2019

Directors' Report on the operations of Auto Partner S.A. and the Auto Partner Group

IN THE PERIOD FROM JANUARY 1ST TO DECEMBER 31ST 2019

TABLE OF CONTENTS

This document contains the Directors' Report on the operations of the Auto Partner Group in 2019, as well as the Directors' Report on the operations of the Parent, prepared in accordance with Section 71.8 of the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2019.

1 THE COMPANY AND THE GROUP

1.1 OVERVIEW OF THE GROUP

The Group operates under the name of Auto Partner (the "Group"), with Auto Partner S.A. of Bieruń (the "Company") as the Parent. Key details of the Parent:

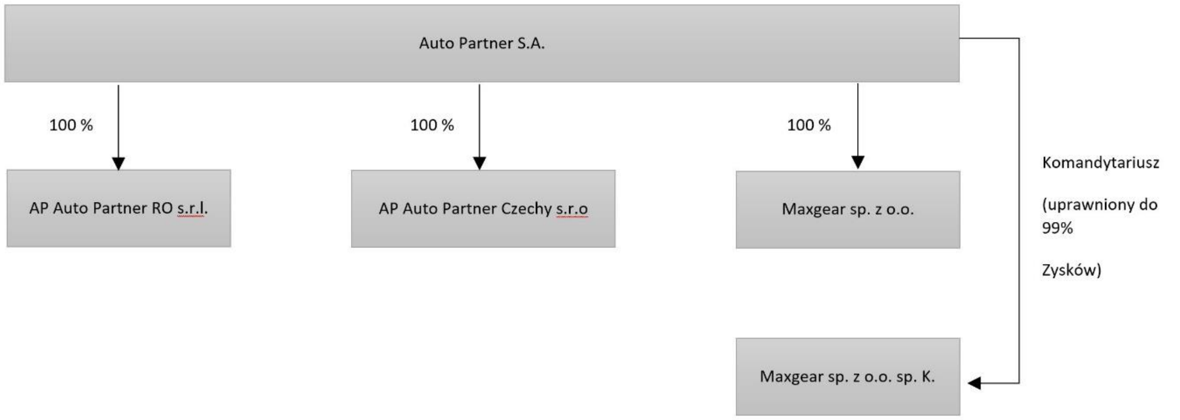
Registered office:	Bieruń
Legal form:	joint stock company
Country of incorporation:	Poland
Address:	ul. Ekonomiczna 20,
	43-150 Bieruń
Tel./Fax:	+48 32 325 15 00 / +48 32 325 15 20
Email:	kontakt@autopartner.com
Website:	www.autopartner.com

As at December 31st 2019, the Group included the following subsidiaries: Maxgear Spółka z ograniczoną odpowiedzialnością of Tychy (wholly-owned by the Parent), Maxgear Spółka z ograniczoną odpowiedzialnością spółka komandytowa of Bieruń (the Parent is a limited partner in the company, entitled to 99% of its profits), AP Auto Partner CZ s.r.o. of Prague, the Czech Republic (wholly-owned by the Parent), and AP Auto Partner RO s.r.l of Timisoara, Romania (wholly-owned by the Parent).

The companies are consolidated in the Group's financial statements on a full basis.

Apart from conducting its business involving the sale of automotive parts and accessories, the Company, as the Parent, acts as the holding company in the Group and coordinates the operation of its subsidiaries and creation of a uniform trading, marketing, investment and credit policy for the Group.

The chart below presents the structure of the Group as at the reporting date, including all of the Company's subsidiaries.



Source: the Group.

1.2 SUBSIDIARIES

Below is presented a list of subsidiaries forming part of the Company's Group, including their key details.

Maxgear sp. z o.o.

Maxgear sp. z o.o., with its registered office at ul. Bałuckiego 4, 43-100 Tychy, Poland, is entered in the Register of Businesses at the National Court Register under No. 0000279190. The company's share capital amounts to PLN 50,000.00 and is divided into 100 shares with a par value of PLN 500 per share. The company is wholly owned by the Parent, holding 100% of its shares and the right to exercise all voting rights at its General Meeting.

Maxgear sp. z o.o. is a general partner in Maxgear sp. z o.o. sp.k., which it represents and whose operations it manages. Maxgear sp. z o.o. does not carry out any operating activities. The Group's strategy provides for further brand value building. In this model, Maxgear sp. z o.o. is to continue as an entity representing Maxgear sp. z o.o. sp.k. and managing its operations.

Maxgear sp. z o.o. sp.k.

Maxgear sp. z o.o. sp.k., with its registered office at ul. Ekonomiczna 20, 43-150 Bieruń, Poland, is entered in the Register of Businesses at the National Court Register under No. 0000332893. Its general partner is Maxgear sp. z o.o. The Company is its limited partner, with the limited partner's contribution amount of PLN 20,000 and a 99% share in the company's profits. The right to the remaining 1% of profits is held by Maxgear sp. z o.o.

The company's business involves purchasing goods which are then sold by the Group under the Maxgear brand. Most of the goods are imported from Asia and then resold to the Company for further distribution.

AP Auto Partner CZ s.r.o.

AP Auto Partner CZ s.r.o., with its registered office in Prague, the Czech Republic, is incorporated under the Czech law and is responsible for the Group's operations in the Czech market. AP Auto Partner CZ s.r.o. is wholly owned by the Company, which holds the right to exercise all voting rights at its General Meeting. AP Auto Partner CZ s.r.o. is engaged in sales in the Czech market through a warehouse in Prague.

AP Auto Partner RO s.r.l.

AP Auto Partner RO s.r.l., with its registered office in Timisoara, Romania, is incorporated under the Romanian law and is to be responsible for the Group's operations in the Romanian market. AP Auto Partner RO s.r.l. is wholly owned by the Company, which holds the right to exercise all voting rights at its General Meeting. The Group plans to establish warehouses in Romania based on this company, to facilitate sales in this market.

1.3 CHANGES IN THE GROUP'S KEY MANAGEMENT POLICIES AND ITS ORGANISATION

On September 7th 2019, the term of office of Michał Breguła, member of the Company's Management Board, expired upon his death. On September 9th 2019, the Supervisory Board resolved that the Management Board would consist of three members.

On October 10th 2019, the Supervisory Board resolved to appoint Piotr Janta, then member of the Management Board, as Vice President of the Management Board.

In Q4 2019, the Management Board decided to wind up AP Auto Partner Latvia SIA of Latvia, which did not carry out any operations. On January 16th 2020, Auto Partner S.A. received the decision on its removal from the Register of Businesses of Latvia with effect from November 28th 2019. The Company intends to continue expansion in the Latvian market through the existing distribution channels.

Apart from the above, in 2019 there were no other material changes in the Group's key management policies or in its organisation.

On January 10th 2020, the term of office of Katarzyna Górecka, member of the Management Board, expired as a result of her resignation. The Extraordinary General Meeting held on January 10th 2020 appointed Mateusz Melich to the Supervisory Board.

1.4 ORGANISATIONAL AND EQUITY LINKS OF THE COMPANY AND OTHER GROUP COMPANIES WITH THIRD-PARTY ENTITIES; INVESTMENTS IN POLAND AND ABROAD, INCLUDING EQUITY INVESTMENTS OUTSIDE THE GROUP

In 2019, there were no material organisational or equity links of the Company and other Group companies with third-party entities. Neither the Company or any other Group companies made any investments in securities, equity instruments, real property or intangible assets.

1.5 INCENTIVE SCHEME FOR THE GROUP'S KEY EMPLOYEES BASED ON SUBSCRIPTION WARRANTS

Incentive Scheme for 2016–2018

The Incentive Scheme of Auto Partner S.A. was implemented on the basis of Resolution No 2 of the Extraordinary General Meeting of Auto Partner S.A. dated March 17th 2016, on the issuance of Series B subscription warrants with the pre-emptive rights waived, a conditional increase in the Company's share capital with the pre-emptive rights waived, the implementation of an incentive scheme at the Company, and amendments to the Company's Articles of Association. The Incentive Scheme for key management was implemented for 2016–2018, with the last period settled in 2019.

Initially, the persons eligible to participate in the Incentive Scheme were:

Full name of eligible person	Position
Andrzej Manowski	Vice President of the Auto Partner S.A. Management Board
Piotr Janta	Member of the Auto Partner S.A. Management Board
Magdalena Zwolińska	Member of the Auto Partner S.A. Management Board (until December 31st 2017)
Grzegorz Pal	Procurement Officer at Auto Partner S.A.
Arkadiusz Cieplak	Sales Officer at Maxgear sp. z o. o.

Source: the Group.

The issue of 2,300,000 Series B subscription warrants, as stipulated in the resolution of March 17th 2016, was conditional on the registration of the conditional increase in the Company's share capital by the court, which took place in 2016, and on the achievement of certain economic and business targets.

One Series B subscription warrant conferred the right to subscribe for one Series I ordinary bearer share. The issue price for Series I shares was set at 90% of the issue price of Series H shares in the public offering, i.e. PLN 2.20 (two złoty twenty grosz).

The number of warrants that could be acquired by the eligible persons was defined for individual reference periods on the basis of achievement of the economic and business targets.

The first reference period lasted from January 1st to December 31st 2016. The second reference period lasted from January 1st to December 31st 2017. For detailed information on the exercise of the incentive scheme entitlements in those periods, see the Directors' Reports on the operations of the Auto Partner Group in the financial years 2017 and 2018, forming part of the 2017 and 2018 full-year reports of the Company and the Group.

The third reference period lasted from January 1st to December 31st 2018.

Pursuant to the Auto Partner S.A. Incentive Scheme Rules, as adopted by the Company's Supervisory Board on March 20th 2016, within 60 days of the issue date of the Auto Partner Group's consolidated financial statements for 2018, the Supervisory Board was obliged to pass a resolution specifying the number of warrants to be granted under the scheme to each eligible person in the Fixed Tranche and the Variable Tranche. The maximum number of warrants available in the third reference period is 550,000, including 495,000 in the Fixed Tranche and 55,000 in the Variable Tranche.

In the performance of the above obligation, on April 9th 2019 the Supervisory Board passed Resolution No 2, whereby it specified the numbers of subscription warrants to be granted to the eligible persons in the Fixed Tranche and the Variable Tranche for the third reference period. The numbers of subscription warrants were defined in accordance with the Incentive Scheme Rules, based on the data disclosed in the Auto Partner Group's audited consolidated financial statements for 2018, issued on April 4th 2019, and verification of the achievement of the business targets provided for in the Rules, and were as follows:

- Andrzej Manowski (Vice President of the Management Board) – 190,000 (one hundred and ninety thousand) Series B subscription warrants;
- Piotr Janta (member of the Management Board until September 7th 2019): 190,000 (one hundred and ninety thousand) Series B subscription warrants;

- Michał Breguła (member of the Management Board): 5,000 (five thousand) Series B subscription warrants;
- Grzegorz Pal (Procurement Officer): 82,500 (eighty-two thousand and five hundred) Series B subscription warrants;
- Arkadiusz Cieplak (Sales Officer): 27,500 (twenty-two thousand and five hundred) Series B subscription warrants.

On April 17th 2019, in the exercise of the Series B subscription warrants, the above persons subscribed for 495,000 Series I shares in the Company at an issue price of PLN 1.98 per share in exchange for cash contributions totalling PLN 980,100.

The third reference period is the last period of the Incentive Scheme implemented based on the Extraordinary General Meeting's Resolution No. 2 of March 17th 2016.

Incentive Scheme for the years 2019-2021

On April 9th 2019, by Resolution No 14, the Supervisory Board adopted the Rules of the 2019–2021 Incentive Scheme for members of the Auto Partner S.A. Management Board. The purpose of the Scheme is to establish an incentive mechanism that will ensure long-term growth of the shareholder value, reduce turnover of the Company's management staff, and put in place a system whereby members of the Management Board would be rewarded for their contribution to the growth of the Company's value. The Scheme is addressed to members of the Management Board: Andrzej Manowski, Piotr Janta and Michał Breguła. However, the mandate of Michał Breguła expired on September 7th 2019, i.e. during the reference period. Total bonuses to be paid in accordance with the Rules will not exceed PLN 5,360,000.00 during the whole term of the Scheme, i.e. from 2019 to 2021.

On May 30th 2019, the General Meeting of Maxgear Sp. z o.o. passed the Rules of the Incentive Scheme for members of the Maxgear sp. z o.o. Management Board: Grzegorz Pal and Arkadiusz Cieplak, with the terms corresponding to the terms of the Rules of the Incentive Scheme for members of the Auto Partner S.A. Management Board. The bonuses to be paid under the Rules to the members of the Maxgear Sp. z o.o. Management Board will not exceed PLN 2,640,000.00 during the whole term of the Scheme, i.e. from 2019 to 2021.

The Supervisory Board of Auto Partner S.A. and the General Meeting of Maxgear Sp. z o.o. defined further details of the Incentive Scheme Rules for members of the Management Boards of Auto Partner S.A. and Maxgear Sp. z o.o. by deciding that the bonuses to be paid to the eligible members of the Management Boards would be calculated on the basis of financial data without taking into account the effect of IFRS 16 (Leases) with regard to contracts that are classified as finance leases under IFRS 16 but were not treated as finance leases under IAS 17, i.e.:

- depreciation adjusted for depreciation under contracts classified as finance leases under IFRS 16 since January 1st 2019, which were not classified as finance leases under IAS 17;

- lease liabilities adjusted for the amount of lease liabilities under contracts classified as finance leases under IFRS 16 since January 1st 2019, which were not classified as finance leases under IAS 17;

- EBIT adjusted for the effect of taking to profit or loss of the costs related to contracts classified as finance leases under IFRS 16 since January 1st 2019, which were not classified as finance leases under IAS 17

The Group did not have any other liabilities under its share-based incentive or bonus schemes, or retirement pensions and similar benefits for former members of its management, supervisory or administration bodies.

1.6 TOTAL NUMBER AND PAR VALUE OF COMPANY SHARES AND SHARES IN SUBSIDIARIES HELD BY THE COMPANY'S MANAGEMENT AND SUPERVISORY STAFF AS AT THE RELEASE DATE OF THIS REPORT

The table below presents the number of shares held by management and supervisory persons as at this report release date.

Full name	Position	Number of Company shares held	Par value of the shares (PLN)
Aleksander Górecki	President of the Management Board	29,883,577	2,988,357.70
Andrzej Manowski	Vice President of the Management Board	375,000	37,500.00
Piotr Janta	Vice President of the Management Board	286,000	28,600.00
Jarosław Plisz	Chairperson of the Supervisory Board	20	2.00
	total:	**30,544,597**	**3,054,459.70**

Source: the Group.

The table below presents the number of shares owned by the management and supervisory personnel as at December 31st 2019:

Full name	Position	Number of Company shares held	Par value of the shares (PLN)
Aleksander Górecki	President of the Management Board	29,883,577	2,988,357.70
Andrzej Manowski	Vice President of the Management Board	375,000	37,500.00
Piotr Janta	Vice President of the Management Board	290,000	29,000.00
Katarzyna Górecka	Member of the Supervisory Board	35,060,681	3,506,068.10
Jarosław Plisz	Chairperson of the Supervisory Board	20	2.00
	total:	**65,609,278**	**6,560,927.80**

Source: the Group.

On January 10th 2020, the mandate of Katarzyna Górecka, member of the Supervisory Board, expired as a result of her resignation.

None of the members of the Management and Supervisory Board holds any shares in the Company's subsidiaries.

1.7 EMPLOYEE STOCK OWNERSHIP PLAN CONTROL SYSTEM

Group companies do not operate any employee stock option schemes.

1.8 Basis of preparation of the separate and consolidated full-year financial statements

The consolidated and separate financial statements of the Auto Partner Group for the period from January 1st to December 31st 2019 were prepared on the basis of the International Financial Reporting Standards and related interpretations issued in the form of the European Commission's regulations.

The financial statements were prepared on a going concern basis. As at the date of the financial statements, there were no circumstances indicating any threat to the Group and the Company continuing as going concerns.

For detailed rules followed in the preparation of the separate and consolidated financial statements, see Note 2 and Note 3 to the separate and consolidated financial statements for 2019.

1.9 Remuneration of members of the Auto Partner S.A. Management and Supervisory Boards

Remuneration paid to members of the Company's Management Board in 2019

The remuneration paid by the Company and its subsidiaries to members of the Management Board totalled PLN 753,489.11 (gross). In 2019, individual members of the Management Board were remunerated under appointment to the position of Management Board member, or under an employment or service contract.

Full name	Position on the Management Board	Gross remuneration paid by the Company under appointment (PLN)	Gross remuneration paid by the Company under employment contract (PLN)	Gross remuneration paid by subsidiaries under employment contract (PLN)	Remuneration paid by subsidiaries under service contract (PLN)	Total remuneration paid by the Company and subsidiaries in 2019 (PLN)
Aleksander Górecki	President of the Management Board	120,000	-	60,000	-	180,000.00
Andrzej Manowski	Vice President of the Management Board	136,539	83,530.75	-	-	220,069.75
Piotr Janta	Vice President of the Management Board	136,539	70,946.40	-	-	207,485.40
Michał Breguła*	Member of the Management Board	9,000	136,933.96	-	-	145,933.96

** The mandate of Michał Breguła expired on September 7th 2019.*

Source: the Group.

In 2019, members of the Company's Management Board did not receive any additional awards, bonuses or benefits from the Company or its subsidiaries other than under the Incentive Scheme described in Section 1.5.

Remuneration of the Company's supervisory staff paid in 2019

The remuneration paid to members of the Supervisory Board totalled PLN 80,000.00 (gross). The individual members received remuneration under appointment to the position of Supervisory Board member in 2019 on the basis of the resolution of the General Shareholders' Meeting of November 12th 2015.

Full name	Position on the Supervisory Board	Gross remuneration paid by the Company under appointment in 2019 (PLN)
Jarosław Plisz	Chairperson of the Supervisory Board	16,000
Zygmunt Grajkowski	Vice President of the Supervisory Board	16,000
Katarzyna Górecka	Member of the Supervisory Board	16,000
Bogumił Kamiński	Member of the Supervisory Board	16,000
Bogumił Woźny	Member of the Supervisory Board	16,000

Source: the Group.

In 2019, members of the Company's Supervisory Board did not receive any additional remuneration form the Company or its subsidiaries other than the remuneration under their appointment. None of those persons received any additional awards, bonuses or benefits from the Company in 2019.

2 OVERVIEW OF THE COMPANY'S AND THE GROUP'S BUSINESS

2.1 KEY ECONOMIC AND FINANCIAL DATA

The analysis of the Company's and the Group's financial and operating position was conducted on the basis of the audited separate and consolidated financial statements for 2019, prepared in accordance with the IFRS.

The table below presents selected items of the separate and consolidated statements of profit or loss and other comprehensive income in the periods specified.

	For year ended Dec 31 separate financial statements		For year ended Dec 31 consolidated financial statements		For Q4 consolidated financial statements	
	2019	2018	2019	2018	2019	2018
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Continuing operations						
Revenue	1,479,075	1,155,204	1,479,373	1,154,993	368,280	293,946
Cost of sales	(1,112,774)	(865,064)	(1,092,473)	(847,970)	(266,443)	(214,565)
Gross profit (loss)	**366,301**	**290,140**	**386,900**	**307,023**	**101,837**	**79,381**
Distribution costs and marketing expenses	(172,067)	(131,599)	(172,587)	(132,712)	(46,741)	(34,543)
Storage (logistics) costs	(101,107)	(71,843)	(101,429)	(73,157)	(25,381)	(20,659)
Administrative expenses	(19,974)	(14,521)	(25,060)	(18,205)	(7,023)	(5,306)
Other gains (losses), net	(3,078)	(2,706)	(3,636)	(2,072)	(1,575)	(362)
Other income	288	340	337	374	133	161
Other expenses	(709)	(288)	(750)	(279)	(312)	(71)
Operating profit (loss)	**69,654**	**68,583**	**83,775**	**80,972**	**20,938**	**18,601**
Finance income	18,684	14,786	256	525	186	(549)
Finance costs	(9,991)	(7,451)	(9,795)	(7,196)	(2,515)	(1,010)
Profit (loss) before tax	**78,347**	**75,918**	**74,236**	**74,301**	**18,609**	**17,042**
Income tax	(15,754)	(15,910)	(15,522)	(15,659)	(4,486)	(3,872)
Net profit (loss) from continuing operations	**62,593**	**60,008**	**58,714**	**58,642**	**14,123**	**13,170**
Discontinued operations						
Net profit (loss) from discontinued operations	-	-	-	-	-	-
NET PROFIT (LOSS)	**62,593**	**60,008**	**58,714**	**58,642**	**174,123**	**13,170**
Other comprehensive income, net	-	-	-	-	-	

Translation reserve	-	-	(18)	(8)	32	(10)
TOTAL COMPREHENSIVE INCOME	**65,593**	**60,008**	**58,696**	**58,634**	**14,155**	**13,160**

Source: the Group, consolidated and separate financial statements.

Revenue

Revenue from sale of merchandise accounted for the major share of total revenue and reached 99.9%, as in the previous years, which is due to the nature of the Group's business. Revenue from sale of merchandise includes revenue from sales of suspension and steering system parts, braking system parts, shock absorbers and springs, filters, fuel system parts, seals and engine parts, drive belts and rollers, electrical systems, cooling and air-conditioning parts, lines, wires, bands, oils and car chemicals, wipers, exhaust systems, and accessories. Revenue from rendering of services included mainly revenue from sales of training and transport services.

In 2019, the Group's revenue was PLN 1,479,373 thousand, up by PLN 324,380 thousand, or 28.1% relative to the PLN 1,154,993 thousand reported in 2018.

The growth in revenue in the period was mainly attributable to the increased scale of the Group's operations as a result of: (i) development of the distribution network, both in terms of the number of new branches opened (in 2019 it rose by 7, from 83 in 2018 to 90) and better geographical coverage of the Polish market, (ii) expansion of the product mix, (iii) better matching of the product range with the needs of customers in different price segments, (iv) gradual optimisation and improvement of customer service, and (v) growth of the Polish market as a whole (estimated by the Group at approximately 5%).

The territorial expansion into the Czech market through a subsidiary offering goods to repair workshops had no material effect on the Group's revenue in 2019. The company is still in the development phase.

Cost of sales

In 2019, the Group's cost of sales represented 73.8% of the revenue, up 0.4pp on the figure reported in 2018, when it stood at 73.4%.

In 2019, the Group's cost of sales was PLN 1,092,473 thousand, up by PLN 244,503 thousand, or 28.8%, from PLN 847,970 thousand in 2018, while revenue increased by 28.1% in the same period. The higher cost of sales in the period was caused chiefly by: (i) increased scale of the Group's operations, and the resulting growth in the order and sales volumes. Factors with a positive effect on the cost of sales were mainly volume bonuses from suppliers and membership of the Global One procurement group.

Gross profit (loss)

In 2019, the Group's gross profit was PLN 386,900 thousand, up by PLN 79,877 thousand, or 26.0%, from PLN 307,023 thousand in 2018, which translated into a 0.4 pp decrease in gross margin, from 26.6% in 2018 to 26.2% in 2019. The lower gross margin figure was attributable to a temporary decrease in gross margin in the second quarter of 2019, related to the Company's efforts to find new markets for its goods (new markets and customers). Another factor driving down the gross margin was a further substantial increase in the share of export sales, generating lower gross margins but also lower operating expenses.

In Q4 2019, the Group's gross profit reached PLN 101,837 thousand, up by PLN 22,456 thousand, or 28.3%, on the PLN 79,381 thousand earned in Q4 2018. This increase relative to the previous periods of 2019 was mainly attributable to the annual settlement of bonuses from suppliers, whose amounts exceeded the Group's previous estimates.

Distribution costs and marketing expenses, logistics costs, administrative expenses

In 2019, the Group's distribution costs and marketing expenses, logistics costs, and administrative expenses amounted to PLN 299,076 thousand, up by PLN 75,002 thousand, or 33.5%, from PLN 224,074 thousand in 2018. The increase in this cost group was 5.4pp higher than growth in the Group's revenue.

The above costs totalled PLN 79,145 thousand in Q4 2019, up by PLN 18,637 thousand, or 30.8%, from PLN 60,508 thousand in Q4 2018.

Distribution costs and marketing expenses amounted to PLN 172,587 thousand in 2019, up by PLN 39,875 thousand, or 30.0%, on PLN 132,712 thousand in 2018. They are strongly correlated with revenue, and their higher amount in the period was due to an increase in the scale of business, including in particular the opening of new branches.

In 2019, the Group's storage (logistics) costs grew to PLN 101,429 thousand, up by PLN 28,272 thousand, or 38.6%, relative to PLN 73,157 thousand in 2018. The growth was driven mainly by an increase in storage space in the central warehouse in Bieruń in 2019, opening of new branches, and employee wage pressures.

Administrative expenses amounted to PLN 25,060 thousand in 2019, up by PLN 6,855 thousand, or 37.7% on PLN 18,205 thousand in 2018. The year-on-year increase was attributable to the Group's growth.

Other gains (losses) net

Net other gains (losses) included net exchange differences arising in operating activities and other gains and losses. Exchange differences arising in operating activities are recognised mainly for exchange differences resulting from the measurement or payment of amounts under purchase invoices and sales to foreign trading partners.

Net other gains (losses) of the Group in 2019 stood at PLN (3,636) thousand, up by PLN 1,564 thousand, or 75.5% on PLN (2,072) thousand, with the increase driven chiefly by the amount of exchange differences: PLN (1,652) thousand compared with PLN (107) thousand in 2018. Other important items were impairment losses on receivables and receivables written off, which were higher by PLN 898 thousand and reached PLN 2,070 thousand in 2019, compared with PLN 1,172 thousand in 2018.

Other income and expenses

In 2019, the Group's other income and expenses were not significant.

Other income in 2019 was PLN 337 thousand, down by PLN 37 thousand, or 9.9%, from PLN 374 thousand in 2018.

Other expenses in 2019 amounted to PLN 750 thousand, up by PLN 471 thousand, or 168.8%, from PLN 279 thousand in 2018.

Operating profit (loss)

As a result of the factors described above, the Group reported an operating profit of PLN 83,775 thousand for 2019, up by PLN 2,803 thousand, or 3.5%, from PLN 80,972 thousand in 2018.

In Q4 2019, operating profit was PLN 20,938 thousand, up by PLN 2,337 thousand, or 12.6%, from PLN 18,601 thousand in Q4 2018.

Finance income and costs

In 2019, the Group's finance income was PLN 256 thousand, down by PLN 269 thousand from PLN 525 thousand in 2018. The main factor behind the decline was the absence of gains on forward contracts (realised and unrealised), which in 2018 amounted to PLN 429 thousand (presented on a net basis).

Interest expense of PLN 8,665 thousand was the largest contributor (88.5%) to the Group's finance costs in 2019. It went up by PLN 1,991 thousand on 2018, when it stood at PLN 6,674 thousand. In 2019, the Group's total finance costs grew to PLN 9,795 thousand, by PLN 2,599 thousand, or 36.1% on PLN 7,196 thousand in 2018, with the difference following mainly from the first-time application of IFRS 16 *Leases* in 2019, which caused recognition of interest expense of PLN 1,259 thousand on lease contracts that were classified as finance leases in the financial statements for 2019.

In Q4 2019, finance income and expenses amounted to PLN (2,329) thousand, down by PLN 770 thousand on PLN (1,559) thousand in Q4 2018.

Profit (loss) before tax

In 2019, the Group posted profit before tax of PLN 74,236 thousand, down by PLN 65 thousand from PLN 74,301 thousand in 2018.

On a quarterly basis, consolidated profit before tax for Q4 2019 was PLN 18,609 thousand, up PLN by 1,567 thousand on 17,042 thousand in Q4 2018.

Income tax

In 2019, the Group disclosed tax expense of PLN 15,522 thousand, with current income tax accounting for the major part of the income tax amount. The effective tax rate was 20.9%.

Net profit

As a result of the factors described above, the Group's net profit for 2019 came in at PLN 58,714 thousand, up by 0.1% on 2018, when the Group posted a net profit of PLN 58,642 thousand.

In Q4 2019, net profit was PLN 14,123 thousand, up by PLN 953 thousand on PLN 13,170 thousand in the fourth quarter of 2018.

2.2 EXPENSES BY NATURE

The table below presents the Group's operating expenses for the periods indicated.

	For year ended Dec 31			
	2019 PLN ’000	2018 PLN ’000	change PLN'000	change [%]
Depreciation and amortisation	20,084	8,666	11,418	131.8%
Raw materials and consumables used	13,619	9,244	4,375	47.3%
Services	145,575	115,320	30,255	26.2%
Taxes and charges	3,315	2,484	831.	33.5%
Employee benefits expense	102,959	77,321	25,638	33.2%
Other expenses	13,665	11,198	2,467	22.0%
Merchandise and materials sold	1,092,332	847,811	244,521	28.8%
Total costs by nature of expense	**1,391,549**	**1,072,044**	**319,505**	**29.8%**

Source: the Group, consolidated financial statements.

Operating expenses include total cost of sales (cost of products, merchandise and materials sold, and cost of services), distribution costs and marketing expenses, storage (logistics) costs and administrative expenses, by nature.

In 2019, the items with the largest share in the Group's operating expenses were cost of merchandise and materials (78.5%), cost of services (10.5%) and employee benefits expense (7.4%).

In 2019, the Group's operating expenses amounted to PLN 1,391,549 thousand, up by PLN 319,505 thousand, or 29.8%, compared with PLN 1,072,044 thousand in 2018. The increase was mainly attributable to a PLN 244,521 thousand, or 28.8%, growth in the cost of merchandise and materials, from PLN 847,811 thousand in 2018 to PLN 1,092,332 thousand in 2019. Other contributing factors were an increase in the cost of services of PLN 30,255 thousand, or 26.2%, from PLN 115,320 thousand in 2018 to PLN 145,575 thousand in 2019, as well as higher employee benefits expense, which rose by PLN 25,638 thousand, or 33.2%, from PLN 77,321 thousand in 2018 to PLN 102,959 thousand in 2019.

Cost of merchandise and materials sold largely corresponds to the cost of sales, and its increase in 2019 was proportional to the increase in sales.

In 2019, services mainly included transport services (their cost accounts for nearly half of the total cost of services), marketing and advertising, and contingent work. The growth of those cost items was driven mainly by increased use of contingent staff hired through job agencies, the opening of new branches, and the transport costs. Increased logistics costs followed from the opening of new branches and new export directions, as well as higher rates on the transport market.

Employee benefits expense includes chiefly salaries and wages. Its increase in 2019 was attributable to a 21.8% increase in headcount in connection with the growth of storage space in the central warehouse in Bieruń during the financial year, the opening of new branches, and the Group's expanded business scale. At the same time, average pay was up by 9.3%, driven by an increase in the minimum wages, increase in wages on the labour market, and a low unemployment rate, which limited the availability of employees and created wage pressures.

2.3 ASSESSMENT OF FACTORS AND NON-RECURRING EVENTS WITH A BEARING ON THE OPERATING RESULTS

In 2019, the Group again recorded a rapid increase in turnover, both on the domestic market and through geographical expansion into foreign markets. The expansion was achieved mainly through the activities of Auto Partner S.A., but with a contribution from the Czech subsidiary, for which 2019 was the second full financial year.

2019 was the first year in which the new IFRS 16 was effective. For more detailed information, see Note 2 to the consolidated financial statements.

2.4 SIGNIFICANT EVENTS WITH A MATERIAL BEARING ON OPERATIONS AND FINANCIAL PERFORMANCE

- In Q1 2019, the storage and office space at the current logistics and storage centre in Bieruń was extended by 11,090 m² of warehouse space and 500 m² of office space. Furthermore, on February 5th 2019, the Auto Partner S.A. Management Board gave notice of the acceptance of the offer of WestInvest Gesellschaft für Investmentfonds mbH dated January 24th 2019, concerning lease of additional space in the logistics park in Bieruń. The notice was given in the exercise of the right of first refusal with respect to lease of the space, guaranteed to Auto Partner S.A. under the lease contract. In connection with the notice, an acceptance report was signed for the new space on October 31st 2019, and as of November 1st 2019 the area leased at the facilities in Bieruń increased by 3,675.60 m^2 of warehouse space and 114.35 m^2 of office space.

- On April 5th 2019, the Company's Management Board passed a resolution to recommend payment of dividend of PLN 2,602,500 to the Company's shareholders, i.e. PLN 0.02 per share, and allocation of the balance of the net profit for the financial year 2018, of PLN 57,405,385.29, to the Company's statutory reserve funds. At its meeting on April 9th 2019, the Company's Supervisory Board approved the Management Board's recommendation. On May 24th 2019, the Annual General Meeting of Auto Partner S.A. resolved on the allocation of the profit for the financial year 2018 in accordance with the Management Board's and Supervisory Board's recommendations. Accordingly, on June 12th 2019, the Company paid dividend of PLN 2,602,500, i.e. PLN 0.02 per share. The dividend was paid in respect of all 130,125,000 Company shares.
- On April 9th 2019, the Supervisory Board adopted the Incentive Scheme Rules for members of the Auto Partner Management Board for 2019–2021. The purpose of the scheme is to establish mechanisms to encourage activities that will ensure long-term growth of the shareholder value, reduce turnover of the Company's management staff, and reward their contribution to the shareholder value growth. The Incentive Scheme is addressed to members of the Management Board: Andrzej Manowski, Piotr Janta and Michał Breguła. However, the mandate of Michał Breguła expired on September 7th 2019, i.e. during the reference period. Total bonuses to be paid in accordance with the Rules will not exceed PLN 5,360,000.00 during the whole term of the Scheme.
- On May 30th 2019, the General Meeting of Maxgear Sp. z o.o. adopted the Incentive Scheme Rules for members of the Maxgear Sp. z o.o. Management Board for 2019–2021. The Scheme is addressed to Grzegorz Pal and Arkadiusz Cieplak. Its terms will be the same as those provided for in the Rules of the Incentive Scheme for members of the Auto Partner S.A. Management Board. The bonuses to be paid under the Incentive Scheme Rules for members of the Maxgear Sp. z o.o. Management Board will not exceed PLN 2,640,000.00 during the whole term of the Scheme, i.e. from 2019 to 2021.

Furthermore, in 2019, the Company also executed annexes to credit facility agreements and factoring agreements described in Sections 2.7 and 2.9 of this report.

2.5 KEY PRODUCTS, GOODS AND SERVICES

The Group is a specialised logistics operator whose principal business activity consists in the organisation of distribution of vehicle spare parts directly from manufacturers to end users. It imports and distributes parts for passenger cars and delivery vehicles in the market for spare parts classified in accordance with the GVO regulations and European Union directives. The Group operates as a platform for sale, mainly via electronic channels, and supply logistics of spare parts, which are delivered on a just-in-time basis to distributed customers: repair workshops and stores.

The Group offers a wide range of spare parts. The key product category is spare parts for European, Japanese and Korean cars.

The Group's sales by product group:

Product groups	2019 share (%)	2018 share (%)
SUSPENSION	17%	17%
BRAKES	15%	14%
DRIVETRAIN	12%	12%
ELECTRICAL SYSTEMS	9%	10%
CONSUMABLES/ ACCESSORIES	9%	10%
ENGINE – CONSUMABLES	9%	9%
ENGINE – REPAIRS	8%	8%
FILTERS	6%	6%
EQUIPMENT FOR REPAIR WORKSHOPS	2%	3%
EXHAUST SYSTEM	2%	2%
AIR CONDITIONING SYSTEM	2%	2%
HYDRAULIC PARTS	2%	2%
ENGINE COOLING SYSTEM	1%	1%
BODY	1%	1%
TUROBCHARGERS	1%	1%
OTHER	3%	3%

Source: the Group.

Supply sources

The goods offered by the Group are sourced from more than 200 external suppliers. The largest 10 external suppliers account for approximately 40% of total sales. The Group is not dependent on external suppliers.

The Group's 10 largest external suppliers include (in alphabetical order):

- CONTI TECH ANTRIEBSSYSTEME GMBH: CONTI TECH brand provider, main supplier of timing gear sets and timing belts, V-belts and multi-rib belts. ContiTech is an autonomous division of Continental AG.
- FERDINAND BILSTEIN GMBH+CO.KG: supplier of the FEBI oraz BLUEPRINT brands. The range of FEBI products includes a number of products in almost each product group. The group of products of key importance to the Group's sales are suspension parts.
- MEYLE AG: MEYLE brand supplier working with the Group since 1999. The Group sells all automotive parts offered by that supplier. Strong points of the Group's cooperation with MEYLE AG include joint promotional campaigns organised with the Group and very short delivery times. The product groups offered by that supplier that are of key importance to the Group are brakes, suspension and filters. The product range of Meyle currently includes 18,500 products. Steering and suspension parts, rubber-to-metal parts, brakes and shock absorbers account for the largest portion of MAYLE's production.

- ROBERT BOSCH SPÓŁKA Z O.O.: supplier of the BOSCH brand. The Group sells most of the product range offered by that supplier. Bosch's offering includes fuel systems (DIESEL) and many products which are not offered by other suppliers.
- SCHAEFFLER POLSKA SP. Z O.O.: supplier of the RUVILLE, INA, FAG, and LUK brands. The key product group of this supplier is clutches, rollers and tensioners. Its product range includes also wheel bearings, timing gear sets, water pumps, and joints.
- SKF POLSKA S.A. – supplier of wheel bearings, timing gear sets and timing set gear parts and water pumps. Products available in the highest price tier in the Premium segment.
- THYSSENKRUPP BILSTEIN GMBH – supplier of Bilstein brand shock absorbers and suspension springs; premium products; the brand is also associated with car tuning and sports suspension products.
- TMD FRICTION SERVICES GMBH – supplier of Textar brake parts; premium product in the highest price tier.
- TRW KFZ AUSRUSTUNG GMBH – supplier of TRW braking systems; leader of this product group in Poland.
- ZF FRIEDRICHSHAFEN, ZF SERVICES: supplier of the SACHS and LEMFORDER brands. Its product range includes clutches, suspensions and shock absorbers.

The Group enters into trade contracts with its largest suppliers, which define the terms of cooperation with respect to the sale and distribution of the suppliers' products. The trade contracts provide that the Group purchases goods for its own account for their subsequent resale. Most of the contracts are concluded for a definite term of one year with a notice period ranging from one to three months.

In the majority of cases, the prices at which the Group purchases products are determined by the suppliers in the form of price lists for a given area, but the Group’s contracts contain provisions that guarantee discounts or price concessions. In addition, the trade contracts or bonus agreements concluded for a term of one year provide for discount bonuses for the Group with respect to the purchase and sale of products.

As part of its cooperation with certain major suppliers, the Group agreed under trade contracts or additional promotional services agreements to actively search for buyers by conducting marketing and promotional activities against consideration. The consideration for marketing services includes fixed-rate consideration and commission fees. The commission fee amounts depend on the sales volumes achieved by the Group for the supplier's products in a reference period. Some of the promotional services agreements provide for the Company’s obligation to pay liquidated damages to the supplier in the event that: (i) the Company does not purchase the products covered by the agreement, (ii) a promotional or discount agreement concluded by the Company is terminated or amended, or (iii) the Company fails to enter into the promotional or discount agreement with a final customer in accordance with the investment request accepted by the supplier. The marketing department prepares a catalogue of marketing campaigns that are then selected by the suppliers. Selected suppliers specify the percentage of the turnover they wish to allocate to the marketing campaigns and leave the choice of the campaigns to the Company.

The average delivery time for orders placed with the suppliers is 15–20 business days. The minimum delivery time for selected suppliers is two days. Orders are submitted to the suppliers by email or, in the case of some suppliers, via a dedicated TEC COM platform.

Private label brands

The Group's leading private label brand is Maxgear. It includes high-margin products comparable to those offered by known European suppliers, such as Hans Pries, Febi, and Vaico. Under the Maxgear brand, the Group offers products in all product groups. The Group also offers private label brands and brands distributed on an exclusivity basis: Quaro, comprising braking system parts, and Rymec, specialising in drivetrain systems.

The Group seeks to maximise the quality of the products it sells under private label brands. The success of those efforts is confirmed by the complaint rate, which does not deviate much from those reported by quality leaders, as evidenced by, for example, the range of brake products. The Group seeks to further reduce the complaint rate by reviewing the production facilities on an ongoing basis and selecting appropriate automotive part suppliers.

The Company is also gradually expanding its sales of premium segment proprietary brands and brands for which it is the exclusive distributor. Thanks to the product diversification and the development of proprietary brands, the Company is able to grow in a stable way and achieve greater sales profitability than in the case of the broad market brands.

2.6 THE GROUP'S MARKETS

The Group's customers

In 2019, the share of repair workshops in the Group's sales remained high and stable. Together with the 'other' segment, covering the retail segment and non-specialised repairers, they account for more than 70% of the Group's sales.

Revenue from the Polish market, by customer group:

Domestic customer groups	2019		2018		2017	
	PLN '000	[%]	PLN '000	[%]	PLN '000	[%]
Repair workshops	541,782	58.9%	452,419	58.3%	389,068	57.6%
Stores	257,618	28.0%	252,229	32.5%	222,741	33,0%
Other	119,903	13.0%	71,958	9.3%	63,126	9.4%
Revenue from sale of merchandise in Poland, by segment	**919,303**	**100%**	**776,606**	**100%**	**674,935**	**100%**
Adjustments:	(10,741)	-1.2%	(7,395)	-1.0%	(12,884)	-1.9%
Revenue from sale of merchandise in Poland, after IFRS adjustments	**908,562**		**769,211**		**662,051**	

Source: the Group.

Overview of the Group's geographical markets

Currently, the Group's core market is the domestic market. However, the share of revenue generated by export sales, executed mainly through deliveries directly from the central warehouse, is growing. The customers are located in Germany, Austria, the Czech Republic, Slovakia, Hungary, Romania, Slovenia, Croatia, Lithuania, Latvia, Estonia, Ukraine, the Netherlands, Belgium, Denmark, Finland and France.

Revenue structure by domestic and export sales:

	For year ended Dec 31			
	2019		2018	
	PLN '000	share [%]	PLN '000	share [%]
Sales of merchandise – Poland	908,562	61.4%	769,211	66.6%
Sales of merchandise – EU	548,613	37.1%	359,120	31.1%
Sales of merchandise – other exports	19,949	1.3%	25,484	2.2%
Sales of services – Poland	1,503	0.1%	622	0.1%
Rendering of services – EU	746	0.1%	556	0.0%
Total	**1,479,373**	**100%**	**1,154,993**	**100.0%**

Source: the Group, consolidated and separate financial statements.

2.7 AGREEMENTS SIGNIFICANT TO THE GROUP'S AND THE COMPANY'S BUSINESS, INCLUDING SHAREHOLDER AGREEMENTS KNOWN TO THE GROUP, INSURANCE, PARTNERSHIP OR COOPERATION AGREEMENTS

- On February 5th 2019, the Auto Partner S.A. Management Board gave notice of the acceptance of the offer of WestInvest Gesellschaft für Investmentfonds mbH dated January 24th 2019, concerning lease of additional space in the logistics park in Bieruń. The notice was given in the exercise of the right of first refusal with respect to lease of the space, guaranteed to Auto Partner S.A. under the lease contract. In connection with the notice, an annex to the lease contract and an acceptance report for the new space were signed on October 31st 2019, and as of November 1st 2019 the area leased at the facilities in Bieruń increased by 3,675.60 m^2 of warehouse space and 114.35 m^2 of office space.
- On March 29th 2019, the Group entered into a reverse factoring agreement with Santander Faktoring Sp. z o.o., with a PLN 15m factoring limit. The limit was made available in April 2019. Under an annex of March 20th 2020, it was reduced to PLN 10m.
- On September 18th 2019, the Company entered into a factoring agreement with Santander Faktoring Sp. z o.o., with a PLN 10m factoring limit. The end of the effective term of the limit was agreed at March 31st 2020. The agreement was terminated on March 6th 2020.

For information on other agreements, see Section 2.9 of this report.

2.8 RELATED-PARTY TRANSACTIONS EXECUTED BY THE COMPANY OR ITS SUBSIDIARIES ON NON-ARM'S LENGTH TERMS

In 2019, neither the Company nor its subsidiaries entered into any related-party transactions other than transactions executed on an arm's length basis.

Significant related-party transactions within the Group included mainly sale of merchandise from Maxgear Spółka z o.o. Sp. k. to the Company and sale of the Company's merchandise to its subsidiary in the Czech Republic. For information on the transactions, see Note 31 to the separate financial statements.

2.9 CREDIT FACILITY AND LOAN AGREEMENTS EXECUTED AND TERMINATED DURING THE FINANCIAL YEAR

- On January 10th 2019, an annex to the multi-line agreement with Santander Bank Polska S.A. of September 26th 2016 was signed, whereby the multi-line limit (including the credit limit) was increased by PLN 10m, to PLN 20m.
- On October 21st 2019, an annex to the multi-line agreement with Santander Bank Polska S.A. of September 26th 2016 was signed, whereby the repayment date was changed to March 31st 2020 and the multi-line limit was changed to PLN 24m (the credit limit remained at PLN 20m). Under an annex of March 23rd 2020, the repayment date was postponed to March 31st 2023 and the multi-line credit limit was increased to PLN 30m.
- On October 22nd 2019, an agreement was executed with mBank S.A. for a PLN 15m overdraft facility, repayable on September 29th 2022. On January 27th 2020, the parties signed an annex to the agreement, whereby the overdraft limit was increased to PLN 25m.

2.10 LOANS ADVANCED DURING THE FINANCIAL YEAR, WITH PARTICULAR FOCUS ON LOANS TO RELATED ENTITIES

In the financial year 2019, the Company did not advance any loans to related entities or other entities. Two loan agreements were in force, concerning loans granted by Auto Partner S.A. to AP Auto Partner CZ s.r.o. in 2017. One of the loans, amounting to EUR 16,700 was repaid on July 16th 2019.

2.11 STRUCTURE OF KEY CAPITAL PLACEMENTS AND KEY INVESTMENTS MADE WITHIN THE GROUP DURING THE FINANCIAL YEAR

In the reporting period, the Company and its subsidiaries did not invest in any financial instruments, such as shares, bonds, bank deposits or other instruments.

2.12 FEASIBILITY OF INVESTMENT PLANS, INCLUDING EQUITY INVESTMENTS, IN THE CONTEXT OF AVAILABLE FUNDS, TAKING INTO CONSIDERATION POSSIBLE CHANGES IN THE INVESTMENT FINANCING STRUCTURE

Rapid growth of the Group's revenue is followed by a steady increase in its storage space. As part of storage space expansion projects, the Group invests in warehouse shelves and automation to improve warehousing processes. These investments are typically financed through lease arrangements. As at the date of issue of this report, the Group had lease limits granted to it by three financing providers in a total amount fully sufficient to finance its further growth.

2.13 STRUCTURE OF ASSETS AND EQUITY AND LIABILITIES, INCLUDING IN TERMS OF LIQUIDITY

Size and structure of assets

The table below presents the Group's and the Company's assets as at the dates indicated.

	As at Dec 31 2019 Consolidated financial statements	As at Dec 31 2018 Consolidated financial statements	As at Dec 31 2019 Separate financial statements	As at Dec 31 2018 Separate financial statements
	PLN '000	PLN '000	PLN '000	PLN '000
Non-current assets	**135,893**	**67,454**	**166,119**	**97,160**
Current assets	595,633	543,545	578,290	532,305
Inventories and right-of-return assets	468,112	439,797	431,835	412,598
Trade and other receivables	101,394	81,799	123,676	99,387
Other assets	180	36	152	1,228
Cash and cash equivalents	25,947	21,913	22,627	19,092
Non-current assets	**731,526**	**610,999**	**744,409**	**629,465**

Source: the Group, consolidated and separate financial statements.

As at December 31st 2019, the Group's total assets rose by PLN 120,527 thousand, or 19.7%, to PLN 731,526 thousand from PLN 610,999 thousand as at the end of 2018, driven by an increase of PLN 52,088 thousand, or 9.6%, in current assets in the period, from PLN 543,545 thousand as at the end of 2018 to PLN 595,633 thousand as at the end of 2019, as well as an increase in non-current assets of PLN 68,439 thousand, or 101.5%, from PLN 67,454 thousand as at the end of 2018 to PLN 135,893 thousand as at the end of 2019.

As at December 31st 2019, the Group's non-current assets represented 18.6% of total assets. The largest items under non-current assets were property, plant and equipment (92.7%) and intangible assets (5.8%).

The Group's non-current assets as at the end of December 2019 were valued at PLN 135,893 thousand, up by PLN 68,439 thousand, or 101.5%, from PLN 67,454 thousand at the end of 2018, mainly due to an increase in property, plant and equipment of PLN 65,863 thousand, or 109.6%, from PLN 60,090 thousand as at the end of 2018 to PLN 125,953 thousand as at the end of 2019. The higher amount of property, plant and equipment in the period was primarily attributable to the application of IFRS 16 *Leases* starting from 2019, which led to the recognition of lease assets that were classified as finance leases of PLN 46,852 thousand in the financial statements for 2019. Other factors contributing to the increase in property, plant and equipment included the need to equip the newly opened branches and warehouses with means of transport, storage shelves and other equipment. In addition, the Group incurred expenditure on an ongoing basis to replace and upgrade items of property, plant and equipment, which included for instance partial replacement of the car fleet and modernisation of existing storage facilities.

As at December 31st 2019, the Group's current assets amounted to PLN 595,633 thousand, up by PLN 52,088 thousand, or 9.6% on December 31st 2018. The increase was attributable in particular to a change of PLN 28,315 thousand, or 6.4%, in inventories, including assets related to the right to return merchandise, from PLN 439,797 thousand as at the end of 2018 to PLN 468,112 thousand as at the end of 2019. The key drivers of the increase were the Group's dynamic growth, expansion of its product mix, increase in the storage space, and opening of new branches. Another contributing item was the higher amount of trade and other receivables, which rose by PLN 19,595 thousand, or 24.0%. The main reason for the increase in receivables was higher revenue, especially in foreign markets, where payment terms tend to be longer than those applied on the domestic market.

Receivables include receivables from the Global One procurement group.

In addition, receivables include significant items such as security deposits for lease of space and advance payments to the suppliers of merchandise.

Sources of capital

Equity and liabilities

The table below presents the Group's equity and liabilities as at the dates indicated.

	As at Dec 31 2019 Consolidated financial statements	As at Dec 31 2018 Consolidated financial statements	As at Dec 31 2019 Separate financial statements	As at Dec 31 2018 Separate financial statements
	PLN '000	PLN '000	PLN '000	PLN '000
Equity	**372,197**	**315,162**	**387,281**	**326,349**
Share capital issued	13,062	13,012	13,062	13,012
Other components of equity	300,461	243,530	311,626	253,329
Retained earnings (current year)	58,715	58,642	62,593	60,008
Translation reserve	40	(22)	-	-
Liabilities	**359,329**	**295,837**	**357,128**	**303,116**
Borrowings, factoring liabilities	191,821	158,844	187,472	153,796
Lease liabilities	82,542	27,125	81,938	27,125
Trade and other payables	75,539	104,705	76,134	114,280
Other liabilities other than trade payables	9,427	5,163	11,584	7,915
Total equity and liabilities	**731,526**	**610,999**	**744,409**	**629,465**

Source: the Group, consolidated and separate financial statements.

**) Restated; for details, see Note 2 to the consolidated financial statements*.

Equity

As at the end of December 2019, equity accounted for 50.9% of the Group's total equity and liabilities. In the reporting period, the Group's equity comprised: (i) issued share capital of PLN 13,062 thousand, PLN 50 thousand more than as at the end of 2018 as a result of the issue of 495,000 Series I shares under the Incentive Scheme, (ii) other components of equity of PLN 300,461 thousand, comprising retained earnings and share premium reserve, (iii) retained earnings of PLN 58,714 thousand, comprising profit for 2019, (iv) translation reserve of PLN (40) thousand.

Liabilities

As at the end of December 2019, the Group's liabilities represented 49.1% of total equity and liabilities and stood at PLN 359,329 thousand, or PLN 63,492 thousand (21.5%) more than in 2018. The Group's liabilities as at the end of December 2019 were as follows: (i) short-term and long-term borrowings, factoring liabilities and lease liabilities, accounting for 76.4% of total liabilities, with a total value of PLN 274,363 thousand, i.e. PLN 88,394 thousand (the difference of PLN 47,170 thousand being the result of the application of IFRS 16 *Leases* as of 2019, which led to the recognition of lease liabilities classified as finance leases in the financial statements for 2019), or 47.5% more than as at December 31st 2018, and (ii) trade and other payables, representing 23.6% of total liabilities and totalling PLN 84,966 thousand, or PLN 24,902 thousand (22.7%) less than as at December 31st 2018.

Liquidity

General information

In 2019, the main sources of external financing for the Company and the Group were: (i) financing provided in the form of credit facilities (working capital facility and revolving credit facilities), (ii) loans from the Company's shareholders, (iii) leases, (iv) factoring and reverse factoring arrangements.

Currently, the Group finances its operations primarily with operating cash flows, leases, factoring, credit facilities and shareholder loans, which amount to PLN 28,035 thousand (including PLN 1,335 thousand of interest accrued for 2019).

The Group expects that the funding sources referred to above will remain its main sources of external financing in the near future. In addition, in justified cases, the Group may also consider raising financing through the issue of shares and debt securities (bonds) to a broader group of investors on the capital markets.

Sources, amounts, and description of cash flows

The table below presents selected data from the consolidated statement of cash flows for the financial year ended December 31st 2019.

	for year ended Dec 31	
	2019	2018
Net cash from operating activities	15,337	2,440
Net cash from investing activities	(13,090)	(5,175)
Net cash from financing activities	1,853	(12,064)
Total net cash flows	**4,100**	**5,201**
Cash and cash equivalents at beginning of period	21,913	16,609
Effect of exchange rate movements on net cash in foreign currencies	(66)	103
Cash and cash equivalents at end of period	**25,947**	**21,913**

Source: the Group, consolidated financial statements.

Cash flows from operating activities

In 2019, the Group generated positive cash flows from operating activities of PLN 15,337 thousand, resulting from profit before tax of PLN 74,236 thousand, adjusted for depreciation and amortisation of PLN 20,084 thousand. Other items with a material bearing on the amount of operating cash flows in the period were: (i) an increase of PLN 28,537 thousand in inventories, (ii) an increase of PLN 19,980 thousand in trade and other receivables, and (iii) a decrease of PLN 28,788 thousand in trade and other payables. In the reporting period, the Group also reported cash outflow in connection with payment of income tax of PLN 14,553 thousand.

Cash flows from investing activities

In 2019, the Group generated negative cash flows from investing activities of PLN 13,090 thousand. Cash used in investing activities in the period was mainly spent on the acquisition of intangible assets and property, plant and equipment of PLN 13,359 thousand.

Cash flows from financing activities

In 2019, the Group generated positive cash flows from financing activities of PLN 1,853 thousand. Cash provided by financing activities included mainly proceeds from loans and credit facilities of PLN 15,024 thousand, as well as reverse factoring (PLN 14,375 thousand) and factoring (PLN 3,574 thousand), while cash used in financing activities included payment of lease liabilities of PLN 19,990 thousand and interest of PLN 9,469 thousand.

Cash and cash equivalents

The cash flows from operating, investing and financing activities produced cash and cash equivalents of PLN 25,947 thousand as at December 31st 2019, up by PLN 4,034 thousand, or 18% relative to December 31st 2018 (when they stood at PLN 21,913 thousand).

2.14 OFF-BALANCE SHEET ITEMS BY ENTITY, TYPE AND VALUE

Off-balance-sheet items disclosed by the Company and the Group include bank guarantees securing liabilities under lease of property and distribution agreements, including:

- PLN 800 thousand bank guarantee No. DOK3617GWB19KW of October 18th 2019, issued in respect of a distribution agreement and valid until May 31st 2020. The bank guarantee is secured with: registered pledge over inventories of merchandise owned by the Company along with the assignment of rights under an insurance policy, the Company's representation on submission to enforcement through delivery of the assets serving as security (inventories of merchandise), the Company's representation on submission to enforcement through payment of an amount of up to PLN 36m.
- PLN 2,500 thousand bank guarantee No. KLG46849IN17 of October 3rd 2017, issued in respect of a distribution agreement and valid until September 30th 2020. The bank guarantee is secured with: registered pledge over inventories of merchandise owned by the Company along with the assignment of rights under an insurance policy, registered pledge over receivables, power of attorney granted to the bank over the Company's bank accounts with Santander Bank Polska S.A., the Company's representation on submission to enforcement through delivery of the assets serving as security (inventories of merchandise), the Company's representation on submission to enforcement through payment of an amount of up to PLN 194,970 thousand, Maxgear Sp. z o.o. Sp. k.'s representation on submission to enforcement through payment of an amount of up to PLN 194,970 thousand.
- EUR 597 thousand bank guarantee No. KLG48048IN17 of November 16th 2017, issued in respect of property in Bieruń and valid until August 31st 2020 (increased to EUR 652 thousand by way of an annex of January 21st 2020. The bank guarantee is secured with: registered pledge over inventories of merchandise owned by the Company along with the assignment of rights under an insurance policy, registered pledge over receivables, power of attorney granted to the bank over the Company's bank accounts with Santander Bank Polska S.A., the Company's representation on submission to enforcement through delivery of the assets serving as security (inventories of merchandise), the Company's representation on submission to enforcement through payment of an amount of up to PLN 194,970 thousand, Maxgear Sp. z o.o. Sp. k.'s representation on submission to enforcement through payment of an amount of up to PLN 194,970 thousand.

- EUR 171 thousand bank guarantee No. KLG38679IN16 of August 24th 2016, issued in respect of lease of property in Pruszków and valid until August 31st 2020. The bank guarantee is secured with: registered pledge over inventories of merchandise owned by the Company along with the assignment of rights under an insurance policy, registered pledge over receivables, power of attorney granted to the bank over the Company's bank accounts with Santander Bank Polska S.A., the Company's representation on submission to enforcement through delivery of the assets serving as security (inventories of merchandise), the Company's representation on submission to enforcement through payment of an amount of up to PLN 194,970 thousand, Maxgear Sp. z o.o. Sp. k.'s representation on submission to enforcement through payment of an amount of up to PLN 194,970 thousand.

On January 12th 2016, the Parent and ING Bank Śląski S.A. signed an annex to multi-product agreement No. 882/2015/00000925/00 of October 19th 2015, under which Maxgear Sp. z o.o. sp. k. (the Company's subsidiary) joined the agreement as a joint and several debtor. The joint and several debtor agreed to pay all liabilities arising from the agreement. Based on Annex 8 of December 1st 2016, the bank made available a credit limit of PLN 77,785 thousand under the agreement, including up to PLN 10m to be used by the subsidiary. On March 23rd 2017, an annex to the agreement was signed, whereby the credit limit was changed to PLN 127,785 thousand. The availability period was extended under an annex of October 16th 2018. For the assumption of liability, each company will receive consideration specified in the agreement on joint and several liability under the multi-product agreement, executed between the companies on January 12th 2016. As at December 31st 2019, the subsidiary's debt outstanding under the multi-product agreement was PLN 4,274 thousand.

None of the Group companies issued any sureties in 2019.

2.15 ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT, INCLUDING ASSESSMENT OF THE GROUP'S ABILITY TO MEET ITS LIABILITIES; IDENTIFICATION OF THREATS AND THREAT MITIGATION MEASURES TAKEN OR INTENDED TO BE TAKEN BY THE GROUP

In 2019, the Group managed its financial resources in a sound manner, maintaining the highest possible efficiency of their use. In particular, the key financing sources for the Group's operations were internally generated funds, loans and working capital credit facilities, trade payables, leases and factoring agreements.

For information on amendments to credit facility and factoring agreements, and on new and terminated agreements, see Sections 2.7 and 2.9 of this report.

2.16 EXPLANATION OF DIFFERENCES BETWEEN THE FINANCIAL RESULTS DISCLOSED IN THE FULL-YEAR REPORT AND PREVIOUSLY RELEASED FORECASTS FOR THE YEAR

The Company's Management Board did not publish any financial forecasts of Auto Partner S.A. and its Group for 2019.

3 OTHER INFORMATION

3.1 DESCRIPTION OF MATERIAL RISK FACTORS AND THREATS, INCLUDING INFORMATION ON THE GROUP'S EXPOSURE TO SUCH RISKS OR THREATS

3.1.1. Risk factors related to the Company's and the Group's operating environment

Macroeconomic and industry risks

The Company's and its Group's market environment is constantly transforming as a result of changes taking place in the automotive industry, including both automotive production and development of spare parts distribution channels.

On the one hand, the growing use of complex systems and components in modern cars requires repair workshops to have broader expertise and better equipment, which may pose a challenge to the development of independent workshops, being the main group of the Company's customers. On the other hand, the regulations introduced in the European Union create a level playing field for both independent and authorised workshops' access to know-how, and make it possible for authorised workshops to make greater use of the services of independent automotive part suppliers (which, however, is often objected to by car manufacturers).

The changing market environment offers growth opportunities for the operators that can successfully identify market trends and adapt flexibly, and at the same time poses a risk of selection of an inappropriate strategy.

The Group companies' operations and financial performance depend to a large extent on the economic conditions prevailing primarily on the domestic market, and in particular on such macroeconomic factors as the GDP growth rate, inflation rate, unemployment rate, the government's monetary and fiscal policies, corporate investment levels, availability and cost of credit, household incomes and consumer demand.

The above factors, as well as the direction and level of their changes, have an impact on the Group's operations, growth prospects, financial condition or performance. There is a risk that a possible decline in the economic growth rate in Poland and other markets where the Group is present, or the use of economic policy instruments adversely affecting the Group's operations may affect the demand and increase the Group's costs. Accordingly, a deterioration of the macroeconomic indicators may have an adverse effect on the Group's operations, growth prospects, financial condition or performance.

Risk of a shift in the demand structure

The Group keeps stocks of a wide range of goods. The purchases it makes depend on the assessment of market demand for individual product groups, and are therefore exposed to the risk of incorrect market assessment or changes in the demand structure. Any potential fluctuations in demand, in particular a serious decline in demand for specific product groups in a situation where the Company has bought large stocks of such products, may cause adverse financial consequences to the Company such as freezing of working capital or the necessity to offer significant discounts. Rapid and unforeseen changes in demand for the goods offered by the Company may have a significant adverse impact on its financial condition and financial performance.

The Group monitors and performs ongoing analyses of the trends in engine production technologies. In the long term, the changes may lead to a shift in the demand structure as a result of falling demand for some parts (engine parts, operating fluids, filters, etc.) and emergence of the market for parts used in electric engines and vehicles. The Group will cooperate with its suppliers to respond to such changes on an ongoing basis by expanding its offer with new references.

Risk of the weakening of the market position of independent repair workshops

In line with the increasing complexity of car components, requirements relating to their maintenance and repair are also growing, both with regard to the know-how and training of car mechanics and the technical equipment used in the workshops. Independent workshops need to constantly raise their qualifications and invest in equipment used in the modern cars maintenance. Insufficient development of the independent workshops' capabilities will cause the Group's market to shrink and will have an adverse impact on its financial performance.

The growing requirements for the equipment and expertise of independent repair workshops may be a catalyst of consolidation processes in the industry, which in turn may lead to greater market concentration while reducing the number of players operating on that market.

Any significant acceleration of the above trends and market developments may increase competition between the Group and its competitors. At the same time, in order to grow its business scale the Group will have to spend more than it planned on initiatives supporting its partner workshops (partnership programmes, assistance in upgrade and expansion projects, etc.), which may adversely affect its financial performance.

The market is also seeing increasing competition between authorised service centres for customers having post-warranty vehicles (in particular three to eight years old). The customers are offered preferential pricing terms, which may force independent distributors to reduce their margins.

Risk of new large competitors specialising in wholesale distribution of automotive parts entering the market in Poland and in other countries where the Group is present

The market for independent distribution of spare parts in Poland is dominated by Polish companies. Its size and good prospects imply a growing likelihood of foreign automotive part distributors entering the market. By offering more favourable purchase terms, they can capture a significant market share and cause increased competitive pressures.

Another risk associated with the entry into the Polish market of large foreign distributors is the risk of losing strategic suppliers, for whom certain foreign distributors are larger customers.

Due to the nature and maturity of the market, a possible entry of foreign competition is likely to take the form of a foreign entity taking over one of the major domestic players.

Similar mechanisms may also occur on selected foreign markets where the Group operates or intends to operate.

Increasing competitive pressure resulting from the above scenario could adversely affect the Group's financial performance and growth potential.

Risk related to the structure of foreign customers

The Group's export sales are exposed to country-specific risks in its customers' markets, such as changes in the size and structure of the spare parts market, changes in the purchasing power of the population, and stability of the economic and political system.

Risk of legislative changes affecting the Group's market

Changes in the laws and regulations governing the Group's operations in Poland and on other markets, including in particular changes in labour law and social security regulations or regulations relating directly or indirectly to the automotive industry, may have a material adverse effect on the Group's operations, e.g. if they result in the imposition of additional obligations or restrictions on the sale of automotive parts, and thus increase operating costs or reduce profitability.

Moreover, as a significant portion of the goods the Group distributes in Poland under private label brands are imported from Asia, the Group is exposed to adverse changes in customs laws. Any changes in customs procedures, introduction of prohibitive custom duties, imposition of import quotas or other restrictions on imports may have an indirect adverse effect on the Group's operations, mainly by forcing a change in the supply sources and increasing import costs.

Furthermore, enactment of any new laws that give rise to interpretation doubts may give rise to uncertainty as to the actual legal situation and its consequences, which in turn may entail temporary suspension of the Group's business growth or investments because of concerns about the possible adverse consequences of applying the unclear regulations (such as financial losses or even criminal sanctions for actions or omissions made under applicable laws which are then interpreted by courts or public administration authorities to the prejudice of the business).

The above events may result in a deterioration in the Group's financial performance and profitability of its business, as well as deterioration of its growth prospects.

Risk of tax system instability

Frequent amendments, inconsistencies, and lack of uniform interpretation of the tax laws entail material risks related to the tax environment in which the Group operates. If any tax settlements made by the Group are questioned by tax authorities in connection with discrepancies, changes in the interpretation or inconsistent application of tax laws by different tax authorities, this may result in the imposition of relatively high penalties or other sanctions on the Group.

Given the relatively long limitation period for tax liabilities, the assessment of tax risk is particularly difficult, but the risk described above may have a material adverse effect on the Group's operations, financial condition or performance.

Moreover, since the Group companies operate in different jurisdictions, the Group's operations may be exposed to the adverse effects of, e.g., potential instability of tax laws in force in those countries, divergent interpretations of the regulations, and unfavourable interpretation, amendment or termination of double tax treaties. If any of the above risks materialises, it may have a material adverse effect on the Group's operations, financial condition or financial performance.

Risk related to the coronavirus epidemic

The Group is exposed to the risk associated with the coronavirus epidemic, which began in late 2019 in China. As the main risk factors resulting from the epidemic and the measures taken to bring it to an end, the Company identifies the risk of reduced purchasing power of consumers and a decrease in consumers' mobility as a result of measures designed to limit travel, as well as the risk of obstacles at country borders, which may affect transport to foreign customers.

3.1.2. Risk factors related to the Company's and the Group's operations

Risk of changes in the bonus policies applied by spare parts suppliers (manufacturers)

The Group's profitability depends to a significant extent on bonuses granted to the Group by spare part suppliers (manufacturers). The bonus policies support distributors who make purchases of a significant value. Any changes in such policies, consisting in the reduction of the bonus rates or even abandonment of the bonuses, would result in a tangible deterioration of the Group's performance, forcing it to change its pricing policy. Although as at the reporting date there had been no changes in this respect having a material effect on the Group's financial condition, there can be no assurance that they will not occur in the future.

Risk related to unsuccessful strategy implementation or adoption of a wrong development strategy

The market in which the Group operates is highly competitive and is constantly evolving, with the direction and intensity of the changes depending on a number of factors, most of which beyond the Company's control. Thus, the Group's future position, i.e. its revenue and profitability, depend on the Company's ability to develop and implement an effective long-term strategy. Any erroneous decisions resulting from an incorrect assessment of the situation or the Company's inability to adapt to the changing market conditions may have material adverse financial consequences.

Risk of a decline in demand for certain goods offered by the Company

The Group keeps certain levels of stocks of a wide range of goods. The purchases it makes are based on the assessment of market demand for individual product groups, and are therefore exposed to the risk of incorrect market assessment or changes in the demand structure. Any fluctuations in demand, in particular a large decline in demand for specific product groups in a situation where the Company has bought large stocks of such products, may bring significant losses to the Company in the form of freezing of working capital or the necessity to offer high-value discounts.

Risk related to the structure of the Group's debt

The Group is a party to credit facility agreements, factoring agreements and lease contracts. As at the end of 2019, lease liabilities (excluding right-of-use liabilities recognised as leases as of 2019) amounted to PLN 34,989 thousand and comprised only the Company's liabilities, and borrowings totalled PLN 174,069 thousand, of which PLN 169,722 thousand was the Company's liabilities. As at the reporting date, the Group's liabilities under reverse factoring agreements were PLN 14,371 thousand, and liabilities under factoring amounted to PLN 3,550 thousand and comprised only the Company's liabilities. As at December 31st 2019, the Group's total interest liabilities stood at PLN 227,967 thousand, representing 30.6% of total liabilities. In the period covered by the consolidated financial statements, the Group's borrowings included a shareholder loan. The Group's debt under the loan was PLN 28,035 thousand as at the end of 2019. In addition, the Group has created security interests in its inventories in relation to credit facility agreements executed with ING Bank Śląski S.A., Santander Bank Polska S.A., Santander Factoring Sp. z o.o. and mBank S.A.

Any material deterioration in the Group's liquidity may result in the Group being unable to repay its interest liabilities and principal under the financing agreements or to meet additional conditions provided for in the financing agreements.

A default under the financing agreements may result in the tightening of the terms and conditions of the financing, an increase in debt service costs, or immediate termination of all or part of the credit facility agreements by the financing institutions and subsequent seizure of the Group's assets serving as security.

Loss of any material assets may significantly impede the Group's business or even completely prevent the Group's operation and generation of revenue and profits. Moreover, a deterioration of the Group's financial condition may result in the financing institutions' refusal to extend the terms of the financing. Any of the above may have a material adverse effect on the Group's growth prospects, performance and financial condition.

In addition, as interest rates in Poland are currently at historically low levels, there is a risk that the Monetary Policy Council will increase the reference rate, which would adversely affect the Group's future financial performance.

Currency risk

During the financial year, the Group did not hedge against currency risk. Given that a portion of the Group's sales are settled in foreign currencies, the currency risk is partly hedged naturally. In 2019, approximately 47% of the Group's total expenses were settled in foreign currencies, while foreign currency sales accounted for approximately 40% of the Group's total sales. The Group's primary trading currencies are EUR, USD, CZK, HUF and RON. The purchases are mainly paid for in PLN, EUR and USD (the Company's settlements are made chiefly in PLN and EUR), while sales are settled in PLN, EUR, CZK, HUF and RON (sales in foreign currencies are made only by the Company, except for sales in CZK by the Czech subsidiary).

Any significant fluctuations in the PLN exchange rate, in particular a long-term and sharp depreciation of the złoty, may cause adverse financial consequences to the Company and the Group. In such a situation, the currency risk is passed on to customers in the prices of merchandise, but an increase in prices of imported products to a level that is prohibitive for the end customers may ultimately lead to a decrease in revenue.

Risk related to the concentration of stocks (merchandise) in the central warehouse

The logistics centre, which comprises the Group's main storage facilities, is located in Bieruń near Katowice. If a fortuitous event (fire, flooding, etc.) occurs, it may cause serious disruptions to the continuity of supplies to customers. Such events would mean chiefly delayed deliveries, resulting in a loss of part of the revenue and a possible loss of some of the market if the Company's customers purchase goods from the competitors.

If some or all of the stocks are lost, the Group will be forced to incur expenditure to rebuild them and will recognise a financial loss.

Currently, approximately 50% of the stocks are held in the central warehouse. However, in connection with the plans to create regional centres (hubs) and expand the branch network (i.e. the Company's own and agent-operated branches, located in Poland or abroad and carrying out sales in a given region), approximately 30% of the stocks will be kept in the central warehouse.

Risk related to the loss of key personnel and inability to hire qualified workforce

Loss of key personnel, including in particular the executive staff and members of senior and medium-level management, may have a material adverse effect on the Company's operations. The management staff and other employees belonging to the group of key specialists contribute significantly to the Company's market success. There can be no assurance that it will be possible to retain all persons of key importance to the Company's growth or to hire equally efficient specialists in their place.

In addition, given the Group's development plans, including the increase in the number of branches, the Group will have to hire new employees/associates with high qualifications in specific competence areas (sales, branch management, etc.). Any difficulties in this respect, or hiring employees whose qualifications prove worse than expected, may delay the expansion process or may cause the business development process to bring less significant results.

Risk related to the IT system

The Company's operations are based on an effective online IT system. Any problems with its proper operation could affect the Group's sales volumes or even prevent trading activities altogether (e.g. the operation of the central warehouse is controlled by a computer system). This could have an adverse effect on the Group's financial performance.

Risk related to the operation of the Group's main warehouse

The Parent's head office is located on the same property in Bieruń as the Group's main warehouse.

The Company uses the property under a lease contract of June 28th 2013.

The lease was concluded for 10 years from the date of delivery of Phase 1 of the leased asset, i.e. May 15th 2014.

Under the contract, the lessor has the right to terminate it with immediate effect, in particular if any of the following events occurs:

- late payment of rent for at least two full payment periods;
- filing for bankruptcy or for the opening of recovery proceedings with respect to the lessee, provided that the lessee's debt owed to the lessor is past due by more than 30 days; and
- use of the leased asset other than in accordance with its intended purpose or a material breach of the lease terms specified in the contract and failure to remedy the breach, which may cause or has caused damage to the leased asset beyond normal wear and tear.

Before giving a notice of termination, the lessor is required to notify the lessee in writing of the intention to terminate the contract and give the lessee additional 14 or 21 days to perform the relevant obligation (depending on the type of breach of the obligation under the contract).

As the property where the Company's head office and the Group's main warehouse are located is not owned by the Company, there can be no assurance that the Company will not lose its right to use the property, which is one of its key assets. In such a situation, the operation of the main warehouse may encounter temporary difficulties as it will be necessary to relocate the head office and the main warehouse to another property, which may adversely affect the Group's operations and performance.

3.2 THE COMPANY'S AND THE GROUP'S DEVELOPMENT STRATEGY AND MEASURES TAKEN AS PART OF ITS IMPLEMENTATION IN THE REPORTING PERIOD; INFORMATION ON THE COMPANY'S GROWTH PROSPECTS IN THE NEXT FINANCIAL YEAR OR BEYOND

All companies of the Auto Partner Group pursue a common and uniform growth strategy. The Group's strategy is to ensure sustainable growth of the shareholder value by further expanding its business scale, increasing the market share, and strengthening the market position, while focusing on business process efficiency in order to achieve attractive margins.

The Management Board has defined four main strategic objectives for the Group:

1. growth of the business scale,
2. further product diversification,
3. further increase in profitability,
4. expansion into new markets.

Growth of the business scale

The Group intends to implement a programme to expand the network of own branches and to regularly take measures to optimise its economic efficiency. The Group's objective is to provide customers in Poland with access to a distribution network capable of making deliveries more than once a day. The Company intends to continue its current practice whereby the distribution network expansion is implemented based on long-term lease contracts, and the Company does not buy or construct property or buildings where the branches operate. The Group also intends to develop the network based on cooperation agreements with third parties (in particular in smaller cities with populations of less than 100,000 inhabitants).

In line with the expansion of the branch network, regional logistics and storage centres are established, which significantly improve the efficiency of distribution across Poland, and can also be used to efficiently supply selected foreign markets. The Group sees growing demand on the market for shortening the spare part delivery times between the distributor and the repair workshop. Independent workshops, taking over an increasing market share from stores, expect maximum availability of parts that can be delivered on the same day. In response to this trend, the Group significantly increased its stock levels at some strategic branches in Poland. The key for selecting branches to serve as logistics centres is the potential of the market in which they are situated and the potential of the markets to which they will be able to supply goods on the same day.

The efforts described above should primarily facilitate further growth of revenue from repair workshops, which are perceived as a strategic customer group. This growth will be achieved by improved market penetration and strengthening of the Group's competitive position in the regions which still offer significant development potential, and which can be accessed through the new branches and logistics centres.

Expansion into foreign markets will be another way to accelerate growth of the business scale. To date, the Group's main market was the domestic market. In 2019, approximately 62% of sales were made in Poland. In 2017, the Group established a foreign company operating in the Czech Republic and launched the first branch in Prague to better reach customers in the Czech Republic and in the neighbouring countries.

The Group is currently analysing further foreign markets where it intends to intensify its activities.

Further product diversification

Another step in the Group development will be continued expansion of its spare parts portfolio. In this area, the Group significantly increased its range of parts for Asian cars and started to sell products for motorcycles.

By joining the Global One Automotive Group in 2017, the Group obtained access to the offering of key suppliers in the spare parts sector, whose products had not been available at its warehouses.

Further increase in profitability

One part of the strategy for further growth of the Group’s profitability is continued brand value building for the private label product brands based on experience gained in the development of the Maxgear brand. The adopted strategy led to the introduction of new proprietary brands and brands offered on an exclusive basis: Quaro, comprising braking system parts, Rymec, specialising in drivetrain parts, and Rooks, covering workshop equipment.

In addition, the profitability growth will be supported by the increasing business scale, translating into further improvement of the terms of cooperation with automotive part suppliers. Another aspect with a bearing on profitability is the bonus obtained through the Global One procurement group.

The Group also intends to continue its effective cost control policy by improving and developing its IT solutions and business processes.

3.3 MAJOR R&D ACHIEVEMENTS

The Group does not conduct any research and development activities.

3.4 ENVIRONMENTAL PERFORMANCE

At the Auto Partner Group, there are no technological, production or other processes with a significant and heavy environmental impact. The measures taken by the Group are designed to mitigate its negative environmental footprint. To this end, environmental aspects are identified and evaluated. The Group seeks to meet all legal requirements relating to environmental protection.

The impact of logistics and distribution centres on the natural environment is limited to:

- release of packaging waste,
- production of waste: small amounts of hazardous waste, used computer equipment, municipal waste,
- collection and storage of battery scrap – waste car batteries,
- CO_2 and other gas emissions, mainly related to the car fleet.

The Group produces mainly office and storage waste. Occasionally, there is also used electronic equipment or hazardous waste, i.e. oils (e.g. motor oils). The Group does not participate in the collection of hazardous waste. Hazardous waste occurs, for example, as a result of damaged packaging. In such cases, the product is separated and transferred for disposal.

In 2019, full waste segregation was implemented at the Auto Partner head office in Bieruń. The use of office waste bins was discontinued, and all waste is now discarded into separate containers in specially designated locations.

Packaging waste

The Group has entered into agreements with a packaging recovery organisation. In this way it ensures an adequate level of recovery and recycling of packaging waste as required by law.

Total weight of non-hazardous waste in 2019, including:

paper / paperboard	1,074,433	tonnes
plastics	74,516	tonnes
metal	19,552	tonnes

Source: the Group.

Total weight of hazardous waste in 2019:

total weight of hazardous waste	6.92	Mg

Source: the Group.

Car batteries

The Auto Partner Group's offering includes car batteries. In accordance with applicable laws, the Group is under the obligation to accept waste batteries from retail buyers. Retail customers purchasing batteries are required to pay a security deposit which is refunded if the old, used battery is returned within 30 days. Unrefunded security deposits are transferred to the bank account of the competent Marshall Office. The Company also offers the possibility of organising collection of waste batteries of a specific battery manufacturer at the Company's branches. In such a case, the batteries are temporarily stored in the Group's facilities, but the manufacturer is responsible and obliged to collect and dispose of them. Accordingly, the waste battery volumes at Auto Partner warehouses are small and are not formally treated as Group-produced waste.

Fuel consumption

Auto Partner operates a car fleet, which is a source of atmospheric emissions of CO_2 and other gases. Most of the vehicles are new and meet the exhaust gas emission standards. However, a part of the supply fleet is operated by external companies. Another source of direct and indirect gas emissions into the atmosphere is the property used by the Group. Depending on the terms of the contracts, the emissions are treated as direct (contracts with gas and utility suppliers executed directly with the Group companies) or indirect (the costs are charged to the Company as part of the lease costs).

Fuel consumption in 2019:

Type	Value	Unit of measurement
gasoline	263.4	Mg
	11,588.41	*GJ*
diesel oil	131.0	Mg
	5,763.041	*GJ*
propane-butane (LPG)	70.9	Mg
	3,272.009	*GJ*

Source: the Group.

Environmental charges payable by the Auto Partner Group in 2019: PLN 7,695.48.

3.5 Workforce

As at the end of 2019, the Group had a workforce of 1,644, including 1,624 persons employed by the Company and 20 persons employed at the subsidiaries. This means an increase of 267, or 19.39%, in the Group's headcount relative to the end of 2018.

The table below presents the Group's headcount by type of employment:

Type of employment	As at Dec 31 2018	As at Dec 31 2019
Employment contract	1,365	1,602
Civil-law contract for specified activity	12	42
Total	**1,377**	**1,644**
Average headcount in period	1,264	1,540

Source: the Group.

The table below presents the Group's workforce by area:

Area	As at Dec 31 2018	As at Dec 31 2019
Management and administration	170	170
Sales and marketing	568	667
Logistics and storage	639	807
Total	**1,377**	**1,644**

Source: the Group.

3.6 AUDIT OF THE FINANCIAL STATEMENTS FOR THE PERIOD JANUARY 1ST–DECEMBER 31ST 2019

On July 30th 2018, pursuant to the Supervisory Board's resolution on the appointment of an audit firm of March 23rd 2018 , Auto Partner S.A. and Deloitte Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa entered into an agreement providing for the following scope of services related to the Company's and the Group's financial statements for the financial year ended December 31st 2018 and for the financial years ending December 31st 2019, December 31st 2020 and December 31st 2021:

a) audit of separate financial statements ("statutory audit") prepared in accordance with the International Financial Reporting Standards („International Financial Reporting Standards" or "IFRS"), consisting of the following work stages:
   I. audit planning, analysis of the customer and its environment,
   II. preliminary review,
   III. audit,
   IV. final verification of the work results.

b) audit of consolidated financial statements ("statutory audit") prepared in accordance with the International Financial Reporting Standards („International Financial Reporting Standards" or "IFRS"), consisting of the following work stages:
   I. audit planning, analysis of the customer and its environment,
   II. audit and final verification of the work results.

c) review of half-year separate financial statements prepared in accordance with IFRS and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (the "Minister of Finance's Regulation"),
   I. main review work,
   II. final verification of the work results.

d) review of half-year consolidated financial statements prepared in accordance with IFRS and the Minister of Finance's Regulation,

e) agreed procedures with respect to selected items of the consolidation package of Auto Partner CZ s.r.o. carried out for the purposes of auditing the consolidated financial statements of the Auto Partner Group.

VAT-exclusive auditor fees for auditing the Group's financial statements in 2018 and 2019:

	Period ended Dec 31 2019	Period ended Dec 31 2018
Audit of full-year financial statements	128,000	128,000
Review of financial statements	58,000	58,000
Total auditor fees	**186,000**	**186,000**

Source: the Group.

Including VAT-exclusive fees for auditing the Company's financial statements in 2018 and 2019:

	Period ended Dec 31 2019	Period ended Dec 31 2018
Audit of full-year financial statements	114,000	114,000
Review of financial statements	58,000	58,000
Total auditor fees	**172,000**	**172,000**

Source: the Group.

3.7 BRANCHES (ESTABLISHMENTS) OF THE COMPANY

As at December 31st 2019, the Company had no branches or establishments within the meaning of the Commercial Companies Code. As at the reporting date, the Company had 90 point-of-sale branches which are not separate organisational units.

3.8 MATERIAL EVENTS WITH A BEARING ON THE COMPANY'S AND THE GROUP'S BUSINESS WHICH OCCURRED IN OR AFTER THE FINANCIAL YEAR

All material events that occurred in 2019 are discussed in Sections 2.3. and 2.4 of this report.

Events subsequent to the reporting date

1. On January 27th 2020, an annex to the overdraft facility agreement with mBank S.A. was signed, whereby the overdraft limit was increased to PLN 25m.
2. On March 6th, the factoring agreement with Santander Factoring Sp. z o.o. was terminated.
3. On March 20th 2020, an annex to the reverse factoring agreement with Santander Factoring Sp. z o.o. of March 29th 2019 was signed. Under the annex, the reverse factoring limit was reduced to PLN 10m, and the term of the limit availability was changed to March 31st 2021.
4. On March 23rd 2020, an annex to the multi-line agreement with Santander Bank Polska S.A. of September 26th 2016 was signed, whereby the repayment date was changed to March 31st 2023, and the multi-line limit and the credit limit as part of the multi-line facility were increased to PLN 30m.
5. On March 26th 2020, the Management Board resolved on a proposal concerning allocation of the Company's profit for 2019. In accordance with the resolution, the Management Board will not recommend payment of dividend for 2019 to the Annual General Meeting. The rationale for the Management Board's decision was based on the Company's current market environment, affected by the COVID-19 epidemic, and its impact on the Auto Partner Group's operations. Since it was not possible to estimate the ultimate impact of this situation on the Company's financial results in 2020, which will largely depend on the duration of the epidemic and the related restrictions, the Management Board decided that it was in the Company's and its shareholders' interest to retain the profit earned in 2019 and transfer it to statutory reserve funds to secure the Company's operations in future periods.
6. Given the current situation related to the spread of the COVID-19 epidemic worldwide, the Company identifies the following as the key risks that will have an impact on the Company's and the Group's financial performance in the coming periods:

- Risk of reduced purchasing power of consumers and a decrease in consumers' mobility as a result of measures designed to limit travel;
- Risk of obstacles at country borders, which may affect transport to foreign customers.

As at the date of issue of this report, the Company identified significant impediments to conducting effective export sales due to the lockdown and trading restrictions in countries such as Austria, Croatia, Slovenia or France. Other export markets, as well as Poland, are also seeing demand declines, which will affect the Company's results.

However, the Company emphasises that, given the rapidly changing circumstances, the legal situation and regulations of the national governments related to the spread of the epidemic, the Company is not able to reliably estimate the extent of its impact on the Company's and the Group's operating and financial position as at the date of issue of this report.

At present, the Company has not identified any significant risks other than those specified above. In particular, as at the date of issue of the financial statements, the Company did not identify any credit or liquidity risks, or risks related to the availability of financing or breach of financial covenants. The Company's financial condition is stable, with cash and available credit limits providing a safety buffer. In the medium and long term, depending on the development of the situation, the Company, in consultation with the financing banks, will adjust the credit limits to the current needs and the value of the collateral it may provide. Operating decisions will also be taken on an ongoing basis, including in relation to operating costs, to maintain an appropriate level of profitability and thus meet financial covenants provided for in the agreements with banks.

As at the date of issue of this report, the Company did not identify any risks related to the valuation of non-financial assets (in particular inventories) or the delivery of purchased goods. There were no significant delays in deliveries or problems in placing or executing contracts.

The Company's management believes that the situation described above does not require any adjustments to the financial statements for 2019, and does not pose any threat to the Company continuing as a going concern, and therefore the financial statements were prepared on the assumption that the Company will continue as a going concern for at least 12 months from the reporting date.

3.9 FINANCIAL METRICS

In order to present a comprehensive view of the Company's and the Group's financial position, the Company uses alternative performance measures (APMs). The Company believes that they provide material information on the financial position, operating efficiency and profitability. The APMs used by the Company should be analysed in addition to, rather than instead of the financial information presented in the financial statements.

The Company presents selected alternative performance measures as additional (apart from the data in the financial statements) information on its financial and operating position and financial liquidity, facilitating analysis and assessment of the Company's and its Group's financial performance. The selected APMs are presented because they are standard metrics and indicators commonly used in financial analysis. Selection of the APMs was preceded by an analysis of their suitability for providing useful information to investors.

3.9.1. Profitability metrics of the Company and the Group

The profitability metrics presented below were calculated on the basis of financial data from the separate and consolidated statements of profit or loss and other comprehensive income for 2019.

The table below presents the Company's and the Group's profitability metrics for the periods indicated.

	For year ended Dec 31 consolidated financial statements		For year ended Dec 31 separate financial statements	
	2019	2018	2019	2018
	PLN '000	PLN '000	PLN '000	PLN '000
EBITDA (PLN '000)[1]	103,859	89,638	89,349	77,073
Gross margin (%)[2]	26.2	26.6	24.8	25.1
EBITDA margin (%)[3]	7.0	7.8	6.0	6.7
EBIT margin (%)[4]	5.7	7.0	4.7	5.9
Pre-tax profit margin (%)[5]	5.0	6.4	5.3	6.6
Net profit margin (%)[6]	4.0	5.1	4.2	5.2

Source: the Group.

(1) The Group defines and calculates EBITDA as operating profit (loss) before depreciation and amortisation.
(2) Gross margin is defined as the ratio of gross profit (loss) for the reporting period to revenue for the period.
(3) EBITDA margin is defined as the ratio of EBITDA for the reporting period to revenue for the period.
(4) EBIT margin is defined as the ratio of operating profit (loss) for the reporting period to revenue for the period.
(5) Pre-tax profit margin is defined as the ratio of pre-tax profit for the reporting period to revenue for the period.
(6) Net profit margin is defined as the ratio of net profit for the period to revenue for the period.

The profitability metrics presented below were calculated on the basis of data from the separate and consolidated statements of financial position for 2019.

The table below presents the Company's and the Group's profitability metrics for the periods indicated.

	For year ended Dec 31 consolidated financial statements		For year ended Dec 31 separate financial statements	
	2019	2018	2019	2018
	PLN '000	PLN '000	PLN '000	PLN '000
ROE[7] (%)	17.1	20.6	17.5	20.3
ROA[8] (%)	8.7	10.5	9.1	10.4

Source: the Group.

(1) The Group defines and calculates ROE as the ratio of net profit for the period to average equity (calculated as the arithmetic mean of equity as at the end of the previous period and as at the end of the reporting period).
(2) The Group defines and calculates ROA as the ratio of net profit for the period to average assets (calculated as the arithmetic mean of total assets as at the end of the previous period and as at the end of the reporting period).

3.9.2. The Group's efficiency metrics

The Group's efficiency metrics presented below were calculated on the basis of financial data from the separate and consolidated statements of profit or loss and other comprehensive income for 2019 and the separate and consolidated statements of financial position as at December 31st 2019.

The table below presents the Company's and the Group's efficiency metrics for the periods indicated.

	As at Dec 31 consolidated financial statements		As at Dec 31 separate financial statements	
	2019	2018	2019	2018
	PLN '000	PLN '000	PLN '000	PLN '000
Inventory turnover period (days)[1*]	152	174	138	160
Average collection period (days)[2]	23	23	28	28
Average payment period (days)[3]	30	37	31	41
cash conversion cycle[4]	144	159	135	146

Source: the Group

(1) *The Group defines and calculates the inventory turnover period as the ratio of average sum of inventories and right-of-return assets (calculated as the arithmetic mean of the balance as at the end of the previous period and as at the end of the reporting period) to cost of sales in the period, multiplied by the number of days in the period.*
(2) *The Group defines and calculates the average collection period as the ratio of average trade and other receivables (calculated as the arithmetic mean of trade and other receivables as at the end of the previous period and as at the end of the reporting period) to revenue in the period, multiplied by the number of days in the period.*
(3) *The Group defines and calculates the average payment period as the ratio of average trade and other payables and right-of-return liabilities (calculated as the arithmetic mean of trade and other payables as at the end of the previous period and as at the end of the reporting period) to cost of sales in the period, multiplied by the number of days in the period.*
(4) *The Group defines and calculates the cash conversion cycle as the sum of the inventory turnover period and average collection period less average payment period.*

3.9.3. The Group's debt ratios

The Group's debt ratios presented below were calculated on the basis of the separate and consolidated statements of financial position as at December 31st 2019.

The table below presents the Group's debt ratios.*

	As at Dec 31 consolidated financial statements		As at Dec 31 separate financial statements	
	2019	2018	2019	2018
	PLN '000	PLN '000	PLN '000	PLN '000
Total debt ratio (%)[1]	49.1	48.4	48.0	4,802
Long-term debt ratio (%)[2]	21.4	18.5	21.3	18.3
Short-term debt ratio (%)[3]	27.7	30.0	26.7	29.8
Equity-to-debt ratio (%)[4]	103.6	106.5	108.4	107.7

Source: the Group.

** In the consolidated financial statements for 2018, the working capital facility from ING was reclassified to non-current liabilities following the signing of an annex to the multi-product agreement with ING Bank Śląski whereby the repayment term was extended by another three years.*

(1) *The Group defines and calculates the total debt ratio as the ratio of total liabilities as at the reporting date to total assets as at the reporting date.*

(2) *The Group defines and calculates the long-term debt ratio as the ratio of non-current liabilities as at the reporting date to total assets as at the reporting date.*
(3) *The Group defines and calculates the short-term debt ratio as the ratio of current liabilities as at the reporting date to total assets as at the reporting date.*
(4) *The Group defines and calculates the equity-to-debt ratio as equity as at the reporting date to total liabilities as at the reporting date.*

3.9.4. Liquidity ratios

The Group's liquidity ratios were calculated on the basis of financial data from the separate and consolidated statements of financial position as at December 31st 2019.

The table below presents the Group's liquidity ratios.

	As at Dec 31 consolidated financial statements		As at Dec 31 separate financial statements	
	2019	2018	2019	2018
	PLN '000	PLN '000	PLN '000	PLN '000
Current ratio[1]	2.94	2.97	2.91	2.84
Quick ratio[2]	0.63	0.57	0.74	0.64
Cash ratio[3]	0.13	0.12	0.11	0.11

Source: the Group

(1) *The Group defines and calculates the current ratio as the ratio of current assets as at the reporting date to current liabilities as at the reporting date.*
(2) *The Group defines and calculates the quick ratio as the ratio of total current assets less inventories and right-of-return assets as at the reporting date to current liabilities as at the reporting date.*
(3) *The Group defines and calculates the cash ratio as the ratio of cash and cash equivalents plus current financial assets as at the reporting date to current liabilities as at the reporting date.*

3.10 MATERIAL COURT, ARBITRATION AND ADMINISTRATIVE PROCEEDINGS

No material court, arbitration or administrative proceedings are currently pending in relation to any liabilities or claims of the Company or any of its subsidiaries.

3.11 FINANCIAL INSTRUMENTS

3.11.1. Capital risk management

The purpose of the Group's capital management is to ensure that the Group companies can continue as going concerns and to maximise return for the shareholders by optimising the debt-equity structure.

The Group is not subject to any external capital requirements, apart for the following:

1) Pursuant to Art. 396.1 of the Commercial Companies Code, which applies to the Parent, at least 8% of profit for the financial year should be contributed to statutory reserve funds held for the purpose of covering losses, until the funds reach at least one-third of the Group's share capital. That part of statutory reserve funds (retained earnings) is not available for distribution to shareholders. As at December 31st 2019, it amounted to PLN 4.4m;
2) Financial covenants contained in the credit facility agreements limit the Company's ability to pay dividends to 30% of the net profit for the preceding year; this percentage may be

increased to 50% provided that the solvency ratio, calculated as equity to total assets, is maintained at no less than 50%.

3.11.2. Currency risk management

The Group enters into certain transactions denominated in foreign currencies, and thus it is exposed to the risk of exchange rate fluctuations. In 2019, the Group did not use derivative instruments to hedge against currency risk.

3.11.3. Interest rate risk management

The Group is exposed to interest rate risk as its subsidiaries borrow funds bearing interest at fixed and variable rates. The Group manages the risk by maintaining an appropriate proportion of fixed- and floating-rate borrowings. The Group does not use derivative instruments to hedge against interest rate risk.

The Group's exposure to interest rate risk related to financial assets and liabilities is discussed in detail in the section on liquidity risk management.

3.11.4. Credit risk management

Credit risk is the risk that a counterparty will default on its contractual obligations, which will result in financial losses to the Group. The Group only trades with customers with proven creditworthiness. If necessary, the Group takes appropriate security to reduce the risk of incurring financial losses due to the customer's default. The Group uses financial information available in the public domain and its own transaction data to assess the creditworthiness of its main customers. The Group's exposure to credit risk is constantly monitored.

Trade receivables include amounts due from a large number of customers. Therefore, the Group is not exposed to material credit risk from a single counterparty, although the concentration increases as the scale of its operations on foreign markets grows. Therefore, the Group also insures a specific portfolio of receivables from foreign customers.

3.11.5. Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the Management Board, which has put in place an appropriate system for managing short-, medium- and long-term financing and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserve credit facilities, continuously monitoring projected and actual cash flows, and matching the maturity profiles of financial assets and liabilities.

3.12 CURRENT AND ANTICIPATED FINANCIAL POSITION OF THE COMPANY AND THE GROUP

The Company's Management Board views the Company's and the Group's financial position as stable. As at the reporting date, the Group's net debt to EBITDA was 2.12 (the ratio is calculated net of the shareholder loan, which is subordinated to credit facility agreements and is not taken into account in the calculation of the ratio by the banks), which is a safe level in the context of the maximum levels required by banks and resulting from the financial covenants defined in the credit facility agreements.

In addition, the Company has an option to choose between deferred payment deadlines and additional discounts from suppliers. At present, the Company uses the discounts to maximise margins rather than the deferred payment option, which has a significant bearing on the length of the average payment period.

Given the rapid development of the Group, the Management Board uses surplus funds to ensure an appropriate level of inventories in order to guarantee the highest quality of service to its customers, which may lead to temporarily negative operating cash flows but, in the Management Board's opinion, will generate tangible profits in the future due to higher turnover.

3.13 AGREEMENTS PROVIDING FOR COMPENSATION TO MEMBERS OF THE MANAGEMENT STAFF IN THE EVENT OF RESIGNATION OR REMOVAL FROM OFFICE WITHOUT A GOOD REASON, OR TERMINATION OR REMOVAL FROM OFFICE IN THE EVENT OF CHANGE OF CONTROL

The Company has not entered into agreements referred to above with any members of its management staff.

3.14 AGREEMENTS KNOWN TO THE COMPANY (INCLUDING THOSE CONCLUDED AFTER THE REPORTING DATE) WHICH MAY CHANGE THE PROPORTIONS OF COMPANY SHARES HELD BY ITS CURRENT SHAREHOLDERS AND BONDHOLDERS

The Company is not aware of any agreements which may result in future changes in the proportions of Company shares held by its current shareholders and bondholders.

3.15 INFORMATION ON REPURCHASE OF COMPANY SHARES, INCLUDING INFORMATION ON THE PURPOSE OF THE REPURCHASE, NUMBER AND PAR VALUE OF THE SHARES AND THE PERCENTAGE OF THE SHARE CAPITAL THEY REPRESENT, AND PURCHASE PRICE AND SELLING PRICE (IF THE SHARES ARE SOLD)

In the financial year 2019, the Company did not execute any transactions in its own shares.

3.16 IF THE COMPANY ISSUED ANY SECURITIES IN THE PERIOD COVERED BY THE REPORT – INFORMATION ON THE USE OF THE PROCEEDS BY THE DATE OF PREPARATION OF THE FINANCIAL STATEMENTS

In the financial year 2019, the Company raised the following amounts from the issue of shares:

- Issue of 495,000 Series I ordinary bearer shares as part of the Incentive Scheme: PLN 980,100.

The proceeds were allocated to the Company's working capital.

3.17 DEVELOPMENT POLICY FOR THE GROUP AND THE COMPANY

Both the Company and the Group intend to continue their existing development policy. For the discussion of the Group's development plans, see Section 3.2 of this report.

3.18 STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE STANDARDS BY AUTO PARTNER S.A.

3.18.1. Code of corporate governance standards applicable to the Company; the place where the code is available to the public

In 2019, Auto Partner S.A. complied with the corporate governance standards set out in the Code of Best Practice for WSE Listed Companies 2016 ("Code of Best Practice") adopted by the Supervisory Board of the Warsaw Stock Exchange by way of Resolution No. 26/1413/2015 of October 13th 2015, which came into force on January 1st 2016.

In fulfilling the disclosure requirements regarding the application of corporate governance standards, the Company is guided by the principles of an effective and transparent information policy and communication with the market and investors.

On August 12th 2016, Auto Partner S.A. adopted the corporate governance standards set out in the abovementioned code. At the same time, in accordance with principle I. Z.1.13 of the Code of Best Practice, the Company published information on the status of its compliance with the recommendations and principles contained in the code by placing it on the Company's website at https://autopartner.com/lad-korporacyjny/. Following appointment of the Audit Committee by the Company's Supervisory Board on October 2nd 2017, the Company adopted for application principles II.Z.7. and II.Z.8. related to the operation of the Audit Committee at the Company. An amended statement of compliance with the recommendations and principles set out in the Code of Best Practice for WSE Listed Companies 2016 was published on the Company's website on February 6th 2018.

3.18.2. Scope of non-compliance with the code of corporate governance standards, identification of the specific provisions of the code that were not complied with, and reasons for the non-compliance

Currently, the Company does not comply with six recommendations contained in the Code of Best Practice: II.R.2., III.R.1., IV.R.2., VI.R.1., VI.R.2., VI.R.3., and with nine detailed principles: I.Z.1.15., I.Z.1.16., I.Z.1.20., III.Z.1., III.Z.2., III.Z.3., IV.Z.2., V.Z.6., VI.Z.4.

Disclosure Policy, Investor Communications

I. Z.1. A company should operate a corporate website and publish on it, in legible form and in separate section, in addition to information required under the legislation:

I. Z.1.15. information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website

The Company does not apply a diversity policy described in principle I.Z.1.15 with respect to the persons it employs. The decisive criterion for the selection of members of the Company's governing bodies and key managers is, first and foremost, appropriate qualifications and knowledge required to serve in a given position.

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

Being guided by the principle of transparency, the Company pursues a transparent information policy ensuring communication with the market participants using traditional methods.

I.Z.1.20. An audio or video recording of a general meeting.

Being guided by the principle of transparency, the Company pursues a transparent information policy ensuring communication with the market participants using traditional methods.

I.Z.2. A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity.

The principle does not apply to the company.

Given the size of the Company and the expected market capitalisation, the Company believes that the investor relations service in the Polish language is currently sufficient. However, seeing an interest in the Company from foreign entities, the Company is going to take steps to launch an English version of the service.

Management Board, Supervisory Board

II.R.2. Decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience.

The decisive criterion for the selection of members of the Company's governing bodies and key managers is, first and foremost, appropriate qualifications and knowledge required to serve in a given position, and only then such aspects as gender or age of the candidates.

Internal Systems and Functions

III.R.1 The company's structure should include separate units responsible for the performance of tasks in individual systems or functions, unless the separation of such units is not justified by the size or type of the company's activity.

Currently, this principle is applied to a limited extent. Internal control and risk management systems are distributed and are operated in various areas of the Company's operations. There are no separate organisational units responsible for these tasks within the Company' structure.

III.Z.1. The company's management board is responsible for the implementation and maintenance of efficient internal control, risk management and compliance systems and internal audit function.

Currently, this principle is applied to a limited extent. Internal control and risk management systems are distributed and are operated in various areas of the Company's operations.

III.Z.2. Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.

Given the limited application of principle III.R.1., compliance with this principle is not possible.

III.Z.3. The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks.

Given the limited application of principle III.R.1., compliance with this principle is not possible.

General Meeting, Shareholder Relations

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

1) real-life broadcast of the general meeting;

2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;

3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

Pursuant to Art. 4065 of the Commercial Companies Code, the articles of association of a joint-stock company may provide for participation in the general meeting using electronic means of communication, which includes in particular the shareholder rights set out in principle IV.R.2. This solution is not mandatory, and the Company's Articles of Association do not provide for this possibility. The Company believes that the proceedings of and participation in General Meetings are regulated in a comprehensive and fully sufficient manner by its Articles of Association, the Commercial Companies Code and the Rules of Procedure for the General Meeting.

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

Being guided by the principle of transparency, currently the Company pursues a transparent information policy ensuring ongoing communication with all market participants using traditional methods.

Conflict of Interest, Related Party Transactions

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company’s internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

The Rules of Procedure for the Management Board, the Rules of Procedure for the Supervisory Board and the Code of Ethics of the Auto Partner Group define the rules to be followed in the event of an actual or potential conflict of interest. Decisions of the Company's governing bodies are made in accordance with applicable laws, in particular the Commercial Companies Code, and therefore the Company does not plan to define on its own the criteria and circumstances under which a conflict of interest may occur at the Company. Members of the Company's governing bodies have sufficient knowledge and experience to comply with applicable regulations.

Remuneration

VI.R.1 The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

The Company has no remuneration policy for members of the management and supervisory bodies and key managers. The remuneration rules applied at the Company have been established based on long-term experience and assessment of the work of the current members of the management bodies, and are defined according to the scope of duties and responsibilities in a given position and the economic performance of the Group. The level of remuneration paid to members of the Company's governing bodies does not create any threat to the investors' interests. However, the Company will make an effort to provide information on an ongoing basis about the rules applied to define remuneration of members of the Company's governing bodies and its key managers, the level of remuneration due to each member of the Management Board from the Company and its subsidiaries and the remuneration components, as well as any changes in this respect.

VI.R.2. The remuneration policy should be closely tied to the company’s strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds

The remuneration policy for the Company's executive staff and key managers is closely linked to the Company's performance and long-term goals thanks to the incentive system in place. As part of the Incentive Scheme, the managers were offered Series B subscription warrants; the number of the warrants depended on the achievement of business targets consistent with the Company's strategic plans, including in particular EBITDA growth. The group of persons eligible to participate in the Incentive Scheme was not defined precisely, so the Scheme could be an important factor if it was necessary to recruit new persons for key management positions (the Scheme was in effect in 2016−2019). On April 9th 2019, the Supervisory Board adopted the Incentive Scheme Rules for members of the Auto Partner Management Board for 2019–2021. The purpose of the Scheme is to establish mechanisms to encourage activities that will ensure long-term growth of the shareholder value, reduce turnover of the Company’s management staff, and reward their contribution to the shareholder value growth. In addition, the Company complies with the applicable labour laws and internal rules concerning the prohibition of discrimination.

VI.R.3. If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.

There is no remuneration committee operating within the Supervisory Board.

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

1) general information about the company's remuneration system,

2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;

3) information about non-financial remuneration components due to each management board member and key managers;

4) significant amendments of the remuneration policy in the last financial year or information about their absence;

5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company’s stability.

Since the Company does not apply principle VI.R.1., full compliance with this principle is not possible. However, the Company will make an effort to provide information on an ongoing basis about the rules applied to define remuneration of members of the Company's governing bodies and its key managers, the level of remuneration due to each member of the Management Board from the Company and its subsidiaries and the remuneration components, as well as any changes in this respect.

3.18.3. Key characteristics of the internal audit and risk management systems applied at the Company in connection with the preparation of financial statements

Auto Partner S.A. and other Auto Partner Group companies have a distributed internal control system in place. The system is suited to the Group’s needs and ensures effectiveness, reliability, completeness, compliance with laws and internal regulations, as well as validity of financial and management information. Internal control is one of the functions in day-to-day management of the Group, carried out directly by the Parent's Management Board, the Management Boards of the subsidiaries, the Chief Financial Officer, the Controlling Department, the Internal Control Department, other employees in management positions, and the Group's legal services.

In accordance with applicable laws, as part of the reporting control process, the Auto Partner S.A. Management Board has the financial statements reviewed or audited, as appropriate, by an independent auditor. The auditor is selected by the Company's Supervisory Board based on recommendations from the Audit Committee. The financial statements are prepared in accordance with appropriate procedures, in cooperation with individual departments of the Company and its subsidiaries, under the supervision of the Chief Financial Officer. The Group applies approved accounting policies, describing the rules of measurement of assets, equity and liabilities, and profit or loss.

In the process of preparing financial statements, the Group uses dedicated IT tools that support automatic verification of data consistency and monitoring of the accounting and controlling activities on a continuous basis.

The comprehensive nature of the control system ensures timely and accurate disclosure of facts relating to material elements of the Group companies' business. It allows the Auto Partner S.A. Management Board, the Audit Committee and the Supervisory Board to obtain full view of the Group's financial condition, operating performance, assets, and efficiency of management. The Auto Partner Group's control system ensures complete disclosure of business transactions, correct assignment of supporting documents, and correct valuation of the resources at each registration stage, thus ensuring that the financial statements are prepared correctly and enabling the Management Board to conduct the operations of Auto Partner S.A. and the Auto Partner Group based on verified and complete information.

As part of its risk management procedures, the Group carries out verification and reconciliation of management policies, covering mainly:

- Risk of changes in the bonus policies applied by spare parts suppliers (manufacturers)
- Risk related to unsuccessful strategy implementation or adoption of a wrong development strategy
- Risk of a decline in demand for certain goods offered by the Company
- Risk related to the structure of the Group's debt
- Currency risk
- Risk related to the concentration of stocks (merchandise) in the central warehouse
- Risk related to the loss of key personnel and inability to hire qualified workforce
- Risk related to the IT system
- Risk related to the operation of the Group's main warehouse

The Auto Partner S.A. Management Board and Chief Financial Officer assess the risks related to the Company's and the Group's operations on an ongoing basis and manage those risks. The Management Board is responsible for monitoring and identifying the risks. The enterprise risk management process is carried out by the Management Boards of individual Group companies.

The Supervisory Board, together with the Audit Committee, monitors the financial reporting process and the effectiveness of internal control and risk management systems. The Audit Committee works with the Auto Partner S.A. Management Board and the Auditor on an ongoing basis with respect to supervision of the preparation of financial statements.

3.18.4. Shareholders holding, directly or indirectly, major holdings of Company shares, the number of shares held by each shareholder, the percentage of the Company's share capital they represent, the number of votes attached to the shares, and the percentage of total voting rights they represent at the General Meeting

As at the date of issue of this report, the Company's shareholders with major holdings of shares were:

Shareholder	Number of shares held	Number of votes at GM	Percentage of share capital held	Percentage of total voting rights held
Aleksander Górecki	29,883,577	29,883,577	22.878%	22.878%
Katarzyna Górecka	35,060,681	35,060,681	26.841%	26.841%
AEGON Otwarty Fundusz Emerytalny	6,700,000	6,700,000	over 5%*	over 5%*
Otwarty Fundusz Emerytalny Złota Jesień (OFE PZU)	8,617,124	8,617,124	over 5%**	over 5%**
Nationale Nederlanden Powszechne Towarzystwo Emerytalne S.A.	8,170,536	8,170,536	over 5%***	over 5%***

* In the most recent notification, received by the Company on June 7th 2016, AEGON Otwarty Fundusz Emerytalny reported that it held 6,700,000 Company shares, which, according to the Company's calculations based on the current share capital amount, currently represent 5.148% of total voting rights.

**In the most recent notification, received by the Company on April 10th 2017, Otwarty Fundusz Emerytalny Złota Jesień (OFE PZU) reported that it held 8,617,124 Company shares, which, according to the Company's calculations based on the current share capital amount, currently represent 6.622% of total voting rights.

***Nationale - Nederlanden Powszechne Towarzystwo Emerytalne S.A., through the following funds under its management: Nationale - Nederlanden Otwarty Fundusz Emerytalny and Nationale - Nederlanden Dobrowolny Fundusz Emerytalny, notified the Company on January 8th 2018 that it had exceeded the 5% threshold of the share capital and total voting rights at the General Meeting; its holding, according to the Company's calculations based on the current share capital amount, currently represents 6.279% of total voting rights.

3.18.5 Holders of any securities conferring special control powers

The Company does not hold any securities conferring special control powers on its holders.

3.18.6 Restrictions on the exercise of voting rights

The Company's Articles of Association do not provide for any restrictions on the exercise of voting rights attached to Company shares.

3.18.7. Restrictions on the transferability of the Company's securities

As at the date of issue of this report, no restrictions applied at Auto Partner S.A. with respect to the transferability of the Company's securities.

3.18.8. Rules governing appointment and removal of Management Board members; powers of Management Board members, including the right to resolve on a share issue or buy-back

Members of the Management Board are appointed by the Supervisory Board for a joint term of five years. The mandates of Management Board members expire on the date of the General Meeting which approves the Directors' Report and the financial statements for the last financial year in which they held the office. Members of the Management Board may be removed before the expiry of their term of office by the Supervisory Board. A Management Board member's mandate also expires upon the member's death, resignation or removal from the Management Board.

Pursuant to the Commercial Companies Code, the right to remove from office or suspend in duties a Management Board member is also vested in the General Meeting.

Powers and responsibilities of the Management Board include all matters that do not fall within the exclusive scope of powers and responsibilities of the General Meeting or the Supervisory Board.

Decisions on share issue and retirement are governed by the provisions of the Commercial Companies Code.

3.18.9. Rules governing amendments to the Articles of Association.

An amendment to the Articles of Association of Auto Partner S.A. requires a resolution of the General Meeting and entry in the Register of Businesses. A resolution of the General Meeting on amendments to the Company's Articles of Association is passed with a majority of three-fourths of votes, except for amendments with respect to which the Commercial Companies Code provides otherwise.

3.18.10. Procedures and key powers of the General Meeting; shareholder rights and how they are exercised

The rules for convening the General Meeting are defined in the Commercial Companies Code, the Company's Articles of Association, and the Rules of Procedure for the General Meeting. Both the Articles of Association and the Rules of Procedure for the General Meeting are available on the Company's website at https://autopartner.com/lad-korporacyjny/

An Annual General Meeting is convened by the Management Board and is held within six months of the end of a financial year. The Supervisory Board may convene an Annual General Meeting if the Management Board fails to do so within the time limit specified in the Articles of Association, and an Extraordinary General Meeting, if the Supervisory Board deems it advisable. Furthermore, in certain cases, the shareholders have the right to convene or request the convening of a General Meeting.

Shareholders may attend the General Meeting and exercise voting rights in person or by proxy. One proxy may represent more than one shareholder.

Unless the Commercial Companies Code provides otherwise, the General Meeting is validly held regardless of the number of shares represented.

Any matters to be submitted to the General Meeting are first presented for consideration by the Supervisory Board.

Subject to certain cases, resolutions of the General Meeting are passed by open ballot with simple majority vote, unless the Commercial Companies Code or the Articles of Association provide for more stringent conditions for adopting resolutions on specific matters. A secret ballot is ordered in the case of voting on election or removal from office of members of the Company's governing bodies or liquidators, on bringing them to account, and on personnel matters. A secret ballot is also ordered if at least one shareholder present or represented at the General Meeting so demands.

The procedures for the operation of the General Meeting and the key shareholder rights and powers as well as the manner in which they are exercised are defined in the Commercial Companies Code, the Company's Articles of Association, the Rules of Procedure and the corporate governance standards adopted by the Company.

The following are considered special matters, excluded from the scope of the General Meeting's powers and responsibilities:

- acquisition and disposal of real estate, perpetual usufruct right to or interest in real estate,
- appointment of the auditor to audit the financial statements.

Pursuant to the Company's Articles of Association, decisions on those matters are made by the Supervisory Board.

Pursuant to the Articles of Association, the General Meeting's resolutions are passed with an absolute majority of votes cast, except for matters for which the Commercial Companies Code provides otherwise.

A special section dedicated to the Company's General Meetings is available on Auto Partner's website, containing information on an approaching General Meeting, as well as archived materials from previous General Meetings.

General Meetings are held in such a way as to properly discharge obligations towards the shareholders and to enable them to exercise their rights.

If a vote is carried out by means of a computerised system for voting and calculating the voting results, the system should ensure that the number of votes cast corresponds to the number of shares held, and – in the case of secret ballot – should prevent identification of how individual shareholders have voted. The same requirements must be met when conducting secret ballot using ballot cards.

The General Meeting may be held at the Company's registered office or in Tychy, Katowice, Kraków, Warsaw or Gdańsk.

Promptly after the General Meeting completes its proceedings, the Company publishes the resolutions passed by the General Meeting in a current report, and places them on its website so that the shareholders can learn about the matters dealt with during General Meetings.

Shareholders have the right to a share in the profit disclosed in the audited financial statements and allocated by the General Meeting for distribution to the shareholders.

An Extraordinary General Meeting may be convened by shareholders representing at least half of the share capital or of total voting rights in the Company, in which case such shareholders designate the chairperson of the General Meeting. Shareholder(s) representing at least one-twentieth of the share capital may request the Management Board to convene an Extraordinary General Meeting and place particular matters on its agenda.

A General Meeting may be attended only by persons that are the Company's shareholders sixteen days prior to the date of the General Meeting. Shareholder(s) representing at least one-twentieth of the share capital may request that specific matters be placed on the agenda of the Annual General Meeting. The request should be submitted to the Management Board not later than twenty-one days before the scheduled date of the Annual General Meeting.

Shareholders may attend the General Meeting and exercise voting rights in person or by proxy.

Each Company shareholder has the right to:

- put forward draft resolutions on the agenda items during the General Meeting;
- put forward provisions amending or supplementing a draft resolution included in the General Meeting's agenda, until the debate on the agenda item referred to in the draft resolution has

been closed. The proposed provisions, accompanied by a brief statement of reasons, should be submitted in writing, separately for each draft resolution, with the name and surname (company name) of the shareholder specified, to the chairperson of the General Meeting, unless the chairperson authorises submission of the proposed provisions orally.

3.18.11. Composition and operation of the Company's Management and Supervisory Boards and their committees

In the period from January 1st to September 7th 2019, the **Management Board** of Auto Partner S.A. consisted of four members:

- Aleksander Górecki – President of the Management Board,
- Andrzej Manowski – Vice President of the Management Board,
- Piotr Janta – member of the Management Board,
- Michał Breguła – member of the Management Board.

On September 7th 2019, the term of office of Michał Breguła, member of the Company's Management Board, expired upon his death.

On September 9th 2019, the Supervisory Board resolved that the Management Board would consist of three members:

- Aleksander Górecki – President of the Management Board,
- Andrzej Manowski – Vice President of the Management Board,
- Piotr Janta – member of the Management Board.

On October 10th 2019, the Supervisory Board resolved to appoint Piotr Janta, then member of the Management Board, as Vice President of the Management Board.

As at the date of issue of this report, the Company's Management Board consisted of:

- Aleksander Górecki – President of the Management Board,
- Andrzej Manowski – Vice President of the Management Board,
- Piotr Janta – Vice President of the Management Board.

The Management Board manages the Company's affairs and represents the Company before third parties. The manner of representation of the Company is defined in the Articles of Association, which stipulate that the persons authorised to make declarations of will are: President of the Company's Management Board acting individually, or two members of the Management Board acting jointly, or one member of the Management Board acting jointly with a commercial proxy.

The Company's Management Board operates in compliance with applicable laws, in particular the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Management Board, and in accordance with the Code of Best Practice for WSE Listed Companies 2016. Management Board meetings are held at least once a month. The meetings are convened by the President of the Management Board on his own initiative or, in his absence, by a Management Board member. A request to convene a Management Board meeting may be submitted by any member of the Management Board to the President of the Management Board.

Resolutions of the Management Board are passed with an absolute majority of votes cast. In the event of a voting tie, the President of the Management Board has the casting vote. The Management Board makes its decisions independently, except with respect to activities that require approval from other governing bodies under applicable laws or the Articles of Association.

When making decisions on the Company's affairs, the Management Board acts within the limits of reasonable economic risk, after considering all information, analyses and opinions which should be taken into account in a given case in view of the Company's interests. In determining what is in the Company's interest, account is taken of reasonable long-term interests of the shareholders, creditors, employees and other entities and persons cooperating with the Company in connection with its business.

When dealing with shareholders and other persons whose interests affect the Company's interests, the Management Board acts with special care in accordance with the procedures in place to ensure that transactions are made on arm's length terms.

Supervision of the Company is exercised by the Supervisory Board, which consists of five members appointed by the General Meeting for a joint term of office of five years. The Supervisory Board elects the Chairperson and Deputy Chairperson of the Supervisory Board from among its members.

In the period from January 1st 2019 to January 10th 2020, the Supervisory Board consisted of:

- Jarosław Plisz as Chairperson of the Supervisory Board,
- Zygmunt Grajkowski as Deputy Chairperson of the Supervisory Board,
- Katarzyna Górecka as member of the Supervisory Board,
- Bogumił Woźny as member of the Supervisory Board,
- Bogumił Kamiński as member of the Supervisory Board.

On December 9th 2019, the Company received Katarzyna Górecka's notice of resignation from the position of member of the Supervisory Board with effect from the date of the next General Meeting. Following the resignation, the mandate of Katarzyna Górecka expired at the Extraordinary General Meeting held on January 10th 2020, which appointed Mateusz Melich in her place. Mateusz Melich was put forward as a candidate by the Company's shareholder – Powszechne Towarzystwo Emerytalne PZU S.A.

From January 10th 2020 to the date of this report, the composition of the Supervisory Board was as follows:

- Jarosław Plisz as Chairperson of the Supervisory Board,
- Zygmunt Grajkowski as Deputy Chairperson of the Supervisory Board,
- Mateusz Melich as member of the Supervisory Board,
- Bogumił Woźny as member of the Supervisory Board,
- Bogumił Kamiński as member of the Supervisory Board.

Members of the Supervisory Board have delivered representations on satisfying the independence criteria to the Supervisory Board and the Management Board. The Supervisory Board carried out a review to examine whether there were any connections or circumstances which may be relevant to the satisfaction of the independence criteria by particular Supervisory Board members.

As at the date of this report, out of the five members of the Auto Partner S.A. Supervisory Board, four were independent members, who submitted relevant written representations to that effect:

- Jarosław Plisz – Chairperson of the Supervisory Board,
- Bogumił Kamiński – member of the Supervisory Board,
- Bogumił Woźny – member of the Supervisory Board,
- Mateusz Melich – member of the Supervisory Board.

The Supervisory Board members's representations are published on the Company's website.

Pursuant to the Articles of Association, the Supervisory Board meetings are held at least once a quarter. Supervisory Board resolutions may be voted on by written ballot or using means of remote communication. The procedure for adopting resolutions in this manner is defined in the Company's Articles of Association and the Rules of Procedure for the Supervisory Board. The Supervisory Board exercises ongoing supervision in all areas of the Company's operations, with a particular focus on the financial reporting, internal control and risk management processes. The Supervisory Board is liable jointly and severally with the Management Board for the proper preparation of financial statements and the Directors' Report on the Company's operations. Detailed rules of operation of the Supervisory Board are laid down in the Company's Articles of Association, and the Rules of Procedure for the Supervisory Board of Auto Partner S.A.

Audit Committee

The Audit Committee appointed within the Supervisory Board consisted of:

- Bogumił Jarosław Woźny – Chairperson of the Audit Committee,
- Bogumił Kamiński – member of the Audit Committee,
- Jarosław Plisz – member of the Audit Committee.

The Audit Committee's tasks include monitoring the Company's financial reporting process, preparing draft assessments and reports of the Supervisory Board in connection with the close of the financial year, monitoring effectiveness of the internal control, internal audit and risk management systems at the Company, participating in the auditor selection process, monitoring the auditor's independence, and ensuring appropriate cooperation with auditors. At its meeting on December 29th 2017, the Company's Supervisory Board adopted the Rules of Procedure for the Audit Committee of Auto Partner S.A., which define the main principles of its operation.

Independence of members

In 2019, the following persons were independent members of the Audit Committee of Auto Partner S.A., meeting the independence criteria specified in Art. 129.3 of the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017 (Dz. U. of 2017, item 1089) (the "Act on Statutory Auditors"):

- Bogumił Woźny – Chairperson of the Audit Committee,
- Bogumił Kamiński – member of the Audit Committee.

Persons who have knowledge and skills in the field of accounting or auditing of financial statements, including information on how the knowledge and skills were acquired

The members of the Audit Committee who have knowledge and skills in the field of accounting or auditing of financial statements are Bogumił Jarosław Woźny and Bogumił Kamiński.

Bogumił Jarosław Woźny completed, in 1996, a course in accounting and finance based on the original materials of the Chartered Association of Certified Accountants.

Bogumił Kamiński holds a PhD (doctor habilitated) degree in economics from Warsaw School of Economics (2013), and is currently an associate professor of Warsaw School of Economics.

Persons who have knowledge and skills related to the industry in which the Company operates, including information on how the knowledge and skills were acquired

Jarosław Plisz is a member of the Audit Committee having knowledge and skills related the industry in which the Company operates.

Jarosław Plisz holds a stock broker licence, and since 2007 has served as a member of the Auto Partner S.A. Supervisory Board and has been actively involved in the Company's development. Therefore, he has experience in the automotive industry and knowledge of the operation of public companies.

Information on the provision of permitted non-audit services by the Company's auditor and on whether the auditor's independence was verified in connection with such services and whether approval has been obtained for such services

In 2019, Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. of Warsaw, the audit firm auditing the separate financial statements of Auto Partner S.A. and the consolidated financial statements of the Auto Partner Group, performed agreed procedures with respect to selected items of the consolidation package AP Auto Partner CZ s.r.o. of Prague. These activities were carried out for the purposes of the audit of the consolidated financial statements of the Auto Partner Group for 2018, 2019, 2020 and 2021. The auditor's independence was verified in connection with the services. The services were approved by the Audit Committee.

Key assumptions of the policy for selection of the auditor to audit financial statements and the policy for the provision of non-audit services by the auditor, its affiliates and members of its network

In 2019, Auto Partner S.A. had in place a policy and procedure for selecting the auditor of Auto Partner S.A. financial statements, developed and adopted by the Audit Committee on December 29th 2017. These documents set out the guidelines and principles to be followed by the Audit Committee when preparing the recommendation, and by the Supervisory Board when selecting the auditor. They take into account the requirements of the Act on Statutory Auditors and the nature, type and scope (including the geographical range) of the Auto Partner Group's business, and cover the following elements:

- knowledge of the industry and the nature of the Company's operations, including in particular legal and tax matters and financial reporting matters relevant to the assessment of risk in the audit of financial statements, based on the audit firm's experience in auditing the financial statements of entities with a similar business profile as the Company;
- experience of the audit firm in auditing financial statements of companies listed on the Warsaw Stock Exchange;
- capacity to provide the full range of services specified by the Company (audit of separate financial statements, audit of consolidated financial statements, interim reviews, etc.);
- the price level;
- the number of employees assigned to the audit and their professional qualifications and experience;
- possibility of performing the audit at the time specified by the Company;
- existing cooperation between the audit firm and the Company;
- the possibility of auditing Group companies operating outside Poland by companies of the audit firm's network.

The Policy also defines the periods of cooperation with audit firms and the course of the process, the organisation of which is the responsibility of the Company's Chief Financial Officer.

Moreover, in 2019, the Company had in place a policy for the provision of non-audit services by the auditor, its affiliates and members of its network, developed and adopted by the Audit Committee on December 29th 2017. In accordance with the key assumptions of this document, neither the auditor nor the audit firm carrying out the audit of financial statements, nor the audit firm's affiliate or member of its network should provide, directly or indirectly, to the audited entity, its parent or entities it controls within the European Union, any prohibited services other than audit of financial statements or financial auditing activities. This prohibition does not apply to services specified in Art. 136.2 of the Act on Statutory Auditors, which can be provided only to the extent they are not related to Auto Partner S.A.'s tax policy and only following an assessment by the Audit Committee of threats and independence safeguards and approval by the Audit Committee. Any services provided by the auditor or its affiliates require a prior assessment of the risks and independence by the Audit Committee.

Recommendation on the selection of the audit firm to perform an audit

At its meeting on March 23rd 2018, in accordance with the recommendation presented by the Audit Committee in Resolution No. 2 of March 9th 2018, the Supervisory Board resolved to appoint Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. of Warsaw as the auditor to perform:

- a review of the condensed separate financial statements of Auto Partner S.A. for H1 2018, 2019, 2020, and 2021, prepared in accordance with International Financial Reporting Standards (IFRS);
- a review of the condensed consolidated financial statements of the Auto Partner Group for H1 2018, 2019, 2020 and 2021, prepared in accordance with International Financial Reporting Standards (IFRS);
- an audit of the separate financial statements of Auto Partner S.A. for 2018, 2019, 2020, and 2021, prepared in accordance with International Financial Reporting Standards (IFRS);
- an audit of the consolidated financial statements of the Auto Partner Group for 2018, 2019, 2020, and 2021, prepared in accordance with International Financial Reporting Standards (IFRS).

The agreement with the auditor was concluded on July 30th 2018 for a four-year period. Despite previous cooperation with the audit firm, the principles of mandatory rotation of the audit firm and the lead auditor were not violated. Accordingly, Auto Partner S.A. states that the Audit Committee's recommendation on the selection of the auditor was prepared on the basis of a selection procedure meeting all applicable criteria, and the selection was made in accordance with applicable laws and professional standards.

Number of Audit Committee meetings held to perform the Audit Committee duties

In 2019, there were four meetings of the Audit Committee of Auto Partner S.A.

3.18.12. Diversity policy applied by the Company with respect to its governing bodies and key managers

The Company has not adopted a separate diversity policy and does not follow such policy with respect to its governing bodies and key managers. The decisive criterion for the selection of members of the Company's governing bodies and key managers is, first and foremost, appropriate qualifications and knowledge required to serve in a given position.

Respect for diversity and protection against discrimination are addressed in the Auto Partner S.A. Work Rules, in the Code of Ethics of the Auto Partner Group, and in the Procedure for the Prevention of Discrimination, Harassment and Workplace Bullying. In those documents, the employer has made a commitment to respect diversity, and in particular to ensure equal treatment of employees with regard to entering into and terminating employment relationships, terms of employment, promotion and access to training, regardless of sex, age, disability, race, religion, nationality, political beliefs, union membership, ethnic origin, creed, sexual orientation, and regardless of whether a given person is employed for a definite or indefinite term and on a full-time or part-time basis. This approach applies to all employees, regardless of their position, and it is prohibited to take decisions on those matters on the basis of on non-substantive reasons. No discrimination is tolerated within the Auto Partner Group. The Group is open to diversity and views it as a material resource that contributes to its value growth. Additionally, the Code of Ethics and the Procedure for the Prevention of

Discrimination, Harassment and Workplace Bullying establish mechanisms to be used in resolving doubts and reporting potential misconduct. The purpose of the regulations applicable at the Auto Partner Group is to protect the dignity and rights of employees and take appropriate measures against offenders.

Auto Partner S.A. believes that this solution is sufficient and effective. Although the Auto Partner Group is also active outside the Polish market, and employs many foreign nationals and thus makes up a multicultural organisation, no social problems related to nationality or ethnic origin were identified. The positive assessment of this aspect was confirmed by inspections carried out by the National Labour Inspectorate (PIP), some of which took place during the last year.

3.18.13 Sponsorship and charitable giving policy

Auto Partner S.A. has no formal sponsorship and charitable giving policy (it has not been adopted in the form of a document), but the Management Board believes that the Company's sponsorship and charitable activities in 2019 were conducted in a rational, transparent and consistent manner. The objectives selected in this area fit within the business profile of Auto Partner S.A. and have a positive impact on the environment, while building an image of Auto Partner S.A. as a socially responsible company, which is also in line with the Code of Ethics of the Auto Partner Group adopted by the Management Board in 2018. The Auto Partner Group and its employees engage in social outreach initiatives in the region, being aware that the Company is a corporate citizen in the community in which its operates.

Animal protection initiatives

In 2019, the Company was actively involved with the following organisations focused on animal protection:
- Fundacja Zwierzęca Arkadia ('Animals' Arcadia' Foundation),
- Fundacja Siedem Życzeń ('Seven Wishes' Foundation),
- Stowarzyszenie na rzecz Ochrony Zwierząt Nasielsk ('Nasielsk' Animal Protection Association),
- Stowarzyszenie na rzecz Opieki nad Zwierzętami "Nadzieja na Dom" ('Hope for a Home' Animal Protection Association),
- Fundacja dla Szczeniąt Judyta ('Judyta' Foundation for Puppies).

Joint activities were also undertaken with the ANIMAL Foundation, established by the President of the Company's Management Board.

Cars donated for animal rescue purposes

In 2019, the Company donated cars to animal protection foundations, to be used for animal rescue purposes. The cars are used to carry our rescue actions in animal harassment cases, to collect harassed animals, or transport animals to veterinary clinics.

Water treadmill to assist in physical rehabilitation

In 2019, the Company purchased a modern water treadmill for the shelter for puppies and dogs with disabilities run by the 'Judyta' Foundation. It was the first water treadmill for physical rehabilitation of disabled dogs at a non-commercial facility in Poland.

Feeding stray animals

The Company also helps animals by feeding them. On the premises of the head office in Bieruń, the Company looks after stray animals which cannot be taken care of by animal help centres in the area.

It also helps free living cats in the vicinity of its facilities by providing kennels where they can spend nights in winter.

Support for local events

In 2019, the Company supported local events with the participation of its employees. These included a dog trekking event organised by the Company's sales representative on the occasion of the 25th anniversary of the 'Fauna' Animal Protection Society in Ruda Śląska.

Initiatives to support education

Support for education is an important area of the Company's social activities. Providing opportunities to gain good knowledge and hands-on experience is a key to successful development. Supporting young people – future employees is the Company's investment in its future.

Academy by Clarkson

In order to support the development of young car mechanics, in 2019/2020 the Company joined the 'Academy by Clarkson' project. Its purpose is to provide training in four automotive professions: welder, coating technician, upholsterer and mechanic.

'Exempted from Theory'

The Company was a partner of the 2019/2020 edition of the nationwide 'Exempted from Theory' competition. It supported a programme enabling young people to gain skills related to the initiation, management and implementation of projects. The participants taking part in the dedicated partnership programme of Auto Partner and the ANIMAL Foundation undertook to carry out projects to help homeless animals.

Scientific Conference

In 2019, the Company offered support to the conference 'Legal status of animals under civil and criminal law – practical aspects'**,** organised by the Animal Rights Science Club of the University of Silesia, at the Faculty of Law and Administration of the University of Silesia in Katowice.

Assistance to people in need

Company promotes community outreach and charitable activities among its employees. In response to frequent requests for financial assistance to sick children, in 2019 a 'WE HELP TOGETHER' campaign was organised, whereby Auto Partner employees donated money for selected sick children, and the Company doubled the donation amounts.

Another form of support undertaken by the Company was in-kind donations for auctions held to help people in need. The Company offered an Auto Partner calendar with TVN Turbo Rally Team's autographs for an auction organised to help one of the charges of the 'I Have a Dream' Foundation as well as equipment for auctions held for an ill child, and again joined the Noble Gift project.

Total value of donations for social purposes: ***PLN 236,738.74***

Total amount of support provided in other forms (including sponsorship): PLN 370,500

Sponsorship activities

Auto Partner S.A.'s automotive passion is also manifest in its support for motorsports. In 2019, the Company sponsored the TVN Turbo Rally Team with Łukasz Byśkiniewicz as one of the drivers. For the TVN Turbo Rally Team, the 2019 season of the Polish Rally Championship was the second year in which they drove the strongest category of R5 class cars. The team decided to continue competing with the top car of this class, i.e. Hyundai i20 R5.

The team finished the season with the title of Vice-Champion of Poland in the general classification of the Polish Rally Championship.

The following drivers competed as part of the TVN Turbo Rally Team in the livery of the Auto Partner Group and the MaXgear brand: Łukasz Byśkiniewicz and Zbyszek Cieślar, Bryan Bouffier and Xavier Panseri, and Adam Kornacki and Maciej Wisławski, a living leged of the Polish rally racing.

4 NON-FINANCIAL STATEMENT

The Company prepared a separate non-financial report in accordance with the requirements of the Accounting Act.

This report was authorised for issue by the Company’s Management Board on April 6th 2020.

Aleksander Górecki – President of the Management Board

Andrzej Manowski – Vice President of the Management Board

Piotr Janta – Vice President of the Management Board