands of PLN	1H 2019	1H 2018	Change
Net cash flows from operating activities	148 024	77 482	91.0%
Net cash flows from investment activities	(74 227)	(168 695)	(56.0%)

In thousands of PLN	1H 2019	1H 2018	Change
Net cash flows from financing activities	(82 855)	270 787	-
Net change in cash and cash equivalents	(9 088)	179 574	-
Cash and cash equivalents at end of period	**66 731**	**232 032**	**(71.2%)**
Net cash / (net debt)*	**(136 343)**	**30 348**	**-**

** Cash and equivalnets less loans, borrowings, long- and short-term leases*

As of 30 June, 2019, the Group had cash of PLN 66.7 milion, which was accumlated predominantly on the bank accounts of the Dominant Entity: Benefit Systems S.A. (PLN 5.8 million), FitSport Sp. z o.o. (PLN 2.6 million), MultiBenefit Sp. z o.o. (PLN 2.9 million), MyBenefit Sp. z o.o. (PLN 5.7 million), Czech company MultiSport Benefit S.R.O. (PLN 13.6 million), Zdrofit Sp. z o.o. (PLN 10.9 million), Benefit Systems Bulgaria EOOD (PLN 5.8 million) and Fabryka Formy S.A. (PLN 5.2 million). In the 1st half of 2019, the Benefit Systems Group was not and is not engaged in any currency options or any other hedge or speculative derivatives.

As of the date of this report, considering the Group's own funds and the available overdrafts, the Group cannot see any problems with its financial liquidity in connection with implementation of its investment undertakings (including in particular capital investments).

Operating activity

Cash flows from operating activities amounted to PLN 148.0 million in the 1st half of 2019 and were higher by PLN 70.5 million as compared to the comparable period, with gross profit higher by 8.5 million. Positive adjustments grew by PLN 70.9 million, mainly as a consequence of amortisation and depreciation being higher by PLN 72 million, and costs of interest being higher by PLN 9.5 million (largely, on account of implementation of IFRS 16), whereby the balance of movements in the working capital was lower by PLN 8 million.

Investment activity

Net cash flows from investment activities amounted to PLN -74.2 million, and mainly accounted for expenses on purchase of PPE, i.e. PLN 55.8 million, expenses on acquisition of intangible assets of PLN 9.7 million, loans extended to MS Partners of PLN 6.0 million, and expenses on acquisition of subsidiaries of PLN 10.3 million (including PLN 2.7 million for purchase of Benefit Partners sp. z o.o.). Received repayments of loans and interest of PLN 5.3 million and 1.3 million, respectively, had a positive effect on cash flows from investment activity. The difference with the first six months of 2018 was mainly attributable to lower expenses on acquisition of subsidiaries (PLN -59.3 million) and lower value of the loans extended (PLN -28.1 million).

Financial activity

Cash flows from the financial activity, which amounted to PLN -82.9 million in the 1st half of 2019, were lower by 353 milion as compared to the analogous period of 2018, primarily due to proceeds from issuance of shares in the first six months of 2018 (+ PLN 289.8 million). Furthermore, in the period under review, growth of expenses related to repayment of liabilities under financial lease (+ PLN 59.8 million) and paid interest (+ PLN 7.8 million) was reported.

3.4. SELECTED FINANCIAL INDICATORS

Table 20: Selected financial indicators*

Profitability ratios	**1H 2019**	**1H 2018 restated**	**Change**
Gross margin	25.0%	26.7%	(1.7 p.p.)
EBITDA margin	22.0%	14.5%	7.5 p.p.
EBIT margin	9.5%	11.1%	(1.6 p.p.)
Pre-tax margin	9.4%	10.5%	(1.1 p.p.)
Net margin	7.5%	7.8%	(0.3 p.p.)
Return on equity (ROE)	9.0%	8.3%	0.7 p.p.
Return on assets (ROA)	2.8%	4.5%	(1.7 p.p.)
Liquidity ratios	**1H 2019**	**1H 2018 restated**	**Change**
Current liquidity	0.59	1.21	(51.7%)
Quick ratio	0.52	1.13	(54.2%)

**including the impact of IFRS 16*

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.*

4. ADDITIONAL INFORMATION

4.1. MATERIAL EVENTS IN THE GROUP DURING THE REPORTING PERIOD

Information regarding subsidiaries in the Benefit Systems Group

Acquisition of the controlling interests 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. at PLN 2.6 million. As a result of the transaction, the dominant entity holds the total of 95% of shares in the share capital of the controlled company. Benefit Partners Sp. z o.o. had been an affiliate since May 2017.

Acquisition of organized parts of the enterprise in the form of fitness clubs

On 25 January, 2019, for sale of an organized part of enterprise taking the form of a fitness club in Skawina was executed between Benefit Systems S.A. (the Purchaser's Surety), Fitness Place Sp. z o.o. (the Purchaser) and Mr Bartosz Gibała running business activity under the name of Bartosz Gibała Platinium with its registered seat in Kraków (PGB). The price of sale was set at the amount of PLN 4 671 thousand. The transfer of ownership of the organized part of the enterprise to the Purchaser took place on February 1, 2019.

On 27 June 2019, agreement for sale of an organized part of enterprise (2 fitness clubs in Cracow) was executed between Benefit Systems S.A. (the Purchaser's Surety), Fitness Place Sp. z o.o. (the Purchaser) and Platinium Wellness Sp. z o.o. The price of sale was set at the amount of PLN 11 251 thousand. The transfer of ownership title of the organized part of the enterprise to the Purchaser took place on July 1, 2019.

The conclusion of agreements was the final stage of the transaction of the purchase of organized parts of the enterprise constituting 12 fitness clubs operating under the company Platinium Fitness, resulting from the conditional sales agreements of the organized part of the enterprise, concluded in 2017.

Investments are being made into the fitness clubs situated in the Małopolskie (Lesser Poland) and in the Silesian Voivodships with a view to securing an appropriate training base for the holders of the MultiSport card, which is the flagship product of the capital group of Benefit Systems.

Merger of Benefit Systems S.A. and Fit Invest Sp. z o.o. and spin-off of the branch

On 14 January, 2019, Benefit Systems S.A. (acquiring company) merged Fit Invest Sp. z o.o. (acquiree) by way of transferring of 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 operations of Fit Invest sp. z o.o. have been spun off in the form of a self-balancing entity being a branch of Benefit Systems S.A.

On 1 March, 2019 (date of entry in the relevant court register) a Zdrofit Sp. z o.o. merged by acquisition the following companies:

- 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.

Loan agreements extended within the capital group of Benefit Systems

In the period of the first six months of 2019 under review, the following loan agreements were executed between Benefit Systems S.A. (the Lender) and affiliates (the Borrowers):

- Fit Invest Sp. z o.o. of January 4th 2019, at PLN 1,0 mln, the loan aimed at enabling the Borrower to finance their current activity;

- Benefit Systems International Sp. z o.o. of January 17th 2019, at PLN 5,0 mln, the loan aimed at enabling the Borrower to finance their current activity, including the activity connected with foreign investments;

- Fit Invest International Sp. z o.o., of January 22nd 2019, at PLN 2,5 mln, the loan aimed at enabling the Borrower to finance their current activity;

- FitFabric Sp. z o.o. of January 23rd 2019, at PLN 3,8 mln, the loan aimed at enabling the Borrower to finance the investments in new fitness clubs;

- NewCo2 Sp. z o.o. of January 28th 2019, at PLN 3,0 mln, the loan aimed at enabling the Borrower to finance their current activity;

- Zdrofit Sp. z o.o. of February 1st 2019 at PLN 10.0 million, the loan aimed at enabling the Borrower to finance their current activity, including the investments into the fitness sector;

- Benefit Partners Sp. z o.o. of February 12th 2019 at PLN 9.0 million, and of June 10th 2019 at PLN 10.0 million, the loans aimed at the financing of the Borrower's activity attributable to lease of the sports equipment;

- Benefit Systems D.O.O. of April 2nd 2019 at HRK 4,0 mln, the loan aimed at enabling the Borrower to finance their current activity,

- AM Classic Sp. z o.o. of April 26th 2019 at PLN 0,5 mln, the loan aimed at enabling the Borrower to finance their current activity,

- Fit Invest Bulgaria EOOD, of May 25th 2019, at EUR 0,6 mln, the loan aimed at enabling the Borrower to finance their current activity,

- MyBenefit Sp. z o.o., of February 27th 2019, March 4th 2019, March 18th 2019 and April 24th 2019, at the sum of PLN 15,0 mln, the loans aimed at financing the investments of the Borrower,

- on the June 27th 2019 in relation to the investment agreement of sale of the organised parts of enterprise to Fitness Place Sp. z o.o. and on the basis of the annex to the agreement executed on July 20th 2017, the amount of loan granted has been raised to 55.5 million, for which the one-time repayment has been set on August 31st 2025.

The loans bear variable interest rate that was set on the market terms. The loan agreements contain neither conditions precedent nor subsequent, nor provide for contractual penalties. Other terms of the loan agreement are not different from those generally applied in agreements of this kind. The above mentioned transactions do not have an influence on the Consolidated Financial Statement of the Benefit Systems Group.

Other Information

Execution of an annex to agreement for bank guarantee limit with Santander Bank Polska S.A. with its registered seat in Warsaw

On 25 April 2019, Benefit Systems S.A. and Santander Bank Polska S.A. executed annex to agreement of 2 April 2012, envisaging, among other things, a change in the amount of the bank's committment to provide, upon order/instruction from the customer, a guarantee of up to PLN 65 million over the availability period elapsing on 30 April 2020. The guarantee limit covers payment of all liabilities arising from lease contracts.

Execution of an annex to credit agreement with Santander Bank Polska S.A.

On 25 April 2019, Benefit Systems S.A. and Santander Bank Polska S.A. executed annex to multi-purpose multi-currency credit facility agreement, with a view to changing the period of availability of the already granted revolving loan by extending it until 30 May 2020, and with a view to changing the period in which the Bank, acting to an order/instruction from the Company, may provide guarantee, by extending the period until 30 May 2020.

Selection of entity authorised to audit financial statements

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

The launching of the shareholders agreements with the key persons programme, intended to develop the companies of the Foreign Segment

On 24 April, 2019, the Management and Supervisory Boards of Benefit Systems S.A., on the basis of their resolutions, decided to accept the assumptions of a programme envisaging execution of shareholders' agreements with the key persons with a view to developing the companies of the Foreign Segment so that the key persons will become minority shareholders in specific companies.

In performance of the programme, the Company declared that it would use endeavours so as to procure, by the end of 2026, a third-party investor for the companies of the Foreign Segment, in particular by means of an initial public offering of shares in Benefit Systems International Sp. z o.o. (following a prior transformation of the company into a joint stock company).

The parties of the agreements executed in May and June were Benefit Systems International Sp. z o.o. and:

- Benefit Systems Greece MIKE with its seat in w Athens („BS Greece")
- Benefit Systems d.o.o. with its seat in Zagreb („BS Croatia")
- Benefit Systems Bulgaria EOOD with its seat in Sofia („BS Bulgaria").

The capital increase and the subscription for shares related to the concluded contracts took place after the balance sheet date

The date of completion of the antimonopoly proceedings postponed

On 5 May 2019, the Management Board of the dominant Company received decision from the Chairman of the Office of Competition and Consumer Protection (the "OCCP") providing for another anticipated date of completion of the antimonopoly proceedings; the implied completion date was identified as 30 September 2019.

Decision on the distribution of the Company's net profit for year 2018

In line with the 2016-2019 Distribution of Profits to Shareholders Policy applicable to the Company, on 21 May 2019, the Management Board of the dominant Company adopted resolution concerning proposal, which was to be presented to the Ordinary General Meeting, to appropriate the entire profit totaling PLN 146.0 million, as reported in the financial statements of the dominant Company for year 2018, for the supplementary capital of Benefit Systems S.A. and to recommend that PLN 57 milion be appropriated for a buyback of the Comany's own shares.

The motion was approved in the form of resolution of the General Shareholders Meeting on 25 June 2019.

4.2. MATERIAL EVENTS IN THE GROUP AFTER THE BALANCE SHEET DATE

The following events, which did not need to be reported in the condensed interim financial statements for the first six months of 2019, took place after 30 June 2019:

Resignation of Management Board Member of Benefit Systems S.A.

On 2 July, 2019 Izabela Walczewska-Schneyder resigned from the position of Management Board Member of the Company with the effect from 2 July, 2019.

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

On 30 July 2019, Fitness Academy BIS Sp. z o.o. merged with AM Classic Sp. z o.o. and Jupiter Sport Sp. z o.o. as part of another phase of reorganization of the Group.

4.3. COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

As of the date of this Report, the Management Board of Benefit Systems S.A. consisted of three (3) members, who were the following persons:

- Adam Radzki, Management Board Member,
- Emilia Rogalewicz, Management Board Member,
- Wojciech Szwarc, Management Board Member.

Until 2 July 2019, Ms. Izabela Walczewska-Schneyder held the position of Management Board Member.

As of the date of this Report, the Supervisory Board of the dominant entity was composed of five (5) members, who were the following persons:

- James Van Bergh, Chairman of the Supervisory Board,
- Marcin Marczuk, Deputy Chairman of the Supervisory Board,
- Artur Osuchowski, Member of the Supervisory Board,
- Michael Sanderson, Member of the Supervisory Board, and
- Michael Rohde Pedersen, Member of the Supervisory Board.

In the period from January 1, 2019 to August 22, 2019, the composition of the dominant company's Supervisory Board did not change.

4.4. SHARES OR OTHER RIGHTS TO THEM IN THE POSSESSION OF THE MANAGEMENT BOARD OR SUPERVISORY BOARD MEMBERS

The levels of shares held in Benefit Systems S.A. or allotment certificates (options) held by the Members of the Management Board and Supervisory Boards of the Company as of the date of the report are as follows:

Table 21: Shares held by members of the Management Board of Benefit Systems S.A.

	As at the date of submitting the report for 1H 2019		As at the date of submitting the report for 1Q 2019		
Management Board	**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%	-
Total	**4 101**	**0.14%**	**4 101**	**0.14%**	**-**

Table 22: Benefits for Members of the Management Board in the form of due and potentially due G, H and I series warrants as at the date of submitting the report for 1H 2019

Management Board	Series G warrants granted for 2017	Series H warrants granted for 2018	Series I warrants granted for 2019	Total	Value* (in ths. PLN)
Adam Radzki	1 750	2 250	600	4 600	2 603
Emilia Rogalewicz	2 500	2 250	600	5 350	2 871
Wojciech Szwarc	1 900	2 250	600	4 750	2 657
Total	**6 150**	**6 750**	**1 800**	**14 700**	**8 131**

**The value of payment under vested subscription warrants is equal to the difference between the option strike price and the share price as of the valuation date (13 February, 2018). The valuation of the series G warrants was based on the prices and terms applicable to the 2017 pool of warrants (PLN 357.17); the valuation of the series H warrants was based on the prices and terms applicable to the 2018 pool of warrants (PLN 638.07), and the valuation of the series I warrants was based on the prices and terms applicable to the 2019 pool of warrants (PLN 904.00).*

Table 23: Shares held by members of the Supervisory Board of Benefit Systems S.A.

	As at the date of submitting the report for 1H 2019		As at the date of submitting the report for 1Q 2019		
Supervisory Board	**Number of shares**	**Percentage of share capital**	**Number of shares**	**Percentage of share capital**	**Change**
James van Bergh*	565 432	19.78%	565 432	19.78%	-
Marcin Marczuk	0	0.00%	0	0.00%	-
Artur Osuchowski	0	0.00%	0	0.00%	-

	As at the date of submitting the report for 1H 2019		As at the date of submitting the report for 1Q 2019		
Supervisory Board	**Number of shares**	**Percentage of share capital**	**Number of shares**	**Percentage of share capital**	**Change**
Michael Rohde Pedersen	0	0.00%	0	0.00%	-
Michael Sanderson	0	0.00%	0	0.00%	-
Total	**565 432**	**19,78%**	**565 432**	**19,78%**	**-**

** 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 1H 2019); in addition, a person closely related to the Chairman of the Supervisory Board is the Chairwoman of the Council of Fundacja Drzewo i Jutro, which holds 8.6% of the share capital of Benefit Systems S.A. On 5 August 2019, Foundation Benefit Systems (Fundacja Benefit Systems) changed its name to Fundacja Drzewo i Jutro.*

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

4.5. SHAREHOLDERS

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, E and F granted by the parent company in accordance with the provisions of the Incentive Programme for the years 2014-2016.

Table 24: Shareholder structure

	As at the date of submitting the report for 1H 2019			As at the date of submitting the report for 1Q 2019			
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%	565 432	19,78%	19,78%	-
Benefit Invest Ltd.**	316 634	11,08%	11,08%	316 634	11,08%	11,08%	-
Marek Kamola	245 000	8,57%	8,57%	254 000	8,88%	8,88%	(9 000)
Fundacja Drzewo i Jutro**	245 372	8,58%	8,58%	245 372	8,58%	8,58%	-
MetLife OFE	240 000	8,40%	8,40%	226 468	7,92%	7,92%	13 532
Nationale-Nederlanden OFE	162 000	5,67%	5,67%	150 000	5,25%	5,25%	12 000
Invesco Ltd.	147 496	5,16%	5,16%	147 496	5,16%	5,16%	

Others	936 908	33,35%	33,35%	953 440	33,35%	33,35%	
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%**	**-**

** in accordance with the received statements in 2018 (Invesco ltd) and registrations for the General Shareholders Meeting on the 25 June 2019.*

*** entities linked in the personal and/or capital terms, in accordance with information provided in Note 23.Transactions with affiliates, in the Annual Consolidated Financial Statements for 2018;*

****On 5 August 2019, Foundation Benefit Systems (Fundacja Benefit Systems) changed its name to Fundacja Drzewo i Jutro.*

The share capital of the Dominant Entity amounts to PLN 2 858 842. Number of shares in the share capital: 2 858 842 shares: including 2 204 842 series A shares; 200 000 series B shares; 150 000 series C shares; 120 000 series D shares; and 184 000 series I shares. Shares of all the issues have the par value of PLN 1.00. The total number of votes from all the issued shares amounts to 2 848 842. Participations of individual shareholders in the share capital of Benefit Systems S.A. are equal to their participations in the total number of votes at the General Shareholders Meeting; as of the date of the report, the Dominant Entity held treasury shares in the amount of 54 811 shares and exercised no voting rights therefrom.

4.6. 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.

On 21 May 2019, the Supervisory Board of the dominant Company issued a positive opinion on the motion put forth by the Management Board of the dominant Company to present the Ordinary General Meeting with a proposal to appropriate the entire profit, as reported in the financial statements of the Company for year 2018, in the amount of PLN 146.0 million, for the supplementary capital of the dominant Company and to recommend it to the Ordinary General Meeting to appropriate the sum of PLN 57 milion for a dividend buyback of the dominant Comany's own shares.

On 25 June 2019, Ordinary General Meeting of the dominant Company adopted resolution concerning appropriation of the net profit of the dominant Company for year 2018. Given the buy-back of the dominant Company's own shares as contemplated by its Management Board, acting in line with the 2016-2019 Distribution of Profits to Shareholders Policy, the General Meeting decided to appropriate the entire net profit of PLN 146.0 million for the supplementary capital.

4.7. 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. 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. Specified employees, both among senior executives and employees from middle management can participate in the Incentive Programme. 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. Under this Programme, eligible employees receive subscription warrants, which are convertible into shares 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 3.44% 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 25: Performance thresholds for the Incentive Programme

	Share in the maximum number of warrants for the year		Level of adjusted consolidated pre-tax 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 25: Valuation of options - Incentive Programme

Valuation of the Incentive Programme options - Black and Scholes model	
Dane	2019
X (t) - quotation of shares at the valuation date (PLN)	904.00
P - option exercise price (PLN)	491.93
r - risk-free rate for PLN	1.69%
T - date of expiration	2021-03-31
t - current day (for pricing)	2019-02-12
Sigma - daily volatility	33.85%

**Final, full allocation of warrants*

The expected share volatility was estimated on the basis of historical quotations of shares of the Dominant Entity on the Warsaw Stock Exchange for the period of 02.01.2016 - 31.12.2016 (options for 2017), for the period of 02.01.2017 - 30.12.2017 (options for 2018), and for the period of 02.01.2018 - 30.12.2018 (options for 2019).

The cost of the Programme recognized in the reporting period amounted to PLN 410 thousand and corresponded to realisation of the 50% threshold for the condition of consolidated profit before tax of the Capital Group. Since the origin of the Incentive Programme (2011), the Company has been applying the same measurement methods to the costs of the provision established for the Programme in the profit and loss account.

4.8. MANAGEMENT BOARD'S POSITION REGARDING MATERIALISATION OF THE FINANCIAL PROJECTIONS

The Benefit Systems Group has not published any projections concerning 1st half of 2019.

In current report of 29 April 2019 and in the follow-up correspondence, the Management Board noted that in 2019, they expected a drop in the reported profits of the Group. Deterioration in the financial results was attributable both to the operating activity (revenues from sales B2C at clubs were lower than expected), and to the new method of presentation of the lease agreements (in compliance with IFRS 16).

In the financial statements for the first six months of 2019, the Group changed certain assumptions for calculation of the impact of IFRS 16 (point 6.2.3.1 Influence of the implementation of IFRS 16) to the Consolidated Financial Statement of the Benefit Systems Group for 1H 2019), which will affect the results reported in 2019. Concurrently, with respect to the results for the analogous periods (purified of the impact of IFRS 16 in 2019, and of the non-recurring events in the results for 2018), the Management Board of Benefit Systems S.A. upholds the projection that follows from current report of 29 April 2019.

4.9. SEASONALITY OF THE BUSINESS

The industry in which the Capital Group operates is characterised by seasonability. Traditionally, in the third calendar quarter (coinciding with the 3rd quarter of the financial year of the Group), the activity of the holders of sports cards and carnets is lower than in 1Q, 2Q, and 4Q, which, on general, has an effect on the revenues and profitability of the activities related to sales of sports cards and to the operating of fitness clubs.

4.10. INFORMATION ON BANK LOANS AND BORROWINGS INCURRED BY AND GUARANTIEES AND SURETY EXTENDED TO BENEFIT SYSTEMS GROUP

In the 1st half of 2019 and in the period until publication of this Report, Benefit Systems S.A. and Santander Bank Polska S.A. executed annexes to agreement of 2 April, 2012, envisaging, among other things, a change in the amount of the bank's committment to provide, upon instruction from the customer, a guarantee of up to PLN 65 million over the availability period elapsing on 30 May, 2020. On 25 April, 2019, 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 May, 2020.

Due to the expiry of the time limit to use up investment loan, on 29 April 2019, Benefit Systems S.A. entered with PKO Bank Polski S.A. into an annex to investment loan agreement, which, among other things, introduced time schedule for repayment of the liabilities under the loan.

On 25 June 2019, the dominant Company entered into agreement with Santander Bank Polska S.A. for investment loan of PLN 35 million, which will be used to partially finance the buyback of series B notes. The loan repayment deadline was set on 31 August 2021.

On 28 June 2019, the company paid funds allocated for the buyback of series B notes to the account of the National Depository of Securities (KDPW S.A.). The buyback was carried out in line with the Terms of Bond Issue.

In the 1st half of 2019, the Group procured loans from external entities or institutions in the total amount of 78.5 mln PLN.

4.11. INFORMATION ON LOANS, SURETY AND GUARANTEES GRANTED

In the 1st half of 2019, the Group extended loans to the external entities in the total amount of 6.0 mln PLN. Information on the principal amounts, interest and maturity of loans extended:

Table 26: Loans extended

in thousands PLN	Maturity	Interest	Principal amount
Loans to non-affiliated MultiSport partners	From 10/08/2020 to 10/04/2029	WIBOR 3M + margin	6 027

In the period under review, the Group also stood sureties and extended guarantees to subsidiaries and affiliates

Table 27: Contingent liabilities

in thousands PLN	As of the date of submission of report for 1H 2019	As of the date of submission of report for 1Q 2019	Change
Guarantees and sureties	50 951	49 236	1 715

In the period under review, Benefit Systems S.A. and the companies of its Capital Grup neither stood suretyship for a loan incurred from an entity or institution nor extended a guarantee to an entity or such entity's subsidiary, whereby the total value of such suretyships and/or guarantees would be significant with respect to the level of Benefit Systems S.A.'s equity. The significant level of equity value was adopted in accordance with the Individual Reporting Standards which have been in place since July 2016, on the basis of which a significant level 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.

The above-described contingent liabilities were incurred by the companies of the Polish and Foreign segment. The main reasons behind them are rent payment guarantees. The growth in the value of guarantees in the period under review follows from an increased number of guarantees extended in pace with the growing number of new fitness clubs within the structures of the Group, and, consequently, new liabilities requiring a guarantee.

4.12. INFORMATION ON THE BENEFIT SYSTEMS GROUP'S EXECUTION OF TRANSACTIONS WITH RELATED PARTIES ON NON-MARKET TERMS

During the period under review, the Benefit Systems Group did not enter into any transaction with its affiliates the value of which, whether separately or in aggregate, might be significant, or that were concluded otherwise than at arm's length.

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

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 was set on 30 April, 2019 and then on 30 September, 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 authorities 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.

In their letters of 25 June, 2019, 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 2013, 2014 and 2015 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.

4.14. 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. As at the end of Q2 2019, the number of active sports cards grew by over 21% y-o-y and amounted to 1,332.3 thousand cards (including 1,046.5 thousand pcs. in Poland, which represented growth by 13.8%, and 285.7 thousand pcs. on foregin markets, representing growth by 60.6%).

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

As at 30th June, 2019, Benefit Systems Group comprises 26 subsidiaries and 6 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 201 clubs in Poland (of which 153 are owned by Group's subsidiaries and 48 by group's affiliates) and 23 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.

In order to minimize risks, the proces of reorganization of Group structure was initiated. It involves simplification of the Group structure by way of taking over by Benefit Systems S.A. most of the Group companies which mange the fitness clubs 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 May, 2019, 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 September, 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 21% for both 2017 and 2018., and to 25% for year 2017 and 26% for year 2018 for Benefit Systems Group. 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

Benefit Systems Group 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 Group 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.

Benefit Systems Group 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 Group'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. (since 2011), Fitness Place S.R.O., Beck Box Club Praha S.R.O. (since 2018)), Slovakia (Benefit Systems Slovakia s.r.o. (since 2015) and Fit Invest Slovakia s.r.o. (since 2019)) and Bulgaria (Benefit Systems Bulgaria EOOD, Fit Invest Bulgaria EOOD since 2015). In 2017 the Group started its operations in Croatia (Benefit Systems d.o.o. HR) and in 2018 in Greece (Benefit Systems Greece MIKE).

On the Czech, Bulgarian and Slovakian 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.

Human resources risk

The labour force and the skills of highly qualified key employees, including the managers and executives, are the factors affecting the activity of the Group of Benefit Systems. In the opinion of the Management Board of Benefit Systems S.A., the pace of development of the Group will, in future, depend on its ability to recruit and retain highly qualified managerial staff and key employees; a loss of a substantial number of those persons may have an adverse effect on the operating activity of the Group.

Benefit Systems also classifies movements on the labour market that lead to a growth of expectations and pressure on wages on the part of employees, which may contribute to increase of the operating expenses of the Group related to payroll.

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.

5. STATEMENT OF THE MANAGEMENT BOARD

Acting in compliance with the requirement set out in Regulation of the Minister of Finance of 29 March, 2018 concerning Current and Periodical Information Provided by Issuers of Securities and the Terms for Recognition, as Equivalent, of Information Required by the Legal Regulations of a State not Being a Member State (Journal of Laws [Dz. U.] of 2018, Item 757), the Management Board of Benefit Systems S.A. hereby represents that:

- to the best of their knowledge, interim condensed consolidated financial statements and the comparable data were prepared in line with the applicable accounting principles and give an accurate, true and fair view of the financial situation of the Capital Group of Benefit Systems and its financial result;

- to the best of their knowledge, interim condensed consolidated financial statements and the comparable data were prepared in line with the applicable accounting principles and give an accurate, true and fair view of the financial situation of Benefit Systems S.A. and its financial result;
- the interim consolidated Management Board's report gives a true view of the development, achievements and the situation of the Capital Group of Benefit Systems, including description of risks and threats;
- the entity qualified to audit financial statements that reviewed the interim financial statements, both for the company and for the capital group, was selected in compliance with law. Both the said entity and the certified auditors who carried out the audit satisfied the requirements to provide an unbiased and independent report on the audit in compliance with the applicable provisions of the national laws.

Date	Forename and surname		Signature
22nd August, 2019	Adam Radzki	Member of the Management Board	
22nd August, 2019	Emilia Rogalewicz	Member of the Management Board	
22nd August, 2019	Wojciech Szwarc	Member of the Management Board	