2020

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

TABLE OF CONTENTS

This document contains the Directors' Report on the operations of the Auto Partner Group in 2020. This document also contains 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", the "Issuer") as the parent. Basic information on the parent is presented below:

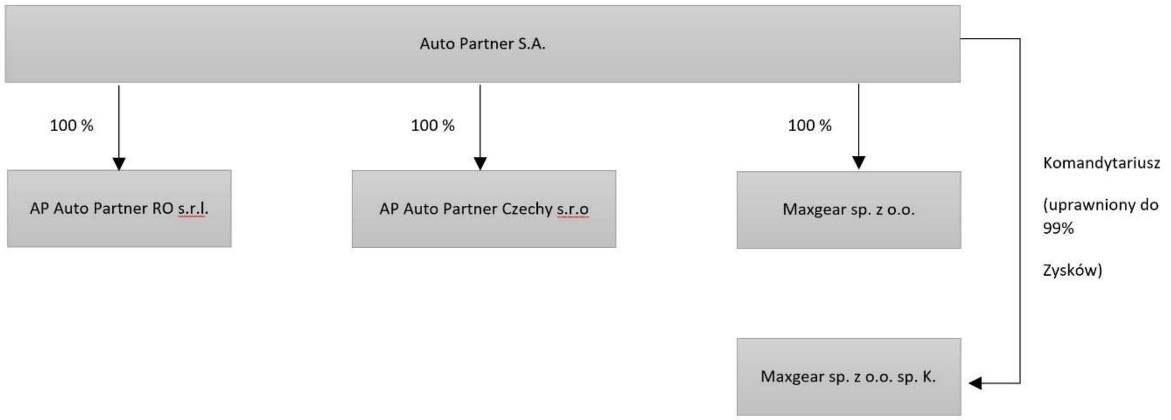
Registered office:	Bieruń
Legal form:	joint stock company
Country of incorporation:	Poland
Address:	ul. Ekonomiczna 20,
	43-150 Bieruń, Poland
Tel./Fax:	+48 32 325 15 00 / +48 32 325 15 20
Email:	kontakt@autopartner.com
Website:	www.autopartner.com

As at December 31st 2020, the Group also included the following subsidiaries: Maxgear Spółka z ograniczoną odpowiedzialnością of Tychy (wholly-owned by the Company), 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 Company), and AP Auto Partner RO s.r.l of Timisoara, Romania (wholly-owned by the Company).

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. The Company is its limited partner, with the limited partner's contribution amount of PLN 20,000 and a 99% share of the company's profits. The right to the remaining 1% of profits is held by Maxgear sp. z o.o.

The company's business consists in 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 intends to use the company as a platform for expansion of its warehouse facilities and sales in this market.

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

In the reporting period, there were no material changes in the policies applied in the management of Auto Partner S.A. and the Auto Partner Group, and no changes in the organisation of the Group, including changes resulting from a business combination, acquisition or loss of control of a subsidiary or a long-term investment, a demerger, restructuring or discontinuation of business.

For information on changes in the composition of the Supervisory Board, see Section 3.18.11 of this Report.

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 2020, 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 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 "Rules"). 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 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. The total amount of bonuses to be paid in accordance with the Rules will not exceed PLN 5,360,000.00 during the entire term of the Scheme, i.e. from 2019 to 2021.

On May 30th 2019, the General Meeting of Maxgear Sp. z o.o. approved the Rules of the Incentive Scheme for members of the Management Board of Maxgear Sp. z o.o.: 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 Management Board of Maxgear Sp. z o.o. 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. and resolved 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 the amount of depreciation charge 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.

On June 29th 2020, the Supervisory Board of the Company – acting pursuant to Section 5 of the Remuneration Policy for Members of the Management Board and Supervisory Board of Auto Partner S.A. as adopted by the General Meeting on June 19th 2020, and pursuant to Section 5.3 of the Rules, based on the audited consolidated financial statements of the Auto Partner Group for the financial year 2019 as approved by Annual General Meeting on June 19th 2020 and based on the review of the business targets set in the Rules – decided to grant the following bonuses to the Incentive Scheme participants, i.e. Andrzej Manowski, Vice President of the Management Board, and Piotr Janta, Vice President of the Management Board:

Piotr Janta, Vice President of the Management Board – a bonus of PLN 674,000, to be paid in accordance with the Rules in the following instalments: PLN 472,000 in 2020, PLN 135,000 in 2021, and PLN 67,000 in 2022;

Andrzej Manowski, Vice President of the Management Board – a bonus of PLN 674,000, to be paid in accordance with the Rules in the following instalments: PLN 472,000 in 2020, PLN 135,000 in 2021, and PLN 67,000 in 2022.

Acting pursuant to the Incentive Scheme Rules adopted by the General Meeting of Maxgear Sp. z o.o., on June 29th 2020 the Annual General Meeting of Maxgear Sp. z o.o. granted bonuses to members of the company's Management Board covered by the Incentive Scheme for the performance in 2019.

The Group did not have any other obligations 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

To the best of the Company's knowledge, in the period from the issue of the consolidated report for the third quarter of 2020, dated November 24th 2020, to the date of issue of this report, i.e. March 31st 2021, there have been no changes in the holdings of shares by members of the Company's Management Board or Supervisory Board.

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

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.

None of the members of the Management or 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 2020 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 2020.

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 2020

The remuneration paid by the Company and its subsidiaries to members of the Management Board totalled PLN 1,927,504 (gross). In 2020, 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 body	Gross remuneration paid by the Company under appointment (PLN)	Gross remuneration paid by the Company under employment contract (PLN)	Remuneration under the Incentive Scheme	Additional bonus	Gross remuneration paid by subsidiaries under employment contract or appointment (PLN)	Remuneration paid by subsidiaries under service contract (PLN)	Total remuneration paid by the Company and subsidiaries in 2020 (PLN)
Aleksander Górecki	President of the Management Board	120,000.00	0.00			60,000	0.00	180,000.00
Andrzej Manowski	Vice President of the Management Board	146,052.00	79,200.00	472,000.00	182,500.00	0.00	0.00	879,752.00
Piotr Janta	Vice President of the Management Board	146,052.00	67,200.00	472,000.00	182,500.00	0.00	0.00	867,752.00

Source: the Group.

Remuneration of the Company's supervisory staff paid in 2020

The remuneration paid to members of the Supervisory Board totalled PLN 86,380.96 (gross). Individual members received remuneration for serving on the Company's Supervisory Board in 2020 pursuant to the Remuneration Policy, in the amount determined by resolution of the General Meeting of November 12th 2015.

Full name	Position on the Supervisory Board	Gross remuneration paid by the Company under appointment in 2020 (PLN)
Jarosław Plisz	Chairperson of the Supervisory Board	17,000.00
Zygmunt Grajkowski	Deputy Chairperson of the Supervisory Board	8,666.67
Katarzyna Górecka	Member of the Supervisory Board	1,000.00
Bogumił Kamiński	Member of the Supervisory Board	17,000.00
Bogumił Woźny	Member/Deputy Chairperson of the Supervisory Board	17,000.00
Mateusz Melich	Member of the Supervisory Board	17,000.00
Andrzej Urban	Member of the Supervisory Board	8,714.29

Source: the Group.

In 2020, 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 2020.

Detailed data on non-wage components of remuneration of the members of the Management Board and the Supervisory Board will be provided in the remuneration report to be discussed at the Annual

General Meeting and will be posted on the Company's website in accordance with Article 90g of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of July 29th 2005 (i.e. Dz. U. 2019, item 623. as amended).

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 2020, prepared in accordance with the IFRS.

	For year ended December 31st separate financial statements		For year ended December 31st consolidated financial statements		For the fourth quarter consolidated financial statements	
	2020	2019	2020	2019	2020	2019
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Continuing operations						
Revenue	1,673,017	1,479,075	1,670,441	1,479,373	433,138	368,280
Cost of sales	(1,216,388)	(1,112,774)	(1,193,562)	(1,092,473)	(305,425)	(266,443)
Gross profit (loss)	**456,629**	**366,301**	**476,879**	**386,900**	**127,713**	**101,837**
Distribution costs and marketing expenses	(184,239)	(172,067)	(185,339)	(172,587)	(48,285)	(46,741)
Warehousing (logistics) costs	(109,969)	(101,107)	(110,223)	(101,429)	(29,399)	(25,381)
Management and administrative expenses	(23,529)	(19,974)	(29,313)	(25,060)	(7,459)	(7,023)
Other gains (losses), net	(2,769)	(3,078)	(1,624)	(3,636)	(964)	(1,575)
Other income	610	288	624	337	447	133
Other expenses	(669)	(709)	(722)	(750)	(437)	(312)
Operating profit (loss)	**136,064**	**69,654**	**150,282**	**83,775**	**41,616**	**20,938**
Finance income	19,777	18,684	153	256	78	186
Finance costs	(11,869)	(9,991)	(12,092)	(9,795)	(4,699)	(2,515)
Profit (loss) before tax	**143,972**	**78,347**	**138,343**	**74,236**	**36,995**	**18,609**
Income tax	(27,908)	(15,754)	(27,361)	(15,522)	(7,883)	(4,486)
Net profit (loss) from continuing operations	**116,064**	**62,593**	**110,982**	**58,714**	**29,112**	**14,123**
Discontinued operations						
Net profit (loss) from discontinued operations	-	-	-	-	-	-
NET PROFIT (LOSS)	**116,064**	**62,593**	**110,982**	**58,714**	**29,112**	**14,123**
Other comprehensive income, net	-	-	-	-	-	-
Translation reserve	-	-	(252)	(18)	(301)	32

TOTAL COMPREHENSIVE INCOME	**116,064**	**62,593**	**110,730**	**58,696**	**28,811**	**14,155**

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

Source: the Group, consolidated and separate financial statements.

Revenue

In 2020, as in the previous years, revenue from sale of merchandise accounted for the major share of total revenue (99.9%), 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 2020, the Group's revenue was PLN 1,670,441 thousand, having increased by PLN 191,068 thousand, or 12.9% relative to PLN 1,479,373 thousand reported in 2019.

The increase in revenue in the reporting period was primarily a consequence of price increases in response to the growing EUR/PLN and USD/PLN exchange rates following the outbreak of the COVID-19 pandemic, as well as the growing scale of the Group's business. The business growth was achieved in particular through (i) expanding and entering new foreign markets, (ii) expanding the product range, (iii) better tailoring the product range to the needs of customers in different price segments, and (iv) systematically optimizing and improving customer service.

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 2020. The company is still in the development phase.

Cost of sales

In 2020, the Group's cost of sales represented 71.5% of the revenue, that is 2.3pp less than in 2019, when the ratio was 73.8%.

In 2020, the Group's cost of sales was PLN 1,193,562 thousand, having increased by PLN 101,089 thousand, or 9.3%, from PLN 1,092,473 thousand in 2019, with revenue growth during the period of 12.9%. The higher cost of sales in the period was caused chiefly by: the larger scale of the Group's activities, and the resulting growth in the volumes of orders and sales. 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 2020, the Group's gross profit was PLN 476,879 thousand, having increased by PLN 89,979 thousand, or 23.3%, from PLN 386,900 thousand in 2019, which resulted in a 2.3 pp increase in gross margin, from 26.2% in 2019 to 28.5% in 2020. The higher gross margin is a result of price rises from April 2020 (among other things, in response to the rising EUR/PLN and USD/PLN exchange rates), with the higher prices maintained for the rest of the year.

In Q4 2020, the Group's gross profit was PLN 127,713 thousand, having increased by PLN 25,876 thousand, or 25.4%, on PLN 101,837 thousand earned in Q4 2019. The higher gross margin in the fourth quarter compared with the gross margin for the full year is primarily the result of settlement of annual bonuses from suppliers whose amount exceeded the Group's previous estimates.

Distribution costs and marketing expenses, logistics costs, management and administrative expenses

In 2020, the Group's distribution costs and marketing expenses, logistics costs, and management and administrative expenses were PLN 324,875 thousand, having increased by PLN 25,799 thousand, or 8.6%, from PLN 299,076 thousand in 2019. The rate of increase in these costs was 4.3pp higher than the rate of increase in the Group's revenue.

Cost of sales in Q4 2020 was PLN 85,143 thousand, having increased by PLN 5,998 thousand, or 7.6%, from PLN 79,145 thousand in Q4 2019.

Distribution costs and marketing expenses were PLN 185,339 thousand in 2020, having increased by PLN 12,752 thousand, or 7.4%, from PLN 172,587 thousand in 2019. Distribution costs and marketing expenses are closely related to revenue, and their increase during the period was driven by the increase in the scale of business, with the increase slightly tempered by lower marketing expenses (the COVID-19 pandemic and the related restrictions significantly reduced the amount of marketing activities, customer visits, etc.).

In 2020, the Group's warehousing (logistics) costs were PLN 110,223 thousand, having increased by PLN 8,794 thousand, or 8.7%, from PLN 101,429 thousand in 2019. The main reason for the increase in warehousing (logistics) costs was the increase in the scale of the Group’s business.

Management and administrative expenses were PLN 29,313 thousand in 2020, having increased by PLN 4,253 thousand, or 17.0%, from PLN 25,060 thousand in 2019. The year-on-year increase in management and administrative expenses in 2020 was attributable to the development of the Group and higher costs of the Incentive Scheme, which is based on the Group's financial results and increase in enterprise value.

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 2020 were PLN (1,624) thousand, having decreased by PLN 2,012 thousand, or 55.3% from PLN (3,636) thousand in 2019, with the decrease caused by the amount of exchange differences: PLN (477) thousand in 2020 compared with PLN (1,652) thousand in 2019. Other important items were impairment losses on receivables and receivables written off, which decreased by PLN 679 thousand, to PLN 1,391 thousand in 2020, from PLN 2,070 thousand in 2019.

Other income and expenses

In 2020, the Group's other income and expenses were not significant.

Other income in 2020 was PLN 624 thousand, having increased by PLN 287 thousand, or 85.2%, from PLN 337 thousand in 2019.

Other expenses in 2020 were PLN 722 thousand, having decreased by PLN 28 thousand, or 3.7%, from PLN 750 thousand in 2019.

Operating profit (loss)

As a result of the factors described above, the Group reported an operating profit of PLN 150,282 thousand for 2020, that is PLN 66,507 thousand, or 79.4%, more than PLN 83,775 thousand reported in 2019.

In Q4 2020, operating profit was PLN 41,616 thousand, having increased by PLN 20,678 thousand, or 98.8%, from PLN 20,938 thousand in Q4 2019.

Finance income and costs

In 2020, the Group's finance income was PLN 153 thousand, down by PLN 103 thousand from PLN 256 thousand in 2019.

Interest expense of PLN 6,775 thousand was the largest contributor (56.0%) to the Group's finance costs in 2020, having decreased by PLN 1,890 thousand from PLN 8,665 thousand in 2019. In 2020, the Group's total finance costs grew to PLN 12,092 thousand, by PLN 2,297 thousand, or 23.5% on PLN 9,795 thousand in 2019. The main reasons for this increase were the realisation of foreign exchange losses on repayment of the working capital and factoring facilities denominated in the euro and the need to recognise foreign exchange losses on future liabilities denominated in the euro under lease contracts classified as finance leases in accordance with IFRS 16 *Leases*.

Profit (loss) before tax

In 2020, the Group posted profit before tax of PLN 138,343 thousand, that is PLN 64,107 thousand more than in 2019, when profit before tax was PLN 74,236 thousand.

On a quarterly basis, consolidated profit before tax in the fourth quarter of 2020 was PLN 36,995 thousand and was higher by PLN 18,386 thousand compared to PLN 18,609 thousand in the fourth quarter of 2019.

Income tax

In 2020, the Group disclosed tax expense of PLN 27,361 thousand, with current income tax accounting for the major part of the income tax amount. The effective tax rate was 19.8%.

Net profit

In 2020 the Group posted a net profit of PLN 110,982 thousand, that is 89.0% more than in 2019, when net profit was PLN 58,714 thousand.

On a quarterly basis, net profit was PLN 29,112 thousand in the fourth quarter of 2020, up by PLN 14,989 from PLN 14,123 thousand in the fourth quarter of 2019.

2.2 COSTS BY NATURE OF EXPENSE

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

	For year ended December 31st			
	2020 PLN'000	2019 PLN'000	change PLN'000	change [%]
Depreciation and amortisation	23,505	20,084	3,421	17.0%
Raw materials and consumables used	14,202	13,619	583	4.3%
Services	160,391	145,575	14,816	10.2%
Taxes and charges	2,196	3,315	- 1,119	-33.8%
Employee benefits expense	115,757	102,959	12,798	12.4%
Other costs by nature of expense	8,824	13,665	- 4,841	-35.4%
Merchandise and materials sold	1,193,562	1,092,332	101,230	9.3%
Total costs by nature of expense	**1,518,437**	**1,391,549**	**126,888**	**9.1%**

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, warehousing (logistics) costs and management and administrative expenses.

In 2020, the items with the largest share in the Group's operating expenses were cost of merchandise and materials (78.6%), cost of services (10.6%) and employee benefits expense (7.6%).

In 2020, the Group's operating expenses were PLN 1,518,437 thousand, having increased by PLN 126,888 thousand, or 9.1%, from PLN 1,391,549 thousand in 2019. The increase was mainly attributable to a PLN 101,089 thousand, or 9.3%, growth in the cost of merchandise and materials, from PLN 1,092,332 thousand in 2019 to PLN 1,193,562 thousand in 2020. Other contributing factors were an increase in the cost of services of PLN 14,816 thousand, or 10.2%, from PLN 145,575 thousand in 2019 to PLN 160,391 thousand in 2020, as well as higher employee benefits expense, which rose by PLN 12,798 thousand, or 12.4%, from PLN 102,959 thousand in 2019 to PLN 115,757 thousand in 2020.

Cost of merchandise and materials sold largely corresponds to the cost of sales, and its increase in 2020 was proportional to the increase in revenue, albeit slightly slower due to a sustained price increase from March / April 2020 and thus an increase in profitability.

Outsourced services in 2020 largely included transport services (which account for more than half of the cost of services), distribution, marketing and advertising costs, contingent labour services and IT costs. The main factor contributing to higher costs of services in 2020 was the increase in transport costs. Higher logistics costs were mainly related to the expansion into new export markets and resulted from an increase in transport rates.

Employee benefits expense includes chiefly salaries and wages. Its increase in 2020 was attributable to a 8.6% increase in headcount as a result of the growing scale of the Group's business. At the same time, average pay rose by 3.6%, driven by 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. On the other hand, the COVID-19 pandemic, its impact on the economy and employment, and the related uncertainty slowed down the growth rate of wages at the Group.

2.3 ASSESSMENT OF FACTORS AND NON-RECURRING EVENTS WITH A BEARING ON BUSINESS AND RESULTS IMPACT OF COVID-19 ON THE GROUP'S OPERATIONS AND FINANCIAL RESULTS

In the reporting period, the coronavirus pandemic and its consequences were a non-recurring event which was beyond the Company's control and had an impact on its business and results. In March and April and partially in May 2020, the Issuer experienced a decline in sales, which was directly caused by the imposition of business restrictions by governments due to the declared state of pandemic. Accordingly, the following factors had a bearing on the Company's and its Group's financial results in the reporting period:

- reduced purchasing power of consumers and a decrease in consumers' mobility as a result of travel restrictions;
- obstacles at country borders, which affected transport of goods to foreign customers.

At the same time, thanks to the measures taken by the Company (i.e. adjustments in operating expenses, decisions to increase and maintain prices) in response to the sales decrease in the period and a significant depreciation of the złoty against the US dollar and the euro, the net profit earned for the year was much higher than in the previous year.

2.4 SIGNIFICANT EVENTS WITH A MATERIAL IMPACT ON BUSINESS AND FINANCIAL RESULTS

The following events and factors had a bearing on the Company's business in and financial results for 2020:

- price increases as of April 2020 (in response to the rising EUR/PLN and USD/PLN exchange rates), with the higher prices maintained for the rest of the year,
- cost control and significant reduction of operating expenses in the period of revenue decline (in particular April 2020) caused by the coronavirus pandemic and restrictions imposed by European governments, with the costs maintained at a satisfactory level after the restrictions were lifted; as a result, in 2020 the year-on-year increase in operating expenses (7.9%) was slower than the rate of revenue growth (12.9%). Currently, the Company does not experience difficulties in the handling and transport of goods; such risk was reported by the Company in Current Report No. 9/2020 of March 16th 2020 and Current Report No. 10/2020 of March 20th 2020,
- lower volumes of merchandise purchases in April 2020, inventory management in subsequent months and the cost discipline, which resulted in a significant decrease in debt under borrowings and factoring, and consequently also reduced interest expense in 2020 by more than 20% year on year.

2.5 OVERVIEW OF 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. The Group is an importer and distributor of parts for passenger cars and delivery vehicles in the market for spare parts classified in accordance with the GVO regulations and directives of the European Union. The Group operates as a platform for sale, mainly via online 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 is also consistently expanding its sales of parts for motorcycles and motor scooters, and operates in the area of distribution of tools and equipment for repair shops. It also offers specialist training to its customers to improve their qualifications. Since 2016, the Group has also been actively developing its independent repair workshop brand of MaXserwis, which brings together the cooperating businesses.

The Group's sales by product group:

Product groups	2020r.	2019r.
	% ownership interest	% ownership interest
SUSPENSION	16%	17%
BRAKES	14%	15%
DRIVETRAIN	12%	12%
ELECTRICAL SYSTEMS	10%	9%
CONSUMABLES/ ACCESSORIES	9%	9%
ENGINE – CONSUMABLES	9%	9%
ENGINE – REPAIRS	8%	8%
FILTERS	6%	6%
EQUIPMENT FOR REPAIR WORKSHOPS	3%	2%

EXHAUST SYSTEM	2%	2%
HYDRAULIC PARTS	2%	2%
AIR CONDITIONING SYSTEM	1%	2%
BODY	1%	1%
ENGINE COOLING SYSTEM	1%	1%
OTHER	4%	4%

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 the Group's total procurement of merchandise. The Group is not dependent on external suppliers.

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

- CONTI TECH ANTRIEBSSYSTEME GMBH: 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: 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.
- NGK SPARK PLUG EUROPE GMBH: Japanese supplier of the NGK and NTK brands. The supplier's offering consists of spark plugs, glow plugs, ignition cables, ignition coils and various types of sensors. For the Group, the most important products from this supplier are ignition and glow plugs. The NGK brand is the global leader in this market segment.
- 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.

- 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. Under the trade contracts, 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.

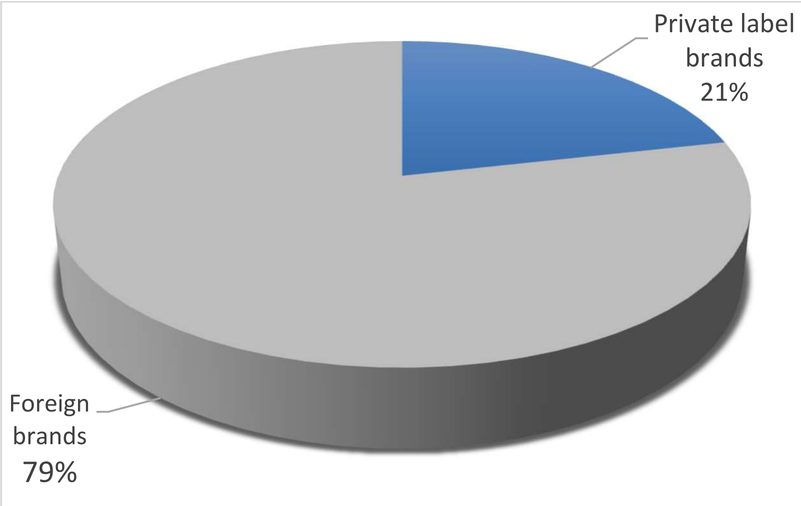
Private label brands

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 exclusive basis: Quaro, comprising braking system parts, Rooks, covering workshop equipment, 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 Group is also gradually expanding its sales of premium segment private label 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.

Share of private label brands in total sales



Source: the Group.

2.6 THE GROUP'S MARKETS

The Group's customers

In 2020, the share of repair workshops in the Group's sales on the Polish market remained high and stable. Together with the 'other' segment, comprising 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	2020		2019		2018	
	000 PLN	[%]	000 PLN	[%]	000 PLN	[%]
Repair workshops	597,408	61.28%	543,517	59.12%	452,419	58.26%
Stores	255,809	26.24%	257,672	28.03%	252,229	32.48%
Other	121,730	12.49%	118,114	12.85%	71,958	9.27%
Revenue from sale of merchandise in Poland, by segment	**974,947**	**100%**	**919,303**	**100%**	**776,606**	**100%**
Adjustments:	(12,928)	-1.3%	(10,741)	-1.2%	(7,395)	-1.0%
Revenue from sale of merchandise in Poland, after IFRS adjustments	**962,019**		**908,562**		**769,211**	

Source: the Group.

Overview of the Group's geographical markets

At present, Poland continues to be the Group's largest market. However, the share of revenue generated by export sales, executed mainly through deliveries directly from the central warehouse, is growing. The Group currently supplies to customers in Germany, Austria, the Czech Republic, Slovakia, Hungary, Romania, Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Lithuania, Latvia, Estonia, Ukraine, the Netherlands, Belgium, Denmark, Finland, France and Italy.

Revenue structure by domestic and export sales:

	For year ended December 31st			
	2020		2019	
	PLN'000	share [%]	PLN'000	share [%]
Sales of merchandise – Poland	962,019	57.6%	908,562	61.4%
Sales of merchandise – EU	698,104	41.8%	548,613	37.1%
Sales of merchandise – other exports	8,103	0.5%	19,949	1.3%
Sales of services – Poland	1,313	0.1%	1,503	0.1%
Sales of services – EU	902	0.1%	746	0.1%
Total	**1,670,441**	**100%**	**1,479,373**	**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

In the reporting period:

- On March 6th 2020, the factoring agreement with Santander Factoring Sp. z o.o. was terminated.
- 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.
- On October 20th 2020, an annex was signed to the lease contract with MLP Pruszków IV Sp. z o.o., whereby in the second quarter of 2021 the space leased by the Group at the Pruszków storage and logistics centre will be increased by an additional 3,807 m^2 of warehouse space and 490 m^2 of office space.

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 2020, 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 29 to the separate financial statements.

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

In the reporting period:

- 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.
- 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.

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

In the financial year 2020, the Company did not advance any loans to related entities or other entities. There was one loan agreement in force; the loan was granted in 2017 by Auto Partner S. A to its subsidiary AP Auto Partner CZ s.r.o.

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 racks 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 December 31st 2020 Consolidated financial statements	As at December 31st 2019 Consolidated financial statements	As at December 31st 2020 Separate financial statements	As at December 31st 2019 Separate financial statements
	PLN'000	PLN'000	PLN'000	PLN'000
Non-current assets	**147,166**	**135,893**	**176,411**	**166,119**
Current assets	**642,787**	**612,716**	**620,951**	**595,373**
Inventories and right-of-return assets	491,652	468,112	448,931	431,835
Trade and other receivables	129,751	118,477	157,573	140,759
Other assets	7	180	1,321	152
Cash and cash equivalents	21,377	25,947	13,126	22,627
Total assets	**789,953**	**748,609**	**797,362**	**761,492**

Source: the Group, consolidated and separate financial statements.

As at December 31st 2020, the Group's total assets rose by PLN 41,344 thousand, or 5.5%, to PLN 789,953 thousand from PLN 748,609 thousand as at the end of 2019, driven by an increase of PLN 30,071 thousand, or 4.9%, in current assets in the period, from PLN 612,716 thousand as at the end of 2019 to PLN 642,787 thousand as at the end of 2020, as well as an increase in non-current assets of PLN 11,273 thousand, or 8.3%, from PLN 135,893 thousand as at the end of 2019 to PLN 147,166 thousand as at the end of 2020.

As at December 31st 2020, the Group's non-current assets represented 18.6% of total assets. The largest items under non-current assets were property, plant and equipment (89.9%) and intangible assets (8.6%).

The Group's non-current assets as at the end of December 2020 were PLN 147,166 thousand, having increased by PLN 11,273 thousand, or 8.3%, from PLN 135,893 thousand at the end of 2019, mainly due to an increase in property, plant and equipment of PLN 6,304 thousand, or 5.0%, from PLN 125,953 thousand at year-end 2019 to PLN 132,257 thousand at year-end 2020. The increase in property, plant and equipment was mainly attributable to investments in new transport vehicles, warehouse racks, warehouse automation and other equipment. In addition, the Group incurs regular expenditure to replace and upgrade items of property, plant and equipment, which includes partial replacement of the car fleet and modernisation of the existing warehouse facilities.

As at December 31st 2020, the Group's current assets were PLN 642,787 thousand, having increased by PLN 30,071 thousand, or 4.9% on December 31st 2019. The increase was attributable in particular to a change of PLN 23,540 thousand, or 5.0%, in inventories, including assets related to the right-to-return merchandise, from PLN 468,112 thousand as at the end of 2019 to PLN 491,652 thousand as at the end of 2020. The key drivers of the increase were the Group's dynamic growth, expansion of its product mix and increase in the warehouse space. Another contributing item was the higher amount of trade and other receivables, which rose by PLN 11,274 thousand, or 9.5%. 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 December 31st 2020 Consolidated financial statements	As at December 31st 2019 Consolidated financial statements	As at December 31st 2020 Separate financial statements	As at December 31st 2019 Separate financial statements
	PLN'000	PLN'000	PLN'000	PLN'000
Equity	**482,927**	**372,197**	**503,345**	**387,281**
Share capital issued	13,062	13,062	13,062	13,062
Share premium	106,299	106,299	106,299	106,299
Other capital reserves	1,811	2,063	2,103	2,103
Retained earnings	361,755	250,773	381,881	265,817
Liabilities	**307,026**	**376,412**	**294,017**	**374,211**
Borrowings, factoring liabilities	103,327	191,821	94,844	187,472
Lease liabilities (excluding IFRS 16)	37,609	35,976	37,192	35,372
Lease liabilities (IFRS 16)	45,990	46,566	45,990	46,566
Trade and other payables	103,904	92,622	98,354	93,218
Other liabilities other than trade payables	16,196	9,427	17,637	11,583
Total equity and liabilities	**789,953**	**748,609**	**797,362**	**761,492**

Source: the Group, consolidated and separate financial statements.

Equity

As at the end of December 2020, equity accounted for 61.1% 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, ii) share premium of PLN 106,299 thousand, iii) other capital reserves of PLN 1,811 thousand, comprising capital reserves from the issue of warrants and translation reserve, iv) retained earnings of PLN 361,755 thousand, representing profit for 2020 and previous years.

Liabilities

As at year-end 2020, the Group's liabilities represented 38.9% of total equity and liabilities and amounted to PLN 307,026 thousand, or PLN 69,386 thousand (18.4%) more than in 2019. As at the end of December 2020, the Group's liabilities were as follows: i) short- and long-term non-bank borrowings, credit facilities, factoring liabilities and lease liabilities representing 65.4% of total liabilities, with a total amount of PLN 186,926 thousand, that is PLN 87,437 thousand, or 38.4%, less than as at December 31st 2019 (which is the effect of repayment of a large part of the debt thanks to a significant improvement in the operating result in 2020 and the ability of the Group to maintain sound inventory and receivables turnover ratios), and ii) trade and other payables, representing 39.1% of total liabilities, with a total amount of PLN 120,100 thousand, that is PLN 18,051 thousand, or 17.7%, more than as at December 31st 2019.

Liquidity

General information

In 2020, the main sources of external financing for the Company and the Group were: (i) credit facilities (working capital facility and revolving credit facilities), (ii) loans from the Company's shareholders, (iii) leases, (iv) and reverse factoring.

In the reporting period, the Group financed its operations mainly with operating cash flows, leases, credit facilities, reverse factoring and a PLN 28,035 thousand shareholder loan recognised as at December 31st 2020 (including PLN 1,335 thousand of interest accrued for 2020 on loans).

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 2020.

	for year ended Dec 31	
	2020	2019
Net cash from operating activities	127,902	15,337
Net cash from investing activities	(10,271)	(13,090)
Net cash from financing activities	(122,372)	1,853
Total net cash flows	**-4,741**	**4,100**
Cash and cash equivalents at beginning of period	25,947	21,913
Effect of exchange rate movements on net cash in foreign currencies	171	(66)
Cash and cash equivalents at end of period	**21,377**	**25,947**

Source: the Group, consolidated financial statements.

Cash flows from operating activities

In 2020, the Group generated positive cash flows from operating activities of PLN 127,902 thousand, with the main source being profit before tax of PLN 138,343 thousand, adjusted for depreciation and amortisation expense of PLN 23,505 thousand. Other items with a material bearing on the amount of operating cash flows in the period were: (i) an increase of PLN 20,857 thousand in inventories, (ii) an increase of PLN 11,391 thousand in trade and other receivables, and (iii) an increase of PLN 6,652 thousand in trade and other payables. In the reporting period, the Group also reported cash outflow due to the payment of income tax, of PLN 24,966 thousand.

Cash flows from investing activities

In 2020, The Group generated negative cash flows from investing activities of PLN 10,271 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 9,987 thousand.

Cash flows from financing activities

In 2020, the Group generated negative cash flows from financing activities of PLN 122,372 thousand. The cash outflows included mainly repayment of non-bank borrowings and credit facilities of PLN 71,244 thousand, as well as repayment of reverse factoring debt (PLN 14,729 thousand) and factoring debt (PLN 3,618 thousand), payment of lease liabilities of PLN 25,150 thousand, and interest and commission fees of PLN 7,631 thousand.

Cash and cash equivalents

The cash flows from operating, investing and financing activities produced cash and cash equivalents of PLN 21,377 thousand as at December 31st 2020, that is PLN 4,570 thousand, or 18%, less relative to December 31st 2019 when the balance of cash and cash equivalents was PLN 25,947 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 42 thousand bank guarantee No. KLG57699IN19 of March 1st 2019, provided in connection with commercial property lease contract of February 15th 2019, valid until May 6th 2024, granted within credit limit of the facility provided by ING Bank Śląski S.A. (see Note 20 to the separate and consolidated financial statements for 2020)
- – PLN 2,000 thousand bank guarantee No. DOK3617GWB19KW of October 18th 2019, provided in connection with a distribution agreement (as amended), valid until May 31st 2022, granted within credit limit of the facility provided by ING Bank Śląski S.A. (see Note 20 to the separate and consolidated financial statements for 2020)
- – PLN 652 thousand bank guarantee No. DOK2419GWB20AR of July 27th 2020, provided in connection with a contract for rent of property in Bieruń, valid until August 31st 2023, granted within credit limit of the facility provided by ING Bank Śląski S.A. (see Note 20 to the separate and consolidated financial statements for 2020)
- – PLN 190 thousand bank guarantee No. DOK2418GWB20TI of July 27th 2020, provided in connection with a contract for rent of property in Pruszków, valid until August 31st 2023, granted within credit limit of the facility provided by Santander Bank Polska S.A. (see Note 20 to the separate and consolidated financial statements for 2020)
- – PLN 2,500 thousand bank guarantee No. DOK3227GBW20TI of October 1st 2020, provided in connection with an authorised distribution agreement, valid until December 31st 2020, granted within credit limit of the facility provided by Santander Bank Polska S.A. (see Note 20 to the separate and consolidated financial statements for 2020).

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 2020, the subsidiary's debt outstanding under the multi-product agreement was PLN 8,438 thousand.

None of the Group companies issued any sureties in 2020.

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 2020, 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 2020.

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 market environment in which the Company and the Group operate is constantly evolving 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 choosing an inappropriate strategy.

The activities and financial results of the Group companies 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 activities of the Group, its growth prospects, financial condition or results. 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 business may affect the demand and lead to an increase in the Group's costs. Accordingly, deterioration of the macroeconomic indicators may have an adverse effect on the Group's business, growth prospects, financial condition or results.

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 have 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 results.

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 to include new references.

Risk of 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 are open to conflicting interpretations 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 ambiguous regulations (such as financial losses or even criminal sanctions for actions or omissions made under applicable laws which are then construed 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.

Risks related to climate change

Climate change risks include:

- Physical risk – arising from the physical effects of climate change caused by specific weather-related events, such as storms, floods and heat waves. However, due to the nature of the business conducted by the Issuer, this risk is negligible for the Auto Partner Group and without any major impact on the Group's operations. The Issuer prevents the effects of the risks by entering into insurance contracts covering assets against damage or loss caused by, among other things, natural disasters.
- Transition risk – regulatory risk – related to the tightening of the European Union's climate policy, the tightening of environmental requirements, and the growing awareness of customers regarding climate change. These factors may lead to a shift away from the use of solid fuels in cars and more widespread introduction of electric cars or other alternative propulsion systems. If this happens, the Company will adjust its product offering to the changing market.

At the Auto Partner Group, there are no technological, production or other processes that would pose a threat to the natural environment. Therefore, the regulatory risk related to the Issuer's business is also negligible.

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 travel restrictions, as well as the risk of obstacles at country borders, which may affect transport to foreign customers.
As at the issue date of this report, the Company did not identify any complications in the conduct of its business or any decrease in consumers' demand for spare parts. After a period when certain temporary difficulties occurred, mainly related to mobility constraints (end customers' inability to have their vehicles serviced), the demand recovered, leading to increased activity at repair workshops, which performed maintenance repairs that were not made during the spring season.
However, the Company emphasises that given the rapidly changing circumstances, the legal situation and regulations of the national governments enacted in response to the spread of the pandemic, as at the date of issue of this report the Company is not able to reliably estimate the extent of the pandemic's future impact on the Company's operating and financial condition.

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 are 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 2020, lease liabilities (excluding right-of-use liabilities recognised as leases as of 2019) amounted to PLN 37,609 thousand and were entirely liabilities of the Company; borrowings totalled PLN 103,327 thousand, of which PLN 94,844 thousand were the liabilities of the Company. As at the reporting date, the Group did not have any reverse factoring liabilities. As at December 31st 2020, the total amount of the Group's interest-bearing liabilities was PLN 140,936 thousand, representing 17.8% of total equity and liabilities. In the period covered by the consolidated financial statements, the borrowings of the Group included a shareholder loan. The Group's debt outstanding under the loan was PLN 28,035 thousand as at the end of 2020. In addition, the Group 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.

If the liquidity position of the Group deteriorates, the Group may not be able to repay its interest liabilities and principal under the financing agreements or to satisfy 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 and adversely affect the Group's business or even completely prevent the Group from conducting its business, generating revenues and earning profits. Moreover, if the Group's financial condition deteriorates, the financing institutions may refuse to extend the term of the financing. Any of the above factors may have a material adverse effect on the Group's development prospects, results 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 raise the reference rate, which would adversely affect the Group's future financial results.

Currency risk

In the 2020 financial year, the Group hedged its foreign exchange risk. Due to the fact that the Group not only purchases but also sells in foreign currencies, the foreign exchange risk is partially mitigated. In 2020, approximately 55% of the cost of goods purchased and operating expenses denominated in foreign currency, with foreign currency sales accounting for approximately 48% 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 the scale of its business, 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. 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 recognises the growing market need to minimise spare parts delivery times between the distributor and the workshop. To address this need, the Company is currently planning an additional increase of the storage area at the logistic centres in Bieruń and Pruszków, and is considering a new logistic and storage centre – the Issuer is currently analysing location options in terms of their market potential, logistics and economics.

Expansion into foreign markets is another way to accelerate growth of the business.

Since the end of 2017, the Group has conducted sales activities through its first foreign branch, operated by the subsidiary AP Auto Partner CZ s.r.o. Located in Prague, the Czech Republic, the subsidiary aims to expand its customer base to include repair workshops.

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

Further product diversification

Further steps in the Group development will involve continued expansion of its portfolio of spare parts.

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,
- generation 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 vehicle fleet.

The Group generates 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. As of 2019, all waste generated by employees of the Auto Partner S.A. Head Office is segregated. Office waste bins were discontinued, and all waste is discarded into separate bins in staff amenity areas (kitchens). In 2020, water vending machines using disposable plastic cups were also phased out and replaced with water filters.

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.

Waste generated by Auto Partner S.A in 2020

Total weight of non-hazardous waste	**1,515.4667 Mg**
Paper / paperboard	1,178.0620 Mg
Plastic packaging	70.6197 Mg
Wood packaging	58.9950 Mg
Ferrous metals	8.2400 Mg
Non-ferrous metals	17.1600 Mg
Iron and steel	60.1600 Mg

Total weight of hazardous waste	**1.9000 Mg**

Waste generated by the Auto Partner Group in 2020

Total weight of non-hazardous waste	1,528.0247 Mg
Total weight of hazardous waste	1.9000 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).

The Group’s fuel consumption in 2020:

Type	Value	Unit of
gasoline	69,460.47	L
diesel oil	35,581.29	L
propane-butane (LPG)	20,387.36	L

Source: the Group.

The charges for gas and particulate matter emissions into the atmosphere in 2020 totalled PLN 1,512.00.

3.5 Workforce

As at the end of 2020, the Group had a workforce of 1,782, including 1,764 persons employed by the Company and 18 persons employed at the subsidiaries. This means an increase of 138, or 8.40%, in the Group's headcount relative to the end of 2019.

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

Type of employment	As at December 31st 2020	As at December 31st 2019
Employment contract	1,745	1,602
Civil-law contract for specified activity	37	42
Total	**1,782**	**1,644**
Average headcount in period	1,672	1,540

Source: the Group.

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

Area	As at December 31st 2020	As at December 31st 2019
Management and administration	111	170
Sales and marketing	783	667
Logistics and storage	888	807
Total	**1,782**	**1,644**

**The differences in the number of employees in the areas: management and administration, and sales and marketing, relative to December 31st 2020, follow from a new classification of jobs in the Company’s new HR and payroll system.*

3.6 AUDIT OF THE FINANCIAL STATEMENTS FOR THE PERIOD JANUARY 1ST–DECEMBER 31ST 2020

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 March 29th 2018 (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 2019 and 2020:

	Period ended December 31st 2020	Period ended December 31st 2019
Audit of full-year financial statements	153,000	128,000
Review of financial statements	58,000	58,000
Total auditor fees	**211,000**	**186,000**

Source: the Group.

Including VAT-exclusive fees for auditing the Company's financial statements in 2019 and 2020:

	Period ended December 31st 2020	Period ended December 31st 2019
Audit of full-year financial statements	139,000	114,000
Review of financial statements	58,000	58,000
Total auditor fees	**197,000**	**172,000**

Source: the Group.

Apart from the above remuneration, in 2021 the auditor was paid a fee of PLN 24,000 for additional control and verification services rendered in connection with the audit of the full-year financial statements for 2018 and 2019.

3.7 BRANCHES (ESTABLISHMENTS) OF THE COMPANY

As at December 31st 2020, 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 2020 are discussed in Sections 2.3. and 2.4 of this report.

Events subsequent to the reporting date

1. On January 11th 2021, the Issuer entered into an agreement with Global One Automotive GmbH of Frankfurt whereby it advanced a EURO 525 thousand loan to Global One. The loan bears interest at 4.5%. The agreement was concluded for a definite term until June 18th 2021. The Company holds 6.66% of shares in Global One Automotive GmbH as a participant in the International Procurement Group (since 2017).
2. On February 26th 2021, the Issuer filed an application with the Provincial Labour Office in Katowice for grant to subsidise remuneration for employees not covered by any economic downtime or reduced amount of working time, due to the decline in turnover caused by the COVID-19 pandemic. The application was submitted pursuant to Art. 15gg of the Act on special arrangements to prevent, counteract and combat COVID-19, other infectious diseases and crisis situations caused by them, dated March 2nd 2020 (Dz. U. of 2020s, item 374, as amended). The reason for the application was a 29.30% decline in sales recorded by the Company in the period from March 18th 2020 to April 16th 2020 relative to the comparative 30-day period of the previous year.
   The total amount applied for was PLN 11,240,302.08, including: co-financing of social security contributions: PLN 1,648,794.12, and co-financing of employee remuneration: PLN 9,591,507.96. On March 16th 2021, the Company's bank account was credited with the amount of PLN 7,493,534.72 under the first and second tranches of the grant. The Company is to receive one more tranche of the grant, approximately PLN 3,746,767, as per the application.

However, the final decision as to the final amount of the grant and its possible repayment will be made after the application is fully settled, i.e. by May 30th 2021 or within 30 days from the date of receipt of the last tranche and after any official checks by the competent authorities have been completed.

3. On March 15th 2021, The Management Board of the Issuer passed a resolution to request the Annual General Meeting to pay dividend for the financial year 2020. Pursuant to the resolution, the Management Board recommended payment of dividend to the Company's shareholders of PLN 13,062 thousand, i.e. PLN 0.10 (ten grosz) per share.
   The balance of the net profit for the financial year 2020 is recommended to be allocated to the Company's statutory reserve funds. At the meeting on March 30th 2021, the Supervisory Board gave a positive opinion on the request (Resolution No. 3). The dividend recommendation will be submitted to the Annual General Meeting.

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.

In order to present the Company’s and the Group's financial position in a reliable and faithful manner, the Company's Management Board changed the presentation of estimates of trade discounts due from suppliers. Before the change, the estimated value of trade discounts from suppliers was presented in the statement of financial position under trade and other payables as a reduction in trade payables. After the change, the estimated amount of trade discounts from suppliers is presented in the statement of financial position under trade and other payables as a decrease in trade payables up to the balance of payables to the supplier as at the reporting date, while the surplus is presented under trade and other receivables as an increase in trade receivables from the supplier. Following the change, historical data (trade payables, trade receivables, assets) were also restated accordingly in order to enable proper calculation of the metrics.

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 2020.

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

	For year ended December 31st consolidated financial statements		For year ended December 31st separate financial statements	
	2020	2019	2020	2019
	PLN'000	PLN'000	PLN'000	PLN'000
EBITDA (PLN '000)[1]	173,787	103,859	159,185	89,349
Gross margin (%)[2]	28.5	26.2	27.3	24.8
EBITDA margin (%)[3]	10.4	7.0	9.5	6.0
EBIT margin (%)[4]	9.0	5.7	8.1	4.7
Pre-tax profit margin (%)[5]	8.3	5.0	8.6	5.3
Net profit margin (%)[6]	6.6	4.0	6.9	4.2

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 2020.

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

	For year ended December 31st consolidated financial statements		For year ended December 31st separate financial statements	
	2020	2019	2020	2019
	PLN'000	PLN'000	PLN'000	PLN'000
ROE[7] (%)	25.9	17.1	26.0	17.5
ROA[8] (%)	14.4	8.6	14.9	8.9

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 2020 and the separate and consolidated statements of financial position as at December 31st 2020.

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

	As at December 31st consolidated financial statements		As at December 31st separate financial statements	
	2020	2019	2020	2019
	PLN'000	PLN'000	PLN'000	PLN'000
Inventory turnover period (days)[1]	147	152	132	138
Average collection period (days)[2]	27	26	33	31
Average payment period (days)[3]	30	35	29	36
Cash conversion cycle[4]	144	143	136	134

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 2020.

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

	As at December 31st 2016, consolidated financial statements		As at December 31st 2016, separate financial statements	
	2020	2019	2020	2019
	PLN'000	PLN'000	PLN'000	PLN'000
Total debt ratio (%) [1]	38.9	50.3	36.9	49.1
Long-term debt ratio (%)[2]	11.5	20.9	11.7	20.8
Short-term debt ratio (%)[3]	27.4	29.4	25.1	28.3
Equity-to-debt ratio (%)[4]	157.3	98.9	171.2	103.5

Source: the Group.

(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 2020.

The table below presents the Group's liquidity ratios.

	As at December 31st consolidated financial statements		As at December 31st separate financial statements	
	2020	2019	2020	2019
	PLN'000	PLN'000	PLN'000	PLN'000
Current ratio[1]	2.97	2.79	3.10	2.76
Quick ratio[2]	0.70	0.66	0.86	0.76
Cash ratio[3]	0.10	0.12	0.07	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 from 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 2020, the Group used 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 0.79 (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 EXISTING 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 existing 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 2020, 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 2020, the Company did not issue any securities.

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 2020, 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.

As of February 24th 2021, the Company adheres to the following standards: Principle V.Z.6 concerning internal conflict-of-interests regulations, and Recommendations VI. R.1 and VI. R.2 concerning remuneration policy for members of the Management Board and Supervisory Board.

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 24th 2021.

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 four recommendations contained in the Code of Best Practice: II.R.2.,
III.R.1., IV.R.2., and VI.R.3, and with eight 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., and 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.

The Issuer maintains an English version of its corporate website as well as translates a substantial portion of its investor relations content, including periodic reports, into English.

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. While the Company has established a dedicated compliance unit, 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 (compliance). 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.

Remuneration

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.

The above information will be included in the remuneration report to be prepared and submitted to the General Meeting under Art. 90g.1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies of July 29th 2005 (consolidated text: Dz.U. 2019, item 623, as amended).

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 Rport, the Company's shareholders with major holdings of shares were:

Shareholder	Number of shares held	Number of votes at GM	% ownership interest	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

No outstanding securities issued by the Company confer any 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 securities issued by the Company.

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 General Meeting. The request should be submitted to the Management Board not later than twenty-one days before the scheduled date of the 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

Since the start of 2020, the Management Board has consisted of:

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

On May 18th 2020, the Supervisory Board passed Resolution No. 11 to appoint the Management Board of Auto Partner S.A. for a new five-year term of office.

The composition of the Management Board appointed for the new term remained unchanged.

The Supervisory Board's resolution was effective as of the expiry of the mandates of the Management Board members, i.e. as of the date of approval of the financial statements for 2019 by the Annual General Meeting of Auto Partner S.A., i.e. on June 19th 2020.

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 binding declarations of will on behalf of the Company 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. The Company's Articles of Association do not grant the Management Board the authority to decide on the issue or buyback of shares.

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.

From January 1st to January 10th 2020, the Supervisory Board consisted of:

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

During the reporting period, the composition of the Supervisory Board changed as a result of a notice given by Katarzyna Górecka on December 9th 2019, of her resignation as member of the Supervisory Board with effect from 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.

As of the date of the Annual General Meeting, i.e. June 19th 2020, the mandates of the Supervisory Board members expired due to the end of their term of office.
Accordingly, on the same date, the Annual General Meeting appointed the Supervisory Board of Auto Partner S.A. for a new five-year term of office.

The composition of the Supervisory Board appointed for the new term was as follows:

- Jarosław Plisz,
- Bogumił Kamiński,
- Bogumił Woźny,
- Andrzej Urban,
- Mateusz Melich.

At its first meeting, the Supervisory Board resolved to appoint:

- Jarosław Plisz as Chairperson of the Supervisory Board, and
- Bogumił Woźny as Deputy Chairperson of the Supervisory Board.

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:

- Bogumił Kamiński – Member of the Supervisory Board,
- Bogumił Woźny – Deputy Chairman of the Supervisory Board,
- Mateusz Melich – Member of the Supervisory Board.
- Andrzej Urban – Member of the Supervisory Board,

The Supervisory Board members' 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.

<u>Audit Committee</u>

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,
- Mateusz Melich – 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 2020, 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,
- Mateusz Melich – 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 2020, 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 of 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. In March 2021, the Audit Committee and Supervisory Board consented to the conduct by Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. of Warsaw of additional procedures in connection with the review of the financial statements of Auto Partner S.A. and the consolidated financial statements of the Auto Partner Group for 2020, prepared in ESEF-compliant xHTML format.

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 2020, 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 2020, 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 2020, there were four meetings of the Audit Committee of the Auto Partner S.A. Supervisory Board.

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 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 has been confirmed by inspections carried out by the National Labour Inspectorate (PIP), some of which took place in 2020.

3.18.13 Sponsorship and charitable giving policy

The Company has in place official sponsorship and charitable giving rules, whereby no direct or indirect support for political organisations or public officials is permitted. No charitable activities may involve a beneficiary having a business relationship with the Company. Money can be donated exclusively by wire transfer to bank accounts of supported charitable organisations. In the Management Board's opinion, in 2020 the sponsorship and charitable giving policy was implemented in a reasonable, 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 and Anti-corruption Code of the Auto Partner Group. 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.
In 2020, the Company engaged in the following charitable activities:

Local community support

Support for educational activities

Partnership with 'Exempted from Theory' competition

From September 2019, the Company supported the Poland-wide 'Exempted from Theory' competition, which included a thematic programme implemented by the Company in partnership with the ANIMAL Foundation. The project, which culminated in the first half of 2020, involved 36 teams from across Poland. The participants attended workshops and training sessions held by Auto Partner S.A., including a convention at the Company's corporate headquarters in Bieruń in February 2020. As part of the programme, students undertook initiatives aimed at combating animal homelessness, including running a campaign in their community to raise awareness of the need to sterilise pets, shooting educational videos to promote pet adoption, and giving educational talks on animal homelessness at local schools. Some measures were also dedicated to helping animals kept in small, local shelters or looked after by other similar organisations. A total of 197 high school students were engaged in the programme. They carried out 36 initiatives, reaching as many as 234,090 people in their communities.

'Computer for a student' campaign – countering the effects of the COVID-19 pandemic

Following the outbreak of the SARS-CoV-2 pandemic and the consequent placing of schools under lockdown, including their transition to remote teaching, the Company joined a campaign to ensure access to online learning resources for the most underprivileged children. To that end, it donated 19 computers which were no longer used by employees but were still in good working order together with brand new online learning accessories to the most needy children in Katowice and Bieruń.

Support for hospitals

The Management Board of Auto Partner S.A. donated PLN 50,000 to the Quiet Hope Foundation to help the Tychy Municipal Hospital to meet its most urgent needs in the face of the evolving SARS-CoV-2 pandemic.

The donation was used to purchase basic medical supplies, including personal protective equipment for staff and patients, which was indispensable for allowing the hospital to continue admissions and patient treatment during the first wave of COVID-19.

Support for organisations combating animal homelessness

In 2020, Auto Partner S.A. provided support to animal welfare organisations dedicated to mitigating animal homelessness and rescuing animals whose life is at risk, including Nasielsk- and Grudziądz-based charities which in 2019 were given animal rescue vehicles. In 2020, they received winter tyres sets and fuel supply from the Company.

Charitable giving

In 2020, as in prior years, Auto Partner S.A. supported charitable collections of the Great Orchestra of Christmas Charity by donating gadgets and tools to online auctions.

Our employees also joined the Noble Gift relief project. The beneficiary was a 68-year old retired nurse from Tychy, who received a total of 13 boxes full of various household and other everyday supplies, including food, detergents, clothes, linen, and a blanket.

Sponsorship activities

In 2020, the Company actively supported motorsports, including as a sponsor of the TVN TURBO RALLY TEAM, whose driver is Łukasz Byśkiniewicz. Despite changes in the rally schedule necessitated by the COVID-19 restrictions, the team managed to compete in all Polish Rally Championship events in 2020, finishing fourth in the general standings.

Total amount of donations: PLN 51,886.46 in financial donations and PLN 8,512 worth of in-kind donations; total: PLN 60,398.46

Total amount of sponsorship: PLN 350,000

The Company discloses all beneficiaries in an in-house register, which includes all donations made to charitable organisations.

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 March 30th 2021.

Aleksander Górecki – President of the Management Board

Andrzej Manowski – Vice President of the Management Board

Piotr Janta, Vice President of the Management Board