MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES INTER CARS S.A. AND THE INTER CARS S.A. CAPITAL GROUP

IN THE YEAR ENDED ON 31 December 2017

REPORT ON THE OPERATIONS OF THE INTER CARS GROUP

This Management Board's Report on the activities of the Inter Cars Capital Group for 2017 contains information the scope of which is laid out in § 91 - 92 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of securities [Journal of Laws of 2014, item 133, as amended] (the Regulation).

Pursuant to §83.7 of the Regulation, this report includes also information required to be disclosed for the purposes of the Report on the Activity of the Holding Entity specified in §91.1.4 of the Regulation.

The consolidated report, including the consolidated financial statements and this report, were prepared in conformity with §91 and §92 in relation to §82.1.3 and §82.2 of the Regulation. The rules of preparing the annual financial statements are laid out in the notes thereto.

1. Information on basic activities of Inter Cars Group

Inter Cars Group is an importer and distributor of spare parts for cars and commercial vehicles. The Group's offering also includes equipment for repair garages and spare parts for motorcycles and tuning. Since 2017, the Group has been trading also Marine segment products, such as motor boat spare parts. Inter Cars Capital Group is the biggest in Poland independent aftermarket spare parts distributor. The Group operates in Poland, Ukraine, the Czech Republic, the Republic of Slovakia, Lithuania, Hungary, Italy, Croatia, Belgium, Romania, Latvia, Cyprus, Bulgaria, Estonia, Moldova, Slovenia, Germany, Bosnia and Herzegovina, Greece and Malta.

The main customers of Inter Cars S.A. are B2B contractors - automotive repair garages. The Group supports automotive repair garages in gaining final customers - the drivers. For this reason Inter Cars is launching B2C projects, which are aimed at meeting automotive needs of drivers and redirecting them to garages which are given with quality and image support from Inter Cars S.A.

The Group is constantly **developing its distribution chain** in Poland and abroad, 62 new branches were open in 2017 in Europe, continually **growing its product range** and introducing new forms of sales support. Thanks to its present structure of sales of automotive spare parts, which corresponds to the stock of vehicles registered, high availability of its offering, and use of modern sales tools, the Group is able to offer attractive terms of cooperation to its customers. The Group is a leader in the implementation of new sales support solutions.

The year 2017 is another year of dynamic **development of activities of Inter Cars subsidiaries**. The Management Board expects that the growth of the whole Group in the forthcoming years will be significantly driven by its subsidiary undertakings

The spare parts distribution market has significant growth potential. The main market drivers include the **continuous increase in the number of registered vehicles on the roads**, **liberalisation of applicable regulations** providing for access of independent spare parts distributors to licensed garages, **elimination of barriers to the import** of second-hand vehicles, **increasing complexity of repairs** due to the more widespread use of advanced technologies in the manufacturing of vehicles, and the continuously growing intensity of vehicle use, including in particular an increase in the average age of registered vehicles and the average mileage. The most important trends on the **independent spare parts distribution market** include the strong development of sales networks, extension of the range of products, development of sales support programmes, development of proprietary product lines and improvement of computer systems.

The Group's primary objectives are to continuously improve the quality of management of the flow of goods and to gain the largest share in the Central and Eastern European market. To reach those objectives, the Group will expand its existing distribution model with additional elements – affiliate branches, regional warehouses and subsidiary distribution companies outside Poland. In effect, the Group will strengthen its position as the most effective and efficient spare parts distribution channel between manufacturers and end users – garages.

Group's strategy of development is based on three key elements:

1. Development of Inter Cars is also development of internal and external customers' business.

2. Inter Cars a comprehensive supplier of products ad services for its business and retail customers.
3. Ensuring at every management level that the Company remains profitable in order to secure its further dynamic growth in particular sales segments.

The strategic aim of the Group is building a dominant position in Poland and in Europe in distribution of automotive spare parts, and the Group intends to obtain it by gaining a market share of around 25-30% on local markets.

The Group intends to reach its aim by organic growth in new markets as well as developing on the markets, where it has its business activities. The distribution chain is built on the basis of distributors selling merchandise on behalf of the Group.

Inter cars ranks number 1 among spare parts distributors in Poland and Central and Eastern Europe.

2. Financial situation of the Company and the Group during a period of 12 months ended on 31 December 2017

2.1. Selected information from the consolidated statement of the comprehensive income of the Group

(in thousand PLN)	for the period of 12 months ended on		
	31/12/2017	31/12/2016	change
Sales revenues	6,908,365	5,973, 459	15.7%
Cost of sales	(4,886,805)	(4,131, 372)	18.3%
Gross profit on sales	**2,021,560**	**1,842, 087**	**9.7%**
Costs of sales and administrative costs	(1,013,374)	(853,196)	18.8%
Distribution expenses	(713,757)	(640,656)	11.4%
Operating profit	**294,464**	**315,668**	**-6.7%**
Foreign exchange gains/losses	6,063	(2,971)	(304.1%)
Financial expenses	(40,473)	(31,768)	27.4%
Profit before tax	**262,456**	**284,780**	**-7.8%**
Net profit	**216,428**	**230,064**	**-5.9%**
Net profit attributable to:			
- shareholders of the holding entity	216,428	230,064	-5.9%
Earnings per share (PLN)			
- basic and diluted	15.28	16.24	-5.9%

Source: Consolidated financial statements of the Group for the year ended on 31 December 2017

The Group recorded a nearly 16% sales revenue growth compared with the same period of 2016, which resulted from an increase in the scale of operating activities and the geographical development of the sales chain.

In 2017, the Group opened 62 new branches, i.e. as at 31 December 2017 the total number of branches was 507 (in 2016: 445), of which 243 Polish and 264 foreign branches and 220 Polish and 225 foreign branches, respectively at the end of 2016.

The gross sales profit increased by over 9% in 2017 compared with the same period of the previous year.

In the opinion of the Management Board, the decrease in the net profit for 2017 compared with the 2016 result despite the dynamic sales growth is attributable to:

- appreciation of PLN to EUR in Poland and the countries in which the Group operates (Ukraine, Romania)
- costs related to the moving / consolidation of the logistics services in the new Logistics Centre in Zakroczym
- Group's expansion to new European markets

A significant appreciation of PLN to EUR as at the balance sheet day resulted in a negative revaluation of the surplus trade receivables over liabilities to suppliers by app. PLN 14 m. The weakening of UAH to EUR in Ukraine and RON to EUR in Romania resulted in a further fall in the profit in the form of foreign exchange losses.

2.2. Selected information from the consolidated statement of the Group's financial situation

(in thousand PLN)	31/12/2017	31/12/2016	change
ASSETS			
Non-current assets	**726,023**	**702,169**	**3.4%**
Inventories	1,771,176	1,510, 119	17.3%
Trade and other receivables	739,360	693,180	6.7%
Cash and cash equivalents	160,915	121,426	32.5%
Current assets	**2,676,955**	**2,337, 908**	**14.5%**
TOTAL ASSETS	**3,402,978**	**3,040, 077**	**11.9%**
LIABILITIES			
Statutory reserve funds	832,483	731,510	13.8%
Foreign exchange gains /losses in subsidiaries	(26,437)	(12,088)	118.7%
Retained earnings	503,085	406,262	23.8%
Equity	**1,616,028**	**1,424, 008**	**13.5%**
Loan, borrowing and finance lease liabilities	658,384	429,476	53.3%
Other long-term liabilities	3,116	7,186	-56.6%
Deferred income tax provisions	25,497	16,119	58.2%
Long-term liabilities	**686,997**	**452,781**	**51.7%**
Liabilities of the factoring	-	58,588	-100%
Short-term liabilities	**1,099,953**	**1,163, 288**	**-5.4%**
TOTAL LIABILITIES	**3,402,978**	**3,040, 077**	**11.9%**

The financial liquidity of the Company and its subsidiaries remains at an appropriate level, while the value of the current assets is higher than the value of the short-trade liabilities.

2.3. Selected information from the consolidated statement of the comprehensive income of the Group

	for the period of 12 months ended on		change
	31/12/2017	**31/12/2016**	
Sales revenues	5,295, 719	4,779, 523	10.8%
Cost of sales	(4,091,075)	(3,651, 836)	12.0%
Gross profit on sales	**1,204, 644**	**1,127,687**	**6.8%**
Other operating income	15,971	6,364	151.0%
Costs of sales and administrative costs	(632,597)	(522,954)	21.0%
Distribution expenses	(443,647)	(420,696)	5.5%
License fees	(83,402)	(75,162)	11.0%
Other operating expenses	(63,288)	(44,745)	41.4%
Operating profit	**(2,319)**	**70,494**	**-103.3%**
Dividends received	128,390	78,833	62.9%
Foreign exchange gains/losses	6,062	(3,168)	(291.4%)
Financial expenses	(42,109)	(28,377)	48.4%
Profit before tax	**92,846**	**120,714**	**-23.1%**
Income tax	8,212	(11,323)	-172.5%
Net profit	**101,058**	**109,391**	**-7.6%**
Earnings per share (PLN)			
- basic and diluted	7.13	7.72	-7.6%

2.4. Selected information from the consolidated statement of the Company's financial situation

(in thousand PLN)	**31/12/2017**	**31/12/2016**	**change**
ASSETS			
Non-current assets	**751,005**	**726,165**	**3.4%**
Inventories	1,149, 732	989,288	16.2%
Trade and other receivables	1,064, 555	907,639	17.3%
Cash and cash equivalents	31,454	26,129	20.4%
Current assets	**2,248, 497**	**1,933, 154**	**16.3%**
TOTAL ASSETS	**2,999, 502**	**2,659, 319**	**12.8%**
LIABILITIES			
Statutory reserve funds	809,218	709,886	14.0%
Retained earnings	101,382	109,715	-7.6%
Equity	**1,204, 401**	**1,113, 402**	**8.2%**
Loan, borrowing and finance lease liabilities	652,325	423,244	54.1%
Long-term liabilities	**658,843**	**439,302**	**50.0%**
Liabilities of the reverse factoring	-	58,588	-100.0%
Employee benefits	9,195	5,824	57.9%
Short-term liabilities	**1,136, 258**	**1,106, 615**	**2.7%**
TOTAL LIABILITIES	**2,999, 502**	**2,659, 319**	**12.8%**

The structure of the Inter Cars S.A. Capital Group results from its strategy of geographical expansion of spare parts distribution (Inter Cars Ukraine LLC, Inter Cars Ceska Republika s.r.o., JC Auto s.r.o., Inter Cars Slovenska Republika s.r.o., Inter Cars Lietuva UAB, Inter Cars d.o.o, Inter Cars Hungaria Kft, JC Auto S.A, IC Italia s.r.l, Inter Cars Romania s.r.l., Inter Cars Latvija SIA, Inter Cars Bulgaria Ltd., Cleverlog-Autoteile GmbH, Inter Cars Eesti OÜ, Inter Cars INT d o.o., Inter Cars Piese Auto s.r.l., Inter Cars Sole Ltd. and Inter Cars d o.o.) and projects supporting its underlying objects (Lauber Sp. z o.o., Feber Sp. z o.o., Q-Service Sp. z o.o., IC Develoment & Finance Sp. z o.o., Armatus Sp. z o.o., Inter Cars Cyprus Limited, Inter Cars

Marketing Services Sp. z o.o., ILS Sp. z o.o., Inter Cars Malta Holding, Inter Cars Malta Limited, Q-Service Truck Sp. z o.o., Aurelia Auto d.o.o., Inter Cars United Kingdom - automotive technology Ltd).

Goods are distributed through the logistics centre, a network of 243 own affiliate branches in Poland and 264 branches abroad in Ukraine, the Czech Republic, Slovakia, Lithuania, Hungary, Croatia, Italy Belgium, Romania, Latvia, Bulgaria, Germany, Estonia, Slovenia, Moldova, Bosnia and Herzegovina and Greece, and regional warehouses in Komorniki, Sosnowiec and Wrocław. The Central Warehouse has all product groups available, while the affiliate branches store only fast moving products, making sure that their product range, its quality and accessibility matches local requirements.

2017 saw the commencement of operation of the logistics centre in Zakroczym, operated by ILS Sp. z o.o. Its total storage area of 40,000m2 will ultimately house some 56,000 m2 of racks arranged on 4 levels. The sorting capacity of the warehouse is 30k items and 2.5k parcels pre hour. All this thanks to the most modern and technologically advanced sorting system, adapted to the requirements of the automotive industry. The assembly of devices was finished in May 2016.

3. Basic goods and target markets of the Inter Cars Group

The sales revenue in 2017 **was primarily driven by**:

(a) broadening product range in each segment, our product range is the widest in comparison to the competition

(b) extending the distribution chain in Poland and abroad - in 2017 we opened 62 new branches, mainly specialized outlets taken over from the market

(c) development of our complete offer for customers, which we call a "One stop shop" - everything in one place. This includes a wide range of advantages, starting from attractive trade conditions, investment programs and financial programs, marketing programs, through trainings - i.e. transfer of technical knowledge to garages in cooperation with premium suppliers.

(d) inventories management system optimisation continuation, covering both stock level optimisation for individual product groups, and supply chain optimisation, which primarily involved increased role of regional distribution centres and sourcing larger supplies directly from manufacturers.

(e)gaining customers for garages we cooperate with: corporate customers – through Motointegrator Fleet, and individual customers – through Motointegrator.pl. These business operations provide the Company a steady growth, building potential for the future. Business customers obtain a new tool for gaining and servicing new customers, and our Company develops the scope of operations onto vehicle users. On German market we can observe dynamic growth of sale of automotive spare parts via Motointegrator.de

(in thousand PLN)

The table below sets forth Inter Cars Capital Group's sales revenue **broken down by basic types of goods**.

	Sale of spare parts		Other		Eliminations		Total	
	01/01/2017 -31.12.2017	01/01/2016 -31.12.2016	01/01/2017 -31.12.2017	01/01/2016 -31.12.2016	01/01/2017 -31.12.2017	01/01/2016 -31.12.2016	01/01/2017 -31.12.2017	01/01/2016 -31.12.2016
Revenues from external customers	6,807, 576	5,874, 233	100,789	99,226	-	-	6,908, 365	5,973, 459
Revenues between segments	16,659	16,627	583,526	485,550	(600,185)	(502,177)	-	-
Interest income	8,030	3,861	1,555	1,884	(7,597)	(3,627)	1,988	2,118
Interest costs	(39,249)	(28,010)	(1,038)	(818)	7,597	3,627	(32,690)	(25,201)
Depreciation and amortization	(43,410)	(39,308)	(33,540)	(26,300)	11,430	11,430	(65,520)	(54,178)
Profit before tax	**344,634**	**343,111**	**30,412**	**12,179**	**(112,590)**	**(70,510)**	**262,456**	**284,780**
Market share of affiliates settled by means of the equity method	20	113	-	-	-	-	20	113
Total assets	**5,069, 086**	**4,527, 265**	**473,739**	**423,482**	**(2,139,847)**	**(1,910,670)**	**3,402,978**	**3,040, 077**
Capital expenditure (for purchasing tangible assets, intangible assets and investment property)	(61,857)	(59,367)	(33,468)	(73,344)	-	-	(95,325)	(132,711)
Total commitments	**2,937, 266**	**2,561, 054**	**142,279**	**118,039**	**(1,292,595)**	**(1,063,024)**	**1,786, 950**	**1,616, 069**

Subsidiaries, like the parent company, offer both parts for passenger cars and trucks, with addition that the total structure of the Group's sales is dominated by parts for passenger cars.

About 61% of the sales revenues of the Group in 2017 came from the **sales in Poland.**

Basic commodities and products

Inter Cars offers the widest range of automotive spare parts in Central and Eastern Europe. The Group's offering includes both branded goods that are identical in terms of quality with those used in the factory assembly of vehicles, as well as significantly cheaper but good-quality goods sourced from manufacturers selling their products exclusively to the aftermarket. The product range comprises spare parts for majority of vehicles sold in Poland and Europe and manufactured in Western Europe, Japan and South Korea, as well as for selected makes manufactured in the USA.

The Group has been systematically expanding the assortment of offered goods. It is done by extending the offering in particular segments, by adding new categories to the existing segments, and by entering new markets.

The Inter Cars Group also owns Feber Sp. z o.o. - manufacturer of semi-trailer tippers and trailers.

Supplementation of Group's activity is sale of commercial vehicles and trucks made by Isuzu make, ran by the first in Poland authorized dealer of the company – Q-Service Truck Sp. z o.o. The company also became an authorized representative of ZF Friedrichshafen AG regarding the sale and servicing of manual transmissions, automated and automatic transmissions for trucks.

Inter Cars Group's **primary sale market** is Polish market. In 2017, the German and Moldavian markets were the fastest developing ones.

In 2017, the Group commenced its sales in Greece and Bosnia and Herzegovina.

The Group has a warehouse in Latvia, which handles the markets of Lithuania, Estonia, Romania, Bulgaria, Moldavia and Greece. The Company's HUB in Croatia delivers goods to Italy, Slovenia and Bosnia. Logistics operator of the warehouses in Poland and Latvia is ILS sp. z o.o. Company, which is a part of Inter Cars Group.

Romania is the second biggest market of the Group, after Poland. 61 branches deliver goods to over 9,450 garages, and the Company is number 3 in the country.

(in thousand PLN)

Basic structure of the distribution markets

Revenues of the distribution companies by location (exclusive of revenues of the supporting companies)

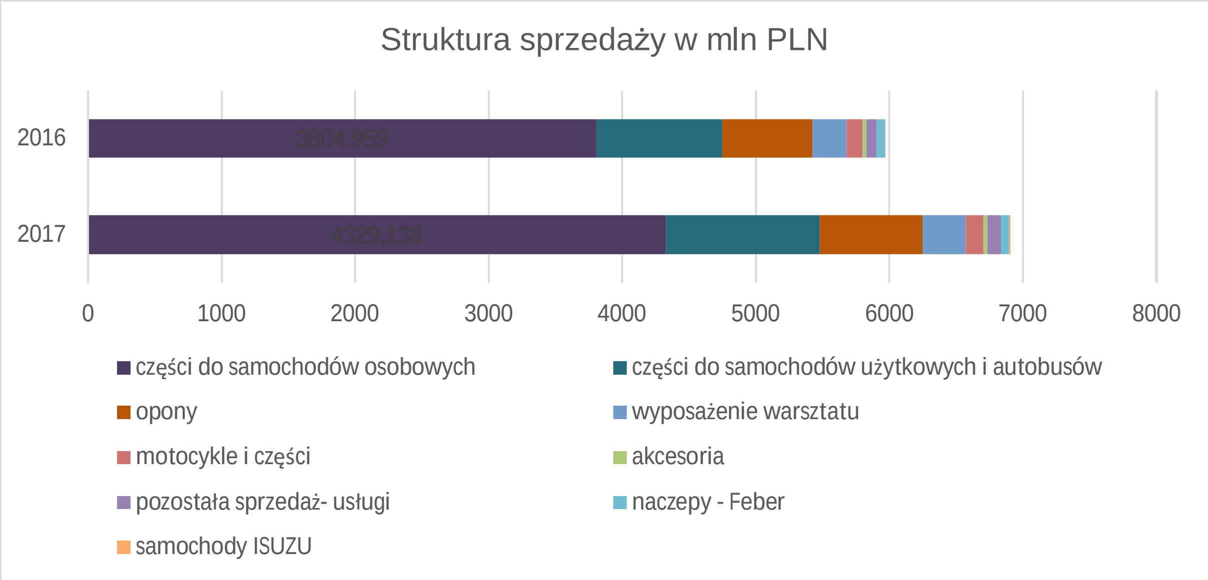
Sales revenues by sales market:

	2017	share	2016	share
Poland	4,233,554	*61.28%*	3,797,494	*63.57%*
Romania	638,732	*9.25%*	548,702	*9.19%*
Lithuania	269,120	*3.90%*	237,014	*3.97%*
Hungary	246,860	*3.57%*	179,965	*3.01%*
Bulgaria	240,880	*3.49%*	181,341	*3.04%*
Croatia	234,859	*3.40%*	201,857	*3.38%*
Czech	220,079	*3.19%*	185,055	*3.10%*
Latvia	211,608	*3.06%*	163,842	*2.74%*
Slovakia	196,432	*2.84%*	179,066	*3.00%*
Ukraine	194,717	*2.82%*	155,762	*2.61%*
Italy	73,821	*1.07%*	53,259	*0.89%*
Germany	51,296	*0.74%*	28,882	*0.48%*
Estonia	50,145	*0.73%*	37,866	*0.63%*
Slovenia	30,533	*0.44%*	19,895	*0.33%*
Moldova	10,219	*0.15%*	2,694	*0.05%*
Bosnia and Herzegovina	4,916	*0.06%*	-	*0.00%*
Greece	580	*0.01%*	-	*0.00%*
Belgium	14	*0.00%*	765	*0.01%*
Total	**6,908,365**	***100.00%***	**5,973,459**	***100.00%***

The tables below set forth Inter Cars' sales revenue **broken down by basic types of goods**.

(in thousand PLN)

	2017	*share*	2016	*share*
Spare parts for passenger cars	4,329,138	*62.7%*	3,804, 959	*63.7%*
Spare parts for commercial vehicles and buses	1,149,159	*16.6%*	945,085	*15.8%*
Tyres	773,936	*11.2%*	674,950	*11.3%*
garage equipment	319,328	*4.6%*	256,830	*4.3%*
motorcycles and parts	133,566	*2.0%*	119,822	*2.1%*
Accessories	32,915	*0.5%*	29,333	*0.5%*
other sale – services	98,374	*1.4%*	74,321	*1.2%*
semi-trailers - Feber	63,152	*0.9%*	61,579	*1.0%*
automobiles ISUZU	8,797	*0.1%*	6,580	*0.1%*
	6,908,365	***100.0%***	**5,973, 459**	***100.0%***



The biggest sales increase in the basic offer of the Group was recorded in the utility cars segment.

The sales of the Feber semi-trailers increased by 2.6%, while the sales of the ISUZU cars grew by over 33%. Spare parts for passenger cars still remain the core business. Inter Cars enters new markets with such offer, developing it with spare parts for commercial vehicles and other goods.

Market environment

Inter Cars operates in the segment of distribution of new spare parts, supplied mainly to garages independent of vehicle manufacturers.

Key drivers of the market development

The aftermarket for spare parts is a natural spin-off of the automotive market, as vehicle repairs and replacements of consumable parts create continuous demand for spare parts.

The main factors influencing the **increase of the market** are the **increase in the number of cars** registered in Poland and in other European countries and driving on the roads. Throughout 2017, the number of new registered cars in all countries in which the Group operates increased by 8.4% compared with 2016

(in thousand PLN)

	2017	2016	2017/2016
Belgium	546,558	539,519	1.3%
Bulgaria	33,809	28,216	19.8%
Czech	271,595	259,693	4.6%
Croatia	50,770	44,106	15.1%
Estonia	25,618	22,997	11.4%
Hungary	116,265	96,555	20.4%
Italy	1,970, 497	1,825, 892	7.9%
Latvia	16,698	16,357	2.1%
Lithuania	25,836	20,284	27.4%
Poland	484,190	418,033	15.8%
Romania	105,083	94,919	10.7%
Slovenia	62,532	58,963	6.1%
Slovakia	95,976	88,165	8.9%
Greece	88,115	78,873	11.7%
	3,893, 542	**3,592, 572**	**8.4%**

Source: Acea

More and more factors decide about the competitive position of distributors. These factors include in particular the traditional aspects of customer communication (location of points of sale) and availability (and, by extension, order lead times), but also the development of quality aspects. In practice, the improvement in customer service quality consists in the development of the product range by adding new product lines and providing "one-stop shops" for the customer, as well as the provision of on-line access to product information, starting from product availability to the technical specifications regarding product assembly. From the perspective of distributors this means that on the one hand they will benefit from higher customer loyalty and volume of purchases; on the other they face a great challenge, as they must develop the logistics base and enter new market segments, often characterised by a different "sales philosophy" and different, highly specialised competition.

Inter Cars Group realizes such strategy, which is called „One Stop Shop – everything under one roof". This means that Inter Cars, being a distributor with the widest range of spare parts for passenger cars, provides its customers (servicing garages) added values in the form of marketing supports, investment support, trainings and redirects customers to garages using its fleet programme and Motointegrator.pl platform.

Number and structure of vehicles used

According to the ACEA association, the sales of new passenger cars in the European Union in 2017 increased by 3.4% compared with 2016 and amounted to 15.1 m cars, with the biggest number of cars sold in Germany (3.4 m), followed by Great Britain (2.5 m), France (2.1 m), Italy (2 m) and Spain (1,2 m). The largest car markets are still Germany and, the UK, France and Italy, respectively.

The total number of passenger cars in Europe is estimated to be 285m, of which 16 m in Poland, which accounts for over 5% of the total number of cars in Europe.

The average age of cars in the EU is estimated to be 10.7 years. This inflated figure results from the average age of cars in Poland estimated to be about 17.2 years.

4. Supply sources

The Group's offer includes goods from a few hundred suppliers. These goods come from all over the world, mostly, however from the vendors from the EU and Asia. The major category of suppliers is international concerns for which the Company is one of the largest and most important customers in Central and Eastern Europe. Given the significant diversification of the supply sources, the Group is not dependent on any single supplier or a small number of suppliers – no supplier's share in the total sales revenue exceeds 10%

(in thousand PLN)

5. Agreements significant and material to the Company's business and insurance agreements

Significant agreements

Inter Cars has formal written agreements governing business relations with only some of the Group's suppliers. Those are in particular agreements which stipulate terms and conditions for granting additional discounts by the Group's suppliers. The agreements do not oblige the Company to generate turnover of a specified value.

Selected substantial contracts

Inter Cars is a party to agreements material to the implementation of the Group's development strategy. They include in particular agreements with the suppliers of spare parts which specify terms and conditions for granting discounts.

Generally, the agreements are entered into for one year. In the period to the reporting date, the following agreements were effective:

No.	Date of agreement	Party
1	26/01/2017	Contitech Antriebssysteme GmgH
2	02/01/2017	Schaeffler (Egon von Ruville)
3	09/05/2017	Federal Mogul
4	01/02/2017	Robert Bosch
5	02/01/2017	SKF
6	23/03/2017	Valeo
7	04/09/2017	MANN+HUMMEL FT POLAND SP. Z O.O. SP. K. (Wix-Filtron)
8	10/04/2017	ZF Trading

The material agreements for spare parts supplies concluded for an indefinite term include:

No.	Date of agreement	Party
1	26/01/2005	Triumph Motorcycles LTD
2	19/12/2008	Giantco Limited
3	05/11/2008	JIANGMEN DIHAO MOTORCYCLE COMPANY LTD
4	19/12/2008	CHONGQING HUANSONG INDUSTRIES (GROUP) CO.,LTD
5	09.12.2009	CHONGQING YINXIANG MOTORCYCLE (GROUP) CO., LTD
6	09/12/2009	CHONGQING YUAN GROUP IMP.&EXP. CO., LTD.

Insurance agreements

Date of agreement	Party	Subject matter	Material terms and conditions	Term
01/07/2017	Warta	Insurance of the Company's assets and working capital	„All in" policy: including domestic entities; all risk property insurance, electronic equipment insurance, insurance of goods in transportation (Cargo), business activity third party insurance	01/07/2017 - 30/06/2018
01/04/2017	Ace + Allianz	Third party insurance of the Board of Management	Third party insurance of the Board D&O	01.04.2017-30.06.2018

Foreign subsidiaries have their own insurance policies from their local markets.

Shareholder agreement

The Group is not aware of any shareholder agreements.

6. Organisational or capital links between the issuer and other entities; information on the issuer's key domestic and foreign investments (securities, financial instruments, intangible assets and real property), including equity investments outside the group, as well as a description of methods of investments financing within the Group and its entities.

Inter Cars S.A. is the parent company of the capital group comprised of the following companies, which are a subject of consolidation:

1. Inter Cars Ukraine LLC, a Ukrainian law company with registered seat in Khmelnitsky, Ukraine (100% of Inter Cars S.A.'s share in the company's capital),
2. Lauber Sp. Z.o.o with registered seat in Słupsk (100%),
3. Q-Service Sp. z o.o. with registered seat in Cząstków Mazowiecki (100%),
4. Inter Cars Ćeska Republika with registered seat in Prague (100)%,
5. Feber Sp. z o.o with registered seat in Warsaw (100%),
6. Inter Cars Slovenska Republika with registered seat in Bratislava (100%),
7. Inter Cars Lietuva UAB with registered seat in Vilnius (100%),
8. IC Development & Finance Sp. z o.o. with registered seat in Warsaw (100%),
9. Armatus Sp. z o.o. with registered seat in Warsaw (100%),
10. JC Auto s.r.o. with registered seat in Karvina - Darkom (100%),
11. Inter Cars Hungária Kft with registered seat in Budapest (100%),
12. JC Auto S.A. with registered seat in Brain L'Allued, Belgium (100%),
13. Inter Cars d.o.o. with registered seat in Zagreb (100%),
14. Inter Cars Italia with registered seat in Milan (100%) ,
15. Inter Cars Romania, with registered seat in Cluj Napoca (100%)
16. Inter Cars Latvija SIA , with registered seat in Riga (100%)
17. Inter Cars Cyprus Ltd., with registered seat in Nicosia (100%)
18. Inter Cars Bulgaria Ltd. with registered seat in Sofia (100%)
19. Cleverlog-Autoteile GmbH with registered seat in Berlin (100%)
20. Inter Cars Marketing Services Sp. z o.o. with registered seat in Warsaw (100%)
21. ILS Sp. z o.o. with registered seat in Kajetany (100%)
22. Inter Cars Malta Holding Limited with registered seat in Malta (100%)
23. Q-service Truck Sp. z o.o. with registered seat in Warsaw (100%)
24. Inter Cars INT d o.o., with registered seat in Ljubljana (100%)
25. Inter Cars Eesti OÜ, with registered seat in Tallinn (100%)
26. Inter Cars Piese Auto s.r.l. With registered seat in Kishinev (100%)
27. Inter Cars Greece, having its registered seat in Athens (100%)
28. Inter Cars d o.o., with registered seat in Sarajevo (100%)
29. Inter Cars United Kingdom- Automotive technology Ltd. with registered seat in London (100%)
30. Inter Cars Malta Limited with registered seat in Malta (100% - indirect subsidiary)
31. Aurelia Auto d.o.o. with registered seat in Croatia (100% - indirect subsidiary).

A new company was formed during the reporting period, namely Inter Cars United Kingdom.   All the companies are financed by the parent entity either by loans or by trade credit. Details of loans issued are presented in note 10 of the Report on the Operations

7. Changes in organization associations and capital associations and their results.

In the year 2017 organizational or equity links were not changed.

8. Information on material transactions with related entities concluded on terms other than at arm's length, including information on their amounts and nature.

All transactions with related entities are executed at arm's length.

(in thousand PLN)

9. Loan and borrowings

Loans and borrowings as at 31/12/2017

Current loans and borrowings	Contractual amount (limit)	Used	Maturity date
Syndicated credit	775,000	457,037	14-11-2018
Raiffeisen a.s. (Inter Cars Česká republika s.r.o)	29,131	24,465	31-12-2018
ING Bank N.V. (Inter Cars Romania s.r.l.)	80,577	74,818	27-12-2018
	884,708	**556,320**	

Non-current loans and borrowings	Contractual amount (limit)	Used	Maturity date
Syndicated credit	500,000	500,000	14-11-2020
	500,000	**500,000**	

Loan and borrowing agreements

Agreement no.Bank	Concluded on	Term	Limit/ loan amount	Collateral
Syndicated loan agreement Bank Polska Kasa Opieki S.A., ING Bank Śląski S.A., Bank Handlowy w Warszawie, mBank S.A.,	14-11-2017	14-11-2018 14-11-2020	PLN 775,000,000 PLN 500,000,000	List of sureties was disclosed in annex number 16 to financial report.
Raiffeisenbank AS Czech	30-09-2012	31-12-2018	178,500,000 CZK	Receivables in the amount of up to 50% of the credit
ING Bank N.V. (Inter Cars Romania s.r.l.)	27-08-2014	27-12-2018	90,000,000 RON	Corporate guarantee

The credit interest changes and depends on the WIBOR, EURIBOR, PRIBOR and ROBOR rates plus banks' margins (determined at arm's length) resulting from the New Credit Agreement (determined at arm's length) for each interest period.

Source of finance	Loan amount in PLN	Interest rate
CaixaBank S.A.	121,980	Short-term part - WIBOR 1M + bank margin
Bank Pekao S.A.	240,972	Short-term part - WIBOR 1M + bank margin
Bank Handlowy S.A.	98,810	Short-term part - WIBOR 1M + bank margin
DNB Bank Polski S.A.	127,406	Short-term part - WIBOR 1M + bank margin
Bank BGŻ BNP Paibas S.A.	117,819	Short-term part - WIBOR 1M + bank margin
mBank S.A.	134,023	Short-term part - WIBOR 1M + bank margin
ING	78,658	Short-term part - WIBOR 1M + bank margin
Citibank Europe PLC Slovakia	20,685	EURIBOR 1M + margin
Citibank Europe PLC Czech	16,684	EURIBOR 1M + margin
Raiffeisenbank a.s. Czech	24,465	PRIBOR 1M + margin
ING Bank N.V (Inter Cars Romania s.r.l.)	74,818	ROBOR 1M + margin
Total	**1,056,320**	

The rate of interest of the credits is variable and shall depend, for each interest rate period, on WIBOR interest reference rate, plus agreed on the basis of the New Credit Facility Agreement (at arm's length) margins of the creditors.

The credit facility was used to repay debt and to finance day-to-day operations.

No loan or borrowing agreement was terminated during the reporting period.

10. Loans granted

Loans for related entities granted by parent company	01/01/2017 – 31/12/2017	01/01/2016 – 31/12/2016
As at beginning of period	49,194	49,120
Loans granted	737	310
Interest accrued	1,192	1,299
Repayments received	(2,510)	(316)
Interest received	(836)	(1,255)
Balance sheet valuation	(68)	36
	47,709	**49,194**

Loan agreements

Date concluded	Maturity date	Amount	Material terms and conditions
09-07-2007	31-12-2018	PLN 6,750,000	Agreement on a loan from Inter Cars to finance Lauber Sp. z o.o.'s operations and business development
03-12-2007	31-12-2020	9,134000 PRUSZKÓW	Agreement on a loan from Inter Cars to finance IC Development&Finance Sp. z o.o.'s operations and business development
06-04-2011	31-12-2018	EUR 35,000	Agreement on a loan from Inter Cars to finance Inter Cars Bulgaria's operations and business development
05-07-2011	31-12-2018	EUR 100,000	Agreement on a loan from Inter Cars to finance Inter Cars Bulgaria's operations and business development
23-08-2011	31-12-2018	EUR 90,000	Agreement on a loan from Inter Cars to finance Inter Cars Bulgaria's operations and business development
04-04-2013	31-12-2018	PLN 2,000,000	Agreement on a loan from Inter Cars to finance Launer Sp. z o.o.'s operations and business development
31-01-2014	31-01-2019	PLN 500,000	Agreement on a loan from Inter Cars to finance Q Service Truck Sp. z o.o.'s operations and business development
23-06-2014	without time-limit	PLN 6,000,000	Agreement on a loan from Inter Cars to finance Inter Cars Malta Ltd.'s working capital.
24-06-2015	without time-limit	PLN 6,800,000	Agreement on a loan from Inter Cars to finance Inter Cars Malta Ltd.'s working capital.
27-10-2017	31-12-2018	EUR 150,000	A loan agreement from Inter Cars to continue and expand the operations of Inter Cars Greece Ltd.

As at 31 December 2017, the balance of loans and borrowings for related entities was PLN 47,709 thousand, and the total value of loans and borrowings granted to unrelated entities was PLN 5,174 thousand.
The loans granted to related entities bear interest at a rate equal to: 1M WIBOR (in the case of PLN-denominated loans), or EURIBOR 3M (in case of EUR-denominated loans) plus a margin of 2%-5%. Two additional PLN loans are subject to a fixed interest rate of 3-4%.

Loans granted to related entities were eliminated in consolidated financial statements.

11. Sureties and guarantees granted by the holding entity and a description of material non-balance sheet items by entity, purpose and value including the sureties and guarantees granted to the issuer's subsidiaries.

(in thousand PLN) To	Period covered	Status as at 31/12/2017	31/12/2016
Feber Sp. z o.o.	Until further notice	918	973
Feber Sp. z o.o.	16/06/2018	2,000	2,000
RIM Sp. z o.o.	Until further notice	20	20
Glob Cars Sp.z o.o.	Until further notice	150	150
JC Auto Kraków	Until further notice	50	50
Tomasz Zatoka APC Polska	Until further notice	170	170
Michał Wierzobolowski Fst M.	Until further notice	250	250
Intraserv	Until further notice	50	50
Ducati Motor Holding	20/06/2018	1,877	5,309

(in thousand PLN)

IC Ukraine	30/11/2017	-	531
IC Slovenia	09.10.2017	-	129
IC Slovakia	26/03/2017	-	22,120
IC Malta	Until further notice	522	627
IC Czech Republic	24/12/2017	-	17,696
IC Romania	Until further notice	80,577	87,741
PIAGGIO AND C. S.P.A.	31/03/2018	2,085	2,212
Poczta Polska S.A., Warszawa	25/07/2017	-	11
Komenda Wojewódzka, Wrocław	21/06/2018	1	1
RIM Sp. z o.o.	31/01/2019	390	-
IC Croatia	31/12/2019	671	702
IC Hungary	05/07/2019	2,245	2,375
IC Hungary	05/02/2021	264	279
Raiffeisen-Leasing Polska	10/10/2023	250	250
IC Romania	31/12/2016	-	664
IC Czech	2018-12-31	27,744	29,220
ICMS Sp. z o.o.	09/05/2017	-	133
Poczta Polska S.A.	16/05/2017	-	6
JC Auto Kraków	2018-12-31	3,500	3,500
ILS	30/05/2026	45,959	48,747
IC Hungary	05/10/2021	46	49
PDC Industrial Center 44 Sp. z o.o.	12/06/2018	313	332
IC Czech Republic	12/06/2030	709	711
IC Italy	08/01/2017	-	88
MANN+HUMMEL	Until further notice	4,546	4,822
MALPAS	10/07/2018	367	389
LeasePlan	Until further notice	11,036	3,698
IC Latvia	31/12/2016	-	885
IC Croatia	31/12/2016	-	442
IC Croatia	31/12/2016	-	531
IC Romania	31/12/2016	-	885
IC Hungary	2017-12-31	67	71
IC Latvia	2017-12-31	167	177
IC Romania	2017-12-31	334	354
IC Hungary	2017-12-31	167	177
IC Croatia	01/05/2017	-	64
IC Latvia	2017-12-31	1,251	1,327
IC Ukraine	2017-12-31	1,043	1,106
IC Hungary	05/04/2022	215	228
COMMA Oil	2017-12-31	8,342	-
IC Hungary	06/06/2022	59	-
IC Hungary	31/01/2018	2,085	-
IC Croatia	2017-12-31	2,085	-
IC Romania	2017-12-31	4,171	-
IC Latvia	2017-12-31	1,043	-
IC Ukraine	2017-12-31	834	-
IC Hungary	05/09/2022	189	-
IC Croatia, IC Romania, IC Latvia, IC Ukraine	2017-12-31	417	-
IC Hungary	2017-12-31	104	-
IC Romania	2017-12-31	250	-
IC Ukraine	31/12/2018	417	-
IC Bulgaria	21/12/2022	152	-
IC Romania	31/12/2018	1,043	-
		211,147	**242,252**

12. Security issues

On the day of 3 October 2014, the Group signed with mBank S.A.and Bank Handlowy w Warszawie S.A. a contract ("Programme Contract") regarding issuance of bonds by the Company up to the maximum amount of PLN 500,000,000 and servicing by mBank S.A. the issuance of bonds offered between the companies from the Group (so called inter-group bonds).

(in thousand PLN)

The Programme Contract makes it possible for the Company to issue Bonds offered within private offers for some investors (with no obligation of preparing issue prospectus) on the basis of art. 9 point 3 of Law on Bonds dated 29 June 1995 (as amended).

The Bonds issued in compliance with the Programme Contract will be unsecured bonds, authorizing bond holders only to receive cash benefits.

Detailed information of issuance of each series of Bonds, including their nominal value, issuance price, number of bonds, issue threshold, maturity date, interest rate, will each time be agreed and stipulated in relevant issue documents. The Company shall bare standard costs of issuance of Bonds, including the dealer commission, after each finished issuance. The Program Contract is concluded for an indefinite time.

The first tranche of the bonds worth PLN 150,000,000 (A series) was issued by the Company on 24 October 2014. The bonds will be paid in cash only. Interest on Bonds are to be paid in 6-month periods (in April and October) based on WIBOR interest rate for six-month deposits and particular margin set forth in the terms and conditions of Issuance of Bonds. The Bonds shall be mature as at 24 October 2019, or in case of basis for earlier buyback, at dates stipulated in the terms and conditions of Issuance of Bonds.

Income from issuance of bonds will be used for financing current operational activity and investment activity of the Company. The favourable market terms on which the Company issued its bonds allowed it to: a) diversify its sources of financing, and b) obtain cost-attractive, unsecured funding for a period of 5 years.

Below chart presents Bonds issued and planned buyback dates:

Tranche number	Date of issuance	Maturity date	Amount of buyback
Series A	24/10/2014	24.10.2019	150,000, 000
			150,000, 000

13. Seasonality or cyclical nature of operations

The Group's comprehensive income is not highly sensitive to seasonal fluctuations. The Company's broad offering of spare parts includes some items whose sales depend on the season of the year, notably winter. These are items such as winter tyres, batteries, glow plugs, aluminium wheels, fuel filters as well as radiator and windscreen washer fluids. Goods that are most susceptible to seasonality and short-term sales, such as winter tyres, are ordered from suppliers several months before the expected sales peak (suppliers offer longer payment periods and higher discounts for off-season purchase of those items).

A recurring regularity is that the relatively lowest sales are achieved in Q1 of the year.

14. Evaluation of financial resources management

The following ratios are used for the evaluation of financial resources management:

- gross sales margin – gross profit on sales to net sales revenue
- sales margin – gross profit on sales to net sales revenue
- Operating margin – operating profit to net sales revenue (measures the Group's operating efficiency)
- EBITDA – net profit (loss) before amortisation, depreciation, net finance income (expenses), currency exchange differences and income tax
- Gross profit margin – profit before tax to net sales revenue (measures the efficiency of the Group's operations considering the profit (loss) on financial operations, and the extraordinary gains (losses)
- Net profit margin – the profit available to the Group after mandatory decrease of profit (increase of loss) to net sales revenue
- return on assets (ROA) – net profit to assets (measures general assets efficiency)
- return on equity (ROE) – net profit to equity (measures the efficiency of capital employed in the company)
- total debt ratio – total liabilities to total assets
- debt-to-equity ratio – total liabilities to equity
- inventory cycle – arithmetic mean of inventories at end and at beginning of period to goods for resale and materials sold, expressed in days,

(in thousand PLN)

- *Trade and other receivables turnover cycle* - the ratio of the arithmetic mean of the trade and other receivables as at the end and the beginning of a given period to the net sales revenues expressed in days,
- *Operating cycle* - the sum of the inventories and the receivables turnover cycle
- average payment period – arithmetic mean of trade payables at end and at beginning of period to cost of goods for resale and materials sold and contracted services without distribution, expressed in days
- cash conversion cycle – difference between the operating cycle and average payment period
- current ratio – current assets to current liabilities at end of period (demonstrates the company's ability to pay current liabilities using current assets)
- quick ratio – current assets less inventories to current liabilities at end of period (demonstrates the ability to quickly accumulate cash required to cover liabilities payable in a short time)
- cash ratio – cash to current liabilities at end of period (measures the ability to cover immediately payable liabilities)

The following table presents the basic figures used to evaluate the **Group's** profitability

	2017	**2016**
Net revenue from sales of goods and products	6,908, 365	5,973, 459
Gross profit on sales	2,021,560	1,842, 087
Sales margin	*29, 3%*	*30.8%*
Operating profit	294,464	315,668
Operating margin	*4.3%*	*5.3%*
EBITDA	359,984	369,846
Gross profit	262,456	284,780
Net profit	216,428	230,064
Net profit margin	*3.1%*	*3.9%*
Balance sheet total	3,402,978	3,040, 077
ROA	*6.4%*	*7.5%*
Fixed assets	726,023	702,168
Equity attributable to the shareholders of the parent entity	1,616,028	1,424, 008
ROE	*13.4%*	*16.2%*

In total, **selling costs and administrative expenses** increased by 18.8% on the 2016 figure. The greatest-value item under the Group's operating costs is **distribution services**, that is the affiliate branch's share in the generated margin. In 2017, the total distribution costs amounted to PLN 713, 757 thousand, constituting 39% of the total costs by type.

The chart below presents the structure of costs **by type:**

	2017	**2016**	**Change**
Depreciation and amortization	65,520	54,178	21%
Materials and energy consumption	139,261	119,956	16%
External services	1,327, 848	1,175, 332	13%
including: distribution service	*713,757*	*640,656*	*11%*
Taxes and charges	15,629	12,817	22%
Salaries	186,007	148,168	26%
Social security and other benefits	48,112	38,384	25%
Other costs by kind	36,126	28,624	26%
Total costs by type	**1,818, 503**	**1,577, 459**	**15%**

Distribution service costs - the share of an entity managing a branch in the margin earned The sales margin generated by a branch is divided between the branch and Inter Cars in the 50/50 ratio. The branch system is based on the assumption of entrusting management of a distribution point (branch) to external entities. Sales are made on behalf of Inter Cars. External entities (branch entities) employ workers and cover current costs of functioning from revenue, which is share in generated margin on sales of goods. Settlement of share in margin is made in monthly periods. The Company provides organizational and logistic knowledge, capital, vendors of parts, full product range and its availability, trade mark. Branch entity contributes the knowledge of local market and experienced employees to Inter Cars. Risk of activities of a given entity (branch) is borne by the entrepreneur that, by running own business, optimizes the resources that remain at their disposal.

(in thousand PLN)

Total **costs by type** in 2017 increased by 15.3% as compared to 2016.

Financial revenues and costs include primarily costs and revenues due to interest. In 2017 in particular, the Group sustained costs on this account in the amount of PLN 32,692 thousand. As at 31 December 2017, the **credit, loan, debt-securities and financial lease liabilities** amounted to PLN 1,222,551 thousand.

The **Income tax expenses** include the input income tax of PLN 34,897 thousand and changes in the value of assets and the deferred income tax provisions increasing the tax during the period by PLN 11,131.

The Company's profitability is influenced by the amount of **discounts** received from suppliers. In 2017, the Group deducted a total of PLN 277,237 thousand worth of discounts on the 2017 turnover due to the above. Discounts due to the Group are determined at the end of the financial year relative to purchases made in the period, and recognised in correspondence with the turnover. A total of PLN 66,103 thousand was recognized as inventory and this amount will decrease the value of the goods sold in 2018 (mainly in Q1).

Finance income primarily includes interest income (from funds deposited in bank accounts, loans advanced, and past due receivables). **Financial costs** comprise primarily the costs of loans and borrowings. **Foreign exchange gains/losses** are shown as an adjustment of the value of the goods sold, in the part related to the realised and unrealised foreign exchange gains/losses related to the settlement of trade receivables in foreign currencies and other as a separate item of the financial statements.

Working capital needs and investments in property, plant and equipment are financed solely with the generated profit, proceeds from bank loans, and finance leases.

The value and structure of the working capital and **working capital** requirement are set forth in the table below

	2017	**2016**
Current assets	2,676,955	2,337, 908
Cash and securities	160,915	121,426
Short-term liabilities	1,099,953	1,163, 288
Current loans, borrowings and finance lease liabilities	564,167	537,586
Adjusted current assets	2,516, 040	2,216, 482
Adjusted current liabilities	535,786	567,114
Net working capital	1,980, 254	1,649, 368

Net working capital engaged increased by about 20%

	2017	**2016**
Inventory cycle in days	123	186
Average collection period in days	38	37
Operating cycle in days	161	223
Average payment cycle in days	34	32
Cash conversion cycle in days	126	191
Current ratio	2.43	2.01
Quick ratio	0.82	0.73
Cash ratio	0.15	0.10

(in thousand PLN)

Debt ratios of the Group are presented in the following table.

	2017	2016
Total debt ratio	0.53	0.54
Debt-to-equity ratio	1.11	1.00

The Group's operations are funded with the Group's internally generated funds and bank loans. At the end of 2017, the total credit, loan, debt securities and financial lease liabilities amounted to PLN 1,222,551 thousand and the **total debt ratio** amounted to 0.53 and was 0.01 higher than in 2016.

Inter Cars meets its liabilities as they fall due and the Management Board believes that are no facts or circumstances that may represent a threat to such timely meeting of Inter Cars' liabilities.

	2017	2016
Net cash from operating activities	24,358	251,947
Net cash from investing activities	(92,410)	(124,312)
Net cash from financing activities	107,541	(79,225)
Cash and cash equivalents at the end of the period	160,915	121,426

In 2017, the cash flows on the operating activity was PLN 227,589 lower than in 2016. This resulted mainly from departing from reverse factoring in the payment for trading goods, as well as from an increase in the value of the receivables.

The value of the funds generated through investments was negative due to the expenses related to the continuation of investments in the ILS Logistics Centre in Zakroczym, as well as due to investments in replacement fixed assets.

The cash flows from financial activity were influenced by an increased use of the syndicated loan and the total repayment of liabilities resulting from reverse factoring, which resulted in positive cash flows on this activity.

The following table presents the basic figures used to evaluate the **Group's** profitability

	2017	2016
Net sales revenues	5,295, 719	4,779, 523
Change	*1.11*	*1.20*
Gross profit on sales	1,204, 644	1,127, 687
Sales margin	*22.75%*	*23.59%*
Foreign exchange gains/losses	6,062	(3,168)
Operating profit	-2,319	70,494
Operating margin	*-0.04%*	*1.47%*
EBITDA as percentage of sales	*0.39%*	*1.98%*
Gross profit	92,846	120,714
Net profit	101,058	109,391
Net profit margin	*1.91%*	*2.29%*
Balance sheet total	2,999, 502	2,659, 319
ROA	*3.37%*	*4.11%*
Fixed assets	751,005	726,165
Equity	1,204, 401	1,113, 402
ROE	*8.39%*	*9.82%*

The **total gross sales profit** increased by 6.8% compared with 2016.

In total, **selling costs and administrative expenses** increased by 21% on the 2016 figure, without distribution cost and licence fees. The greatest-value item under the Company's costs is **distribution services** , that is the affiliate branch's share in the generated margin. In 2017, the total distribution costs amounted to PLN 443,647 thousand, constituting 38.3% of the total costs by type - a 5.5% increase compared with the previous year.

(in thousand PLN)

The Company's profitability is influenced by the amount of **discounts** received from suppliers. In 2017, the Group deducted a total of PLN 220,071 thousand worth of discounts on the 2017 turnover due to the above (PLN 207,094 in 2016). Discounts due to the Company are determined at the end of the financial year relative to purchases made in the period, and recognised in correspondence with the turnover. A total of PLN 47,256 thousand (was recognized as inventory (PLN 41,747) and this amount will decrease the value of the goods sold in 2018 (mainly in Q1).

The **operating result** in 2017 was lower than in 2016, mainly due to

- foreign exchange losses shown as an adjustment of the value of the goods sold - PLN 13,893 thousand (in 2016, the Company recorded foreign exchange gains on adjusting the value of the goods sold – PLN 4,879

- settlement of transfer prices recognised as other operating cost - PLN 45, 052 thousand (PLN 13,656 thousand in 2016)

In total, the items affecting the operating result amounted to PLN 958,945 thousand (PLN 8,777 thousand) resulting in a decrease of PLN 50,168

The **EBITDA** margin was 0.4% in 2017, compared with 2% in 2016.

The chart below presents the structure of costs **by type:**

	2017	**2016**	**change**
Depreciation and amortization	23,223	23,919	(2.9%)
Materials and energy consumption	10,303	10,422	(1.1%)
External services	973,509	851,466	14.3%
including: distribution service	*443,647*	*420,696*	*5.5%*
Taxes and charges	85,757	77,317	10.9%
Salaries	45,040	37,978	18.6%
Social security and other benefits	7,870	6,635	18.6%
Other costs by type	13,944	11,075	25.9%
Total costs by type	**1,159, 646**	**1,018, 812**	**13.8%**

Finance income primarily includes interest income (from funds deposited in bank accounts, loans advanced, and past due receivables).

Finance expenses are primarily costs of loans, borrowings, and bond issue. The cost of interest amounted to PLN 35,278 thousand (PLN 24,361 thousand in 2016).

Foreign exchange gains (losses) are presented under two items of the statement of the total income: the part corresponding to the realised and unrealized foreign exchange gains (losses) on settlements of trade payables in foreign currencies is presented as an adjustment to the cost of goods for resale sold, and the balance is presented as a separate item of the statement. Total exchange rate differences presented in both positions in the year 2017 were negative and amounted to PLN 7,830 thousand. In the year 2016 there were positive exchange rate differences amounting to PLN 1,710 thousand.

Working capital needs and investments in property, plant and equipment are financed solely with the generated profit, proceeds from bank loans, and finance leases.

The value and structure of the working capital and **working capital** requirement are set forth in the table below

	2017	**2016**
Current assets	2,248,497	1,933, 154
Cash and cash equivalents	31,454	26,129
Short-term liabilities	1,136, 258	1,106, 615
Short-term loans, borrowings, debt security and finance lease liabilities	549,795	539,254
Adjusted current assets	2,217, 043	1,907, 025
Adjusted current liabilities	586,463	567,361
Net working capital	1,630, 580	1,339,664

(in thousand PLN)

Net working capital engaged increased by about 21.7%

	2017	**2016**
Inventory cycle in days	95	93
Average collection period in days	68	63
Operating cycle in days	163	156
Average payment cycle in days	43	38
Cash conversion cycle in days	120	118
Current ratio	1.98	1.75
Quick ratio	0.97	0.85
Cash ratio	0.03	0.02

The Company finances its operations development from its own assets, bank credits and financial means gained from issuance of bonds. In total, at the end of 2017, liabilities on credits, loans, debt securities and finance lease amounted to PLN 1,202,120 thousand, whilst in 2016 PLN 1,021,086 thousand.

In 2017, the **total debt ratio** was 0.60, just like in 2016. The debt-to-equity ratio in 2017 was 1.49.

Debt ratios are presented in the following table.

	2017	**2016**
Total debt ratio	0.60	0.58
Debt-to-equity ratio	1.49	1.39

Inter Cars meets its liabilities as they fall due and the Management Board believes that are no facts or circumstances that may represent a threat to such timely meeting of Inter Cars' liabilities.

The structure of **cash flows** is presented in the following table.

	2017	**2016**
Net cash from operating activities	(165,292)	114,919
Net cash from investing activities	80,489	9,201
Net cash from financing activities	90,128	(113,974)
Cash and cash equivalents at the end of the period	31,454	26,129

In 2017, the Company recorded negative cash flows from operating activity. This resulted mainly from departing from reverse factoring in the payment for trading goods, as well as from an decrease in the value of liabilities.

The cash generated from investing activities reached positive levels because of receiving a dividend, which outbalanced the spending on increase of shares in subsidiary companies.

The cash flows from financial activity were influenced by an increased use of the syndicated loan and the repayment of liabilities resulting from reverse factoring, which resulted in positive cash flows on this activity.

15. Assessment of investment project feasibility

In 2017, investments in purchasing and modernization of property, plant and equipment amounted to PLN 83,086 thousand. (PLN 132,673 thousand in 2016). Expenses were mostly incurred toward the construction of the ILS Logistics Centre in Zakroczym and the purchase of replacement assets.
In 2017, the Group's investments were financed from its own funds.

16. Extraordinary factors and events with a bearing on the Company's performance

On 13 November 2017 a credit agreement was signed for term loans and revolving credits. On the basis of the above-mentioned agreement the following loans are provided:

- Term loans in total maximum value of PLN 500 million repayable by 14 November 2020, and
- revolving loans of PLN 775 m due on 14 November 2018.

The 12-month cumulative EBITDA for a period ended on 31 December 2017 was PLN 359,984 thousand (PLN 369,846 in 2016).

The revenues of Inter Cars at home accounted for app. **56% of the total revenues** of the Capital Group (taking into account consolidation exclusions). The foreign companies accounted for app. 39% of the distribution activities. The Polish market remains the basic sales market for the Capital Group.

17. External and internal factors important to the Group's development

Internal factors

The Management Board believes that the following are major internal factors that affect the current and future financial performance:

(i) sales network development – it results in an increase in the number of affiliate branches and development of business contacts with end customers (garages);

(ii) ability to select the correct development strategy in the competitive and evolving market – it determines the Group's long-term growth potential in the market characterised by intense competition and changes in the spare parts distribution model, which result from the introduction of new regulations by the European Union and revisions of the operational strategies by vehicle and spare parts manufacturers;

(iii) development of loyalty schemes – launch of new and development of the existing schemes, which determine the Group's potential to enhance customer loyalty and, in effect, increase the Group's sales volume and value on the markets;

(iv) focus on a targeted product group and area of operations – a focused development strategy, enabling the Group to fully harness its potential and engage in the areas where it has the greatest competence;

(v) market knowledge – the ability to reach end customers effectively, which, thanks to the relevant experience and state-of-the-art sales support methods, gives Inter Cars Group a significant competitive edge;

(vi) development of sales support tools – continual introduction of tools and solutions that enhance customer service quality, in particular the launch of the IC-Katalog software, already used in Poland, in local language versions in the Czech Republic, Slovakia and Hungary;

(vii) qualified staff - one of the key factors behind the ability to maintain and further improve the competitive position of the Group entities;

(viii) efficiency of the goods logistics system – which translates into the ability to continuously optimise the existing processes and launch new solutions that, on the one hand, facilitate effective control and reduction of goods turnover costs in the expanding network, and on the other improve supply efficiency in the growing sales network with a very broad offering of goods;

(ix) efficiency of the IT system – a precondition to maintain the system's full capacity both to support goods turnover and to provide the information that is essential to manage the Group and meet its disclosure obligations.

External factors

The Management Board believes that the following are major external factors that affect the current and future financial performance:

(i) macroeconomic situation – it determines the scale of business activity and thus the employment rate in the national economy and the population's incomes, which translate into the current and future capacity of potential customers to purchase vehicles and cover the cost of their operation and repair;

(ii) macroeconomic situation in Ukraine, the Czech Republic, Slovakia, Romania, Bulgaria, Lithuania and Latvia – the level of spending on vehicles depends on incomes of the population and of businesses, and influences the size of the spare parts markets in those countries, and the Group's sales on those markets;

(iii) EURO and USD exchange rate fluctuations – which affect prices of goods offered by the Company and, indirectly, its financial performance;

(iv) greater customer loyalty – it results from smaller diversification of supply sources for garages, and translates into growing number and value of orders from customers, and reduced risk of a sharp decline in sales;

(v) development of independent garages – which are the Group's key customer group, and which face important challenges in view of the need to adapt to growing market requirements resulting from the increasing complexity of vehicle repairs;

(vi) changes to the distribution structure following changes in the European Union's legislation – for the Group they pose major challenges and offer opportunities to gain access to a group of customers who purchase spare parts exclusively from vehicle manufacturers; they also give independent garages access to technical information of vehicle manufacturers on equal rights with licensed garages , and thus remove material barriers to independent garages' development, which enhances growth opportunities for the independent repair services sector – the primary customer segment of the Group;

(vii) changes in the spare parts demand structure resulting from changes in car manufacturing technologies – they are expected to drive growth in demand for relatively more expensive car components and increased requirement for garage equipment;

(viii) car sales volume – it determines the demand for spare parts in the medium and long term, by affecting the number of vehicles used in the countries where the Group is present;

(ix) used car imports volume – which, in combination with sales of new cars, is the decisive factor behind the growth in the number of registered vehicles, and, consequently the demand for repair services and spare parts; the volume of used car imports, owing to their age and mileage, will more quickly drive the growth in demand for parts, but will also affect the structure of global demand, by increasing the demand for relatively cheaper parts, and, in the event of new cars being replaced by used cars to a significant degree, by causing a drop in demand from garages for workstation equipment;

(x) competition in the industry – which requires a continuous improvement in the Company's competence in terms of sales organisation, sales support mechanism, offered range of products and affiliate branch locations;

18. Risk and hazard factors, with specification of the degree of the issuer's exposure

Risk of changes in the discount policies of spare parts manufacturers

An important item that has a bearing on the Group's financial results is discounts offered by spare parts manufacturers. The discount policies favour those customers who generate substantial purchase volumes. Any changes to the policies that involve a reduction or complete abandonment of the discounts would result in a marked deterioration in the Group's performance.

The Management Board believes such a scenario is highly unlikely and the Group as a major customer can count on at least equally favour able discount terms in the future. A potential abandonment of discounts would probably lead to lower purchase prices and higher selling prices, so the Group's margin would be maintained given the Group's purchasing power and fairly easy substitution of the supply sources.

Risk related to adoption of an incorrect strategy

The market in which the Group operates is constantly evolving, and the direction and pace of the changes depend on a number of factors, which are often mutually exclusive. Therefore, the future position of the Group, and hence its revenue and profit, depend on its ability to develop a strategy that proves effective in the long term. Any incorrect decisions resulting from misguided judgements or the Group's inability to adapt to the rapidly changing market environment may adversely impact financial performance.

To minimize risk of such hazard, a continuous current analysis is conducted of all the factors determining the selection of strategy in two perspectives: short term, including terms of supply, and long-term, including strategy of creation and development of sales network so as to ensure maximally precise determination of the direction and nature of changes in the market environment.

Risk related to changes in the demand structure

The Group maintains certain stock levels for a broad range of products. Purchases made by the Group are a function of the perceived market demand for specific product groups, and, as such, are susceptible to the risk of faulty market analysis or changes in the demand structure. Potential changes in demand, in particular a rapid decline in demand for specific product groups that were purchased by the Group in large quantities, may entail substantial losses to the Group, resulting from working capital being tied up or from the need to apply high discounts.

The Management Board believes that this scenario is unlikely owing to the prevalence of linear demand change trends with respect to the Company's goods. Further, the Group pursues an active working capital management policy, the effect of which is low stock levels (in terms of value) for individual products (products are sourced from manufacturers that ensure execution of orders in a relatively short time). To note, the Group's offering does not include parts for vehicles manufactured in the former Eastern Bloc, whose production has been discontinued, which eliminates the risk of funds being tied up in stocks of spare parts for vehicles representing a diminishing market segment.

Risk related to seasonal sales

The Group's comprehensive income is not highly sensitive to seasonal fluctuations. The Company's broad offering of spare parts includes some items whose sales depend on the season of the year, notably winter. Goods that are most susceptible to seasonality and short-term sales, such as winter tyres, are ordered from suppliers several months before the expected sales peak, as a result of which, in the case of extremely adverse weather, the sales of seasonal goods may actually be lower than expected, which may have a negative bearing on the financial performance of the Group.

Risk related to bank loans

Bank loans are an important source of funding for the Group's operations. As at 31 December 2017, the Group's debt due to bank loans and financial lease amounted to PLN 1,222,551 thousand, while the total financial costs related to servicing the same (interest) amounted to PLN 32.7 m. Loans raised by the Group are variable-rate loans, so a potential marked increase in interest rates, translating into higher reference rates for the loans, would – through higher finance expenses – reduce the Company's profitability and limit its capacity to generate funds to finance further development and, in extreme cases, could even threaten its liquidity. Another risk factor associated with bank financing is the risk of a bank's refusal to extend or grant lines of credit. Any reduction in the Company's ability to fund its business with bank loans resulting from a termination of or refusal to extend some of the agreements would have a material adverse effect on the Company's development prospects, its liquidity and financial performance.

Risk of an affiliate branch operator engaging in competitive activity

If an operator whose branch operation agreement has been terminated (by the operator or the Group) engages in a competitive activity involving the take-over of relations with customers, this may have a material adverse effect on sales in the region concerned.

In order to mitigate the risk, the agreements concluded with branch operators provide for high cash penalties in the event they engage in competitive activity after the agreement is terminated.

Risk related to the IT system

The Company's operating activities rely on smooth operation of the on-line IT system. Any problems with its correct functioning could result in lower sales volumes, or even disrupt sales altogether. This would have a negative impact on the Group's financial performance.

In order to prevent the scenario from happening, the Group has launched appropriate emergency procedures to be followed in case of system failure, including rules for creating backup copies and data retrieval, an emergency server (with the necessary network elements) and emergency communication links.

Risk related to independent garages' inability to adapt to market requirements

Given the growing complexity of assemblies in new cars, there are higher requirements on their operation and repair, both in terms of mechanics' knowledge and training, and workstation equipment needed. Independent garages are therefore under pressure to improve their qualifications and invest in equipment to have the capabilities to service new car models. Insufficient capabilities development by independent garages will shrink the Group's sales market and will have a negative impact on its financial performance.

The Management Board believes that those adverse factors will be counterbalanced by the continuously growing involvement of spare parts distributors and manufacturers in the furnishing and financing of the furnishing of independent garages, the possibility of close collaboration between licensed and independent garages, and the right of all parties to access technical information available from vehicle manufacturers on equal rights (under the new regulations), which facilitates the transfer of know-how to independent garages. In the longer perspective, it can be expected that those independent garages that cannot cope with the challenges will be eliminated, while those that have the best resources will grow, which will in fact strengthen the independent garages segment, despite the likely short-term negative changes to its size. Further, greater imports of used cars to Poland following its accession to the European Union strongly stimulated the demand for cheap and small garages, thus enabling their further growth and accumulation of the necessary knowledge and capital.

Risk that major foreign wholesalers of spare parts may enter the Polish market

The market of independent automotive spare parts distribution in Poland is dominated by Polish-owned entities. The size of the market and its good prospects indicate a growing probability that it may be entered by foreign distributors, which, by offering more attractive terms of spare parts purchase, may take up a significant share of the market. The resultant competitive pressure will adversely impact the Group's performance, and in extreme cases may significantly limit its development potential, or even result in a drop in revenue and profit. Another risk resulting from the possible entry into the Polish market of major foreign distributors is the loss of strategic suppliers, for whom certain foreign distributors may be bigger customers.

The Management Board believes the risk is not material. Potential expansion into Poland may take place primarily through acquisitions of the existing entities, therefore a rise in the competitive pressure is not likely to be significant, although it may reduce the average margin.

In view of the above, the Management Board will strive to increase sales value in a steady and dynamic manner, so that the profit level can be maintained notwithstanding a potential decline in the margins. Further, the likelihood of Inter Cars losing the possibility of making purchases from certain strategic suppliers as a result of the presence of foreign entities in the Polish market which are distributors of those manufacturers' products in other countries is limited, as spare parts manufacturers seek to diversify their customer base.

Risk related to customer base diversification by spare parts manufacturers

An important element in spare parts manufacturers' sales strategies is diversification of their wholesale customer bases, which limits the possibility of increasing market shares by individual distributors (including the Group). The Management Board believes that the maximum share in the Polish market that the Group is able to secure (in the segment of independent garages) is 25 to 30%. After this level is achieved, further revenue growth will be possible only through the entire market's increase in value, and if this is the case the Group's revenue will be more sensitive to changes in the market environment, and the possibility of growth through market consolidation will be very limited.

The Management Board is taking steps to develop an operational model that allows the Group to continuously expand its product range, including through the development of new segments, such as provision of garage equipment, fleet management, construction of semi-trailers, etc. Moreover, a counterbalance for expectations of limitations on Polish market is development of business activities, especially in Ukraine, Czech, Slovakia, Croatia, Hungary, Lithuania, Latvia, Italy, Belgium, Romania, Germany, Bulgaria, Slovenia, Estonia, Moldova, Greece and Bosnia and Herzegovina.

Risk related to car manufacturers taking over spare parts production

Although access to spare parts manufactured by vehicle manufacturers is available to all potential buyers, the terms of purchase from such manufacturers would most likely be less advantageous than the terms of purchase from such specialised spare parts producers as exist under the current system, i.e. production of parts for the initial assembly and for the aftermarket by the same manufacturers. Additionally, a change to the existing spare parts production model would reduce the value of the segment of original spare parts supplied by spare parts manufacturers. This would have a material adverse effect on the Group's financial performance.

However, owing to the high degree of specialisation in developing and producing spare parts (which also implies the ability to offer competitive prices), the Management Board believes the scenario to be unlikely.

Risk related to spare parts manufacturers taking over the independent spare parts distribution network

Any acquisitions of independent spare parts distributors by those spare parts' manufacturers could entail significant changes to the distribution model with respect to spare parts offered by the individual entities, involving limitation of their sales to other networks, including the Group. In such a case the Group could lose certain supply sources, which would limit the size of its offering and undermine its competitive position.

However, as spare parts manufacturers seek to diversify their customer base, and are fairly easy to substitute, the Management Board believes that this risk factor should not pose a material threat to the Group's market position and its financial performance.

Risk related to the macroeconomic situation

The recent period was marked by a deceleration of growth in Poland's economy. Growth is threatened by a number of internal and external macroeconomic factors. Deterioration of the economic conditions could have an indirect adverse effect on the performance of the Group.

Similarly, an effect on the operations outside Poland can have specific risks of the country, especially in Ukraine, Czech, Slovakia, Hungary, Croatia, Lithuania, Latvia, Italy, Belgium, Romania, Bulgaria, Slovenia, Estonia, Moldova, Greece and Bosnia and Herzegovina. Deterioration of the economic conditions in aforementioned countries could have an indirect adverse effect on the performance of the Group.

Risk related to economic policy in Poland

Economic, fiscal and monetary policies in Poland largely determine the growth rate of the domestic demand, which indirectly impacts the volume of the Group's sales, and thus its financial performance. A threat to the Group's performance comes from changes that limit domestic demand, resulting in the risk of failure to achieve the assumed objectives and introducing material uncertainty with respect to long-term Group development planning in view of a possible reduced interest of potential buyers in the Group's products.

Similar threat to the Group's performance comes from the changes in economic, fiscal and monetary policies in the countries where the Group operates, i.e. in Ukraine, Czech, Slovakia, Hungary, Lithuania, Latvia, Italy, Belgium, Romania, Germany, Bulgaria, Slovenia, Estonia, Moldova, Greece and Bosnia and Herzegovina.

Risk related to the foreign customers structure

The vast majority of export sales are to small foreign customers, which arrange for the transport of the purchased goods from Poland themselves. Most of these recipients come from Ukraine, due to which a substantial part of sales of the Group is exposed to risk typical of recipients' country, such as: changes in volume and structure of the market of spare parts, changes in the purchasing power of the population, stability of economic and political systems in those countries. Adverse developments in those countries, resulting in reduced or abandoned purchases, would adversely affect the Group's financial performance.

Risk related to activities regarding remanufacturing of spare parts

The risk related to this activity includes primarily: the risk related to the imperfection of the management and control supporting solutions, the risk related to the necessity to keep high stocks of manufacturing materials and the risk related to the loss of their value in the case of changing customer preferences or an increased pressure from the competition, the risk resulting from the nature of the company's activity relying on a system of orders without permanent contracts with the key customers and the risk related to increased pressure on the part of the competition, including cheap parts manufacturers (Far East).

Risk related to development of the subsidiaries

Subsidiaries are established in countries where there are reasons to expect a satisfactory rate of return on the capital employed. In practice, the parent entity invests substantial funds in the development of operations in entirely new markets, having different characteristics in terms of important operational aspects. The consequent risk run by such investments is relatively greater than it would be if the funds were invested in further development of the operations in Poland, where the parent entity has the greatest competence, resources and position.

To mitigate this risk, the parent company employs experts with local market knowledge, and makes the necessary feasibility studies and assessments of risks inherent in launching operations in a new market. At the same time, by increasing the geographical reach of its operations, the parent company is able to diversify the risk of operating in a single country, in particular Poland.

19. Strategy and Future Development Prospects

The Strategy of the Inter Cars Group for the coming years is based on three foundations:

1. The development of the Inter Cars Group is conducive to the development of its internal and external customers.

Development of partnership programmes – which provide added value to the offering; the programmes involve development of projects supporting the Company's core business (such as fleet management, recovery of spare parts) , constant support for the building of the network of independent garages as part of the Auto Crew, Q-Service, and Q-Service Truck projects, development of projects supporting garages (investment programme, garage equipment, trainings, technical information), and development of IT systems supporting sales; those initiatives are aimed at continuous improvement of end customers' loyalty, which, in the long term, will provide the Company with a stable and growing sales market.

2. The Inter Cars Group is a comprehensive supplier of products and services for business and retail customers.

Expansion of the product range – by introducing new and improving the existing product lines to meet market expectations with respect to spare parts quality, prices and technical support from their manufacturers. In order to increase sales revenues on quality products with relatively low price, coming from less known manufacturers in Poland, the Group constantly develops private brands which are cheaper and guaranteed alternative for end users.

3. Ensuring that the Company remains profitable at every management level guarantees its further dynamic growth in particular sales segments.

In 2018, the Group plans to optimise its operations mainly with respect to logistics through its logistics centres, including the new ones. The Group plans to open new Regional Distribution Centres (RDC) in Sophia and Prague. It also plans to open several dozen new branches.

The Inter Cars Group is introducing a new e-commerce platform, a B2B system intended to replace, among other things, the IC-catalogue. The platform has already been implemented in Inter Cars garages in Greece and Bulgaria. It will be introduced in the other 14 countries by the end of next year. Ultimately, the platform will be available to over 100 thousand garages in 16 countries.

The new, uniform e-commerce system will help optimize the sales costs and accelerate the introduction of new, innovative B2C and B2B2C sales models on the other markets.

(in thousand PLN)

Another challenge will be the implementation of the segment strategy outside Poland to foster a dynamic sales growth not only in the passenger cars segment, but also in the other segments, including trucks, tires and garage equipment.

The strategy will be followed by all companies from the Group.

All under one roof.

The idea behind our strategy is to implement the one-stop-shop model with everything done "under one roof". This relates not only to broadening the product range, but also to the development of partnership programmes constituting an added value for the key customers. In addition to the sale of spare parts and accessories, we provide garages with the necessary tools and equipment. We organize trainings and offer comprehensive services as part of the post-sale activities to help garages function properly. Through projects such as Motointegrator and Motointegrator Flota we direct drivers to our trade partners.

In order to offer as integrated services as possible, we have been developing a Rent A Car service to allow Inter Cars garages to offer substitute cars to their customers and, ultimately, the possibility of renting cars.

The key goal is to build a leading distribution network of automotive spare parts in Poland, with a strong representation on new European markets, delivering stable profits and allowing the business to be expanded through acquisitions in the distribution and logistics sector. The Company intends to increase its market share in Poland to 25–30%.

20. Changes in key principles of managing the Group

In the reporting period, the Group did not implement any changes in the key principles of management of the Group's business.

21. Agreements concluded between the Company and the management staff

As at 31 December 2017 there were no agreements with the members of the management bodies stipulating compensation in the event of their resignation or dismissal without providing material reasons or their dismissal or recalling resulting from a merger or takeover Employment contracts of members of the Company's Management Board may be terminated on six months' notice.

22. Remuneration of executives

Remuneration of the members of the Supervisory Board (in PLN)

	01/01/2017 – 31/12/2017	01/01/2016 – 31/12/2016
Andrzej Oliszewski – Chairman of the Supervisory Board	98,494	96,338
Michał Marczak – Member of the Supervisory Board	50,602	50,602
Piotr Płoszajski– Member of the Supervisory Board	51,252	50,602
Jacek Klimczak – Member of the Supervisory Board	55,805	55,805
Tomasz Rusak – Member of the Supervisory Board	55,154	55,805
	311,306	**309,151**

(in thousand PLN)

Remuneration of the members of the Management Board (in PLN)

		01/01/2017 – 31/12/2017	01/01/2016 – 31/12/2016
Maciej Oleksowicz	CEO	1,715,688	1,075,307
Robert Kierzek -Vice-President of the Management Board		1,720,073	1,845,000
Krzysztof Soszyński -Vice-President of the Management Board		1,716,636	1,843,225
Krzysztof Oleksowicz – Member of the Management Board		2,025,453	2,143,800
Witold Kmieciak – Member of the Management Board		-	933,000
Wojciech Twaróg - Member of the Management Board		1,709,617	1,845,000
Piotr Zamora – Member of the Management Board		1,737,898	1,073,031
Tomáš Kaštil – Member of the Management Board		1,672,000	1,142,279
		12,297,365	**11,900,642**

On 10 April 2017 Mr Robert Kierzek handed in his resignation from the position of the President of the Management Board of the Company, remaining the Member of the Management Board of current term of office. The resignation became effective on 1 May 2017. On 20 April 2017, the Supervisory Board appointed Mr. Maciej Oleksowicz the new President of the Management Board and Mr Robert Kierzek the Vice-President of the Management Board. Mr. Maciej Oleksowicz took office on 1 May 2017.

On 26 June 2017, the Company's Supervisory Board passed a resolution adopting an Incentive Programme for the Management Board Members. The programme has been effective since the beginning of the financial year of 2017 and will remain in force for an unspecified period of time until cancelled. The programme provides for an additional remuneration payable to the members of the Management Board of the Company for performing their functions on the Board (it is hereinafter referred to as a "Cash Bonus"). The Cash Bonus will be calculated as a percentage of the consolidated net profit of the Inter Cars S.A. Capital Group.

If the net profit for a given financial year is lower than 80% of the net profit for the preceding year, a member of the Management Board will not be entitled to receive a Cash Bonus for that year.
The Cash Bonus is granted provided that the Ordinary Shareholders Meeting approves the annual consolidated financial statements of the Inter Cars S.A. Capital Group for a given financial year.

Information about all agreements with the members of the management bodies stipulating compensation in the event of their resignation or dismissal without providing material reasons for their dismissal or recalling resulting from a merger or takeover

The non-competition agreements entered into with the members of the Management Board approved by resolution of the Supervisory Board passed on 26 June 2017, hereinafter referred to as the "Agreements," stipulate a compensation for not undertaking any activity competitive to that of the Company following departure from the Management Board. During the term of a non-competition agreement i.e. 12 months of the date of departure from the Management Board, a Member of the Board is entitled to a compensation of 80% of 12 times the average monthly remuneration paid or due to such Member of the Management Board from the Company or other entities of the Inter Cars S.A. Capital Group during the last 36 months preceding the departure (hereinafter referred to as the "Basis"), calculated as stipulated in the Agreements.

The Agreements stipulate an additional severance pay if a Member of the Management Board is dismissed or not appointed for another term during 24 months after a hostile takeover or a change of control. In such cases, a Member of the Management Board is entitled to a severance pay of 60 times the Basis in the event of a hostile takeover and a severance pay of 12 times the Basis in the event of a change of control. According to the Agreements, a hostile takeover is understood to mean a situation where an entity other than a shareholder holding at least twenty five (25) per cent of the Company's total stock as at the date of signing the Agreements, entities controlling such shareholder, subsidiaries of such shareholder or subsidiaries of entities controlling such shareholder or legal successors of such entities (hereinafter referred to as the "Key Shareholder), purchases, directly or indirectly, at least thirty three (33%) per cent of the Company's total stock without a consent of the Key Shareholder or another entity for which the Key Shareholder obtains the Company's shares. According to the Agreements, a change of control is understood to mean a situation where the direct or indirect share of a Key Shareholder in the total stock of the Company falls below five (5%) per cent.

(in thousand PLN)

Information about shares

Company shares and Shares in related entities held by the management and supervisory Staff.

As at 31/12/2017

The Company's supervisory and managing personnel hold a total of 5,025,425 shares, constituting 35.47% of the total vote at the General Shareholders Meeting of Inter Cars.

Shareholder	Number of shares	Total nominal value	Percentage of share in the share capital held (%)	Percentage of total vote held (%)
Management Board				
Krzysztof Oleksowicz*	3,726, 721	7,453, 442	26.30%	26.30%
Robert Kierzek	19,834	39,668	0.14%	0.14%
Tomáš Kaštil	1,500	3,000	0.01%	0.01%
	3,748,055	**7,496,110**		
Supervisory Board				
Andrzej Oliszewski	1,277, 370	2,554, 740	9.02%	9.02%
	1,277, 370	**2,554, 740**		
Total	**5,025, 425**	**10,050, 850**	**35.47%**	**35.47%**

* Directly by OK Automotive Investments B.V.

As at the publication date of these financial statements

The Company's supervisory and managing personnel hold a total of 5,025,425 shares, constituting 35.47% of the total vote at the General Shareholders Meeting of Inter Cars.

Shareholder	Number of shares	Total nominal value	Percentage of share in the share capital held (%)	Percentage of total vote held (%)
Management Board				
Krzysztof Oleksowicz*	3,726, 721	7,453, 442	26.30%	26.30%
Robert Kierzek	19,834	39,668	0.14%	0.14%
Tomáš Kaštil	1,500	3,000	0.01%	0.01%
	3,748,055	**7,496,110**		
Supervisory Board				
Andrzej Oliszewski	1,277, 370	2,554, 740	9.02%	9.02%
	1,277, 370	**2,554, 740**		
Total	**5,025, 425**	**10,050, 850**	**35.47%**	**35.47%**

* Directly by OK Automotive Investments B.V.

The managing and supervisory personnel hold no shares in the subsidiaries of Inter Cars.

For information of the total number and value of all Company shares, see Note 14 to the financial statements.

Changes in the percentages of shares held under agreements known to the Company

The Incentive Scheme implemented by virtue of a resolution of the Extraordinary General Shareholders Meeting requires execution of participation agreements with participants of the Incentive Scheme, who include members of the management bodies, managers, and employees of key importance to the implementation of the Group's strategy. As at the publication date of this report, the Incentive Scheme has been completed, therefore no changes will occur in the percentages of shares held.

(in thousand PLN)

The Company is not aware of any agreements concluded between its shareholders which would affect the Company's business.

Special control powers over the Company

The Company did not issue any securities conferring any special control powers.

Restrictions on transferability of securities

There are no restrictions on the transferability of any securities (shares) issued by the Company. All Company shares were admitted to public trading by virtue of the decision of the Polish Securities and Exchange Commission dated April 26th 2004.

. On May 11th 2004, the Management Board of the Polish National Depository for Securities adopted Resolution No. 186/04, under which Inter Cars S.A. was granted the status of a participant of the Depository in the category ISSUER, and 11,821,100 Inter Cars S.A. shares were registered with the Depository and assigned code PL INTCS00010.

Shareholders holding at least 5% of the total number of votes at the 31.12.2017

Shareholder	Number of shares	Total nominal value	Percentage of share in the share capital held	Percentage of total vote held
		(PLN)	(%)	(%)
OK Automotive Investments B.V.*	3,726, 721	7,453, 442	26.30%	26.30%
AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK	1,896, 778	3,793, 556	13.39%	13.39%
Nationale-Nederlanden OFE and Nationale-Nederlanden DFE	1,416, 799	2,833, 598	9.99%	9.99%
Andrzej Oliszewski	1,277, 370	2,554, 740	9.02%	9.02%
Immersion Capital Master Fund Limited	748,776	1,497,552	5.29%	5.29%
Total	**9,066,444**	**18,132,888**	**63.99%**	**63.99%**

*OK Automotive Investments B.V. is a company which is dependent from Krzysztof Oleksowicz, Member of the Management Board of the Company

Shareholders holding 5% or more of the total vote as at the date of publication of these financial statements:

Shareholder	Number of shares	Total nominal value	Percentage of share in the share capital held	Percentage of total vote held
		(PLN)	(%)	(%)
OK Automotive Investments B.V.*	3,726, 721	7,453, 442	26.30%	26.30%
AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK	1,896, 778	3,793, 556	13.39%	13.39%
Nationale-Nederlanden OFE and Nationale-Nederlanden DFE	1,416, 799	2,833, 598	9.99%	9.99%
Andrzej Oliszewski	1,277, 370	2,554, 740	9.02%	9.02%
Immersion Capital Master Fund Limited	748,776	1,497,552	5.29%	5.29%
Total	**9,066,444**	**18,132,888**	**63.99%**	**63.99%**

*OK Automotive Investments B.V. is a company which is dependent from Krzysztof Oleksowicz, Member of the Management Board of the Company

Information on purchasing own shares

In 2017, the Company did not purchase its own shares.

23. Agreements known to the Company (including agreements executed after the balance-sheet date) which may give rise to future changes in the proportion of shares held by the existing shareholders and bondholders

The Company is not aware of any such agreements

24. System of control of employee stock option plans

All stock options plans for shares held by Members of the Board were executed in the year 2009. At present (in 2017), no stock option plan is being implemented at the Group.

25. Qualified auditor of financial statements

On 28 June 2016, the Company entered into an agreement with PricewaterhouseCoopers Sp. z o.o. to audit the annual financial statement of the Company and review the interim financial statements of the same for 2016, 2017 and 2018. The total remuneration for 2017 resulting from the Agreement was PLN 416 thousand, of which PLN 316 thousand was a remuneration for auditing the annual financial statements, while PLN 100 thousand was a remuneration for reviewing the interim financial statements.

Furthermore, as result of an audit of the financial statements of ILS Sp. z o.o., ICMS Sp. z o.o., Feber Sp. z o.o., Lauber Sp. z o.o., Q-Service Sp. z o.o., Inter Cars Česká republika s.r.o., Inter Cars Lietuva UAB , Inter Cars Romania s.r.l., i Inter Cars d.o.o., Inter Cars Slovenská republika s.r.o., Inter Cars Hungária Kft, Inter Cars Bulgaria EOOD and Inter Cars Latvija SIA- the total remuneration under the Agreements amounted to PLN 769 thousand, of which PLN 214 thousand was paid for by the Company.

The remuneration for the other services provided to Inter Cars S.A. amounted to PLN 100 thousand.

The total remuneration for the audit in 2016 resulting from the Agreement was PLN 285.8 thousand, of which PLN 185.8 thousand was a remuneration for auditing the annual financial statements, while PLN 100 thousand was a remuneration for reviewing the interim financial statements.

Furthermore, as result of an audit of the financial statements of ILS Sp. z o.o., ICMS Sp. z o.o., Feber Sp. z o.o., Lauber Sp. z o.o., Q-Service Sp. z o.o., Inter Cars Česká republika s.r.o., Inter Cars Lietuva UAB , Inter Cars Romania s.r.l., i Inter Cars d.o.o., Inter Cars Slovenská republika s.r.o., Inter Cars Hungária Kft, Inter Cars Bulgaria EOOD and Inter Cars Latvija SIA- the total remuneration under the Agreements amounted to PLN 617 thousand, of which PLN 44 thousand was paid for by the Company.

26. Transactions in derivative instruments and their risk profile

From 1 January to 31 December 2017, no transactions were concluded which would be related to the financial statement.

27. Employment

As at 31 December 2017, the Company employed 489 personnel. The Group employed a total of 3,061 persons.

As at 31 December 2016, the Company employed 384 personnel. The Group employed a total of 2,406 persons.

28. Environmental policy

Inter Cars does not engage in operations which would have adverse effect on the natural environment. Accordingly, the Group is under no obligation to incur expenditure on environmental protection.

As at the reporting date, the Group held the following permits, in the form of administrative decisions, related to environmental protection:

(in thousand PLN)

No.	Number and date of decision	Issuing authority	Area covered by the decision	Scope of the decision
1	Decision no. 170/2013 of 18-12-2013 (ŚR-6341/11M/2/13)	Governor of the Nowy Dwór County	Cząstków Mazowiecki ul. Gdańska 15, Czosnów Municipality	The water legal permit for intake of underground water from the quaternary formations from an intake in Cząstków Mazowiecki for household and utility purposes, except for food purposes, as well as watering greenery and for the purposes of water treatment, and a permit to build a water facility – well S3.
2	DKR/074-E9215/08/ar	Superior Environmental Inspector	Cząstków Mazowiecki ul. Gdańska 15, Czosnów Municipality	Registration of the Superior Envirnomental Inspector for the collection of electronic waste no. E0009215W
3	DKR/074-E9215/09/ar	Superior Environmental Inspector	Cząstków Mazowiecki ul. Gdańska 15, Czosnów Municipality	Registration of the Superior Environmental Inspector for the collection of waste batteries and recycling of the same no. E0009215WBW
4	Decision No. 85 of 10/05/2016 (ŚR.6341.15.2016)	Governor of the Nowy Dwór County	Cząstków Mazowiecki ul. Gdańska 27, Czosnów Municipality	The water legal permit for intake of underground water from an intake in Cząstków Mazowiecki on the plot of land number 361/3 belonging to Inter Cars S.A.

29. Events which may have a material bearing on the Company's future financial result and events subsequent to the balance-sheet date

In view of the present political situation in Ukraine which has lasted since 2014, the Management Board informs that all assets of the subsidiary entity Inter Cars Ukraine are secure and the company continues its normal operations.

The new regulations implemented by the government have resulted in certain restrictions related to foreign currency cash flows. As a result of an increase in the USD/UAH exchange rate, the value of liabilities to foreign suppliers and Inter Cars S.A., expressed in UAH, is increasing. Nevertheless, there is no need to create additional reserves in 2017.

30. The Management Board's standpoint on the feasibility of meeting the previously published forecasts of financial results for 2017

The Group did not publish any forecasts for 2017.

31. Changes in the Company's structure, non-current investments and restructuring

In 2017, no significant changes in the Group's structure occurred. For more information see note 5 – reports on the Company's activities.

32. Management and supervisory bodies

As at 31 December 2017, the management and supervisory bodies of the Company were composed of the following persons:

Supervisory Board
Andrzej Oliszewski, President
Piotr Płoszajski
Tomasz Rusak
Michał Marczak
Jacek Klimczak

Management Board
Maciej Oleksowicz CEO
Robert Kierzek Vice-President of the Management Board
Krzysztof Soszyński Vice-President of the Management Board
Krzysztof Oleksowicz, Member of the Management Board
Wojciech Twaróg, Member of the Management Board
Piotr Zamora, Member of the Management Board
Tomáš Kaštil, Member of the Management Board

33. Information on court proceedings to which the Group is a party

In 2017, no proceedings were brought before any court or administrative body with respect to any liabilities or claims of Inter Cars S.A. or its subsidiary undertakings, whose aggregate value would represent 10% or more of the Company's equity.

Furthermore, no proceedings are pending before any court or administrative body with respect to any liabilities or claims of Inter Cars S.A. or its subsidiaries whose aggregate value would represent 10 % or more of the Company's equity.

34. Information on average foreign exchange rates

All figures presented in these financial statements in EUR were translated at the following exchange rates:

	2017	**2016**	**2015**
Exchange rate as at 31.12	4.1709	4.4240	4.2615
Average exchange rate from 1.01 to 31.12	4.2447	4.3757	4.1848
Highest exchange rate in the period	4.4157	4.5035	4.3580
Lowest exchange rate in the period	4.1709	4.2355	3.9822

The following principles have been used to convert data presented in thousand EURO in selected financial data:

- for the items of the profit and loss account – the average exchange rate was used, defined as the arithmetic mean of the rates prevailing on the last day of each month within a given period, as quoted by the National Bank of Poland
- for the data resulting from the statement of the financial situation - *exchange rate of 31.12.2017* being an average EUR exchange rate announced by the President of the Bank of Poland on 31.12.2017.

35. Corporate governance

The full version of the statement of compliance is available at the Company's website at www.intercars.com.pl or the Warsaw Stock Exchange's website at www.gpw.pl.

Full version of the statement is attached to this report as Appendix: "INTER CARS S.A. MANAGEMENT BOARD'S STATEMENT OF COMPLIANCE IN 2017 WITH THE CORPORATE GOVERNANCE PRINCIPLES STIPULATED IN THE CODE OF BEST PRACTICE FOR WSE-LISTED COMPANIES".

36. Statement of non-financial information

In pursuance of the Accounting Act requirements, the Company hereby presents a separate statement of non-financial information related to Inter Cars S.A and the Inter Cars S.A. Capital Group. The statement was prepared in conformity with the international reporting standards of the Global Reporting Initiative (GRI Standards). Pursuant to Art. 49b.9 of the Accounting Act, the statement of non-financial information is available on the Company's website at http://inwestor.intercars.com.pl/pl/raporty/raporty-niefinansowe/).

37. Information about key R&D achievements

The Capital Group companies are do not conduct any R&D activities.

These Board's statement on the activity of the group was approved by the Management Board of Inter Cars S.A for publication on 17 April 2018.

....
Maciej Oleksowicz
CEO

....
Krzysztof Soszyński
Vice-President of the Management Board

....
Robert Kierzek
Vice-President of the Management Board

....
Krzysztof Oleksowicz
Member of the Management Board

....
Wojciech Twaróg
Member of the Management Board

....
Piotr Zamora
Member of the Management Board

....
Tomáš Kaštil
Member of the Management Board

Warsaw, 17 April 2018

APPENDIX TO THE REPORT ON THE OPERATIONS OF INTER CARS GROUP

INTER CARS S.A. MANAGEMENT BOARD'S

STATEMENT OF COMPLIANCE IN 2014 WITH THE CORPORATE GOVERNANCE PRINCIPLES STIPULATED IN THE CODE OF BEST PRACTICE FOR WSE-LISTED COMPANIES

1. Corporate Governance Principles Adopted by Inter Cars S.A.

Board of Directors of Inter Cars S.A. ("**the Company**") informs that, in connection with entry into force of the amended "Code of Best Practice of WSE Listed Companies" adopted by Resolution no. 26/1413/2015 by the WSE Board on 01 January 2016, it adopted the corporate governance principles as laid out in the aforementioned document. The contents of the document are available at the website of the Warsaw Stock Exchange. http://www.corp-gov.gpw.pl/.

2. Non-compliance with the corporate governance principles

The Company represents that in 2017 it complied with all the applicable corporate governance principles except for the following:

Recommendation I.R.2.
Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report.

Notes: The Company's charity and social involvement policy is subject to the Corporate Responsibility Strategy described in the statement of non-financial information. The Company supports sports activities and runs educational programmes addressed to teenagers, as well as supports charity activities. In the future, the Company may prepare a sponsorship or charity policy reflecting its activities in this area. Additionally, the Company has introduced a system supervising the Company's donations.

Recommendation I.Z.1.3.
A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation (...) a chart showing the division of duties and responsibilities among members of the management board drawn up according to principle II.Z.1

Notes: The Management Board runs the activities of the Company and represents it outside. Adequately to resolutions of the Rules of the Management Board, the principle of joint action is one of the basic rules of activity of the Board, that is why currently full implementation of the rule by the Company is not possible.

Recommendation I.Z.1.16.
A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation (...) information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting.

Notes: The Company realizes a transparent and effective policy of communication, providing suitable communication with investors and analysts, using traditional methods. In the opinion of the Company, current methods of communicating to the shareholders and investors the course of the General Meeting are enough to become familiar with matters being discussed during a General Meeting. At the same time, the Company does not exclude the possibility of future live broadcast of the General Meeting on the website, whilst currently no such expectations of the Shareholders have been registered.

Recommendation I.Z.1.20

A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation (...) an audio or video recording of a general meeting.

Notes: The Company realizes a transparent and effective policy of communication, providing suitable communication with investors and analysts, using traditional methods. In the opinion of the Company, current methods of communicating to the shareholders and investors the course of the General Meeting are enough to become familiar with matters being discussed during a General Meeting. In the future, the Company may record the General Meetings and make the recordings publicly available on its website in the form of audio or video files, however, no request to this end has been submitted to date.

Recommendation II.Z.1.
The internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent, and a chart describing that division should be available on the company's website.

Notes: The Management Board runs the activities of the Company and represents it outside. Adequately to resolutions of the Rules of the Management Board, the principle of joint action is one of the basic rules of activity of the Board, that is why currently full implementation of the rule by the Company is not possible.

Recommendation II.Z.7.
Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly.

Notes: Until 25 September 2017, the tasks of the committee were performed by the Supervisory Board. Therefore, until that date the Company followed the provisions of Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committee of the (supervisory) board only to a limited extent.

On 25 September 2017, in conformity with the changes to the respective regulations, the Supervisory Board appointed the Company Supervisory Board Audit Committee. As regards the functioning of the Audit Committee and its tasks, the Company has conformed to the provisions of Annex I as specified above since the date of appointment of the Committee, i.e. since 25 September 2017. No committees other than the Audit Committee have been appointed within the Supervisory Board of the Company.

Recommendation II.Z.8.
The chair of the audit committee should meet the independence criteria referred to in principle II.Z.4.

Notes: Until 25 September 2017, the tasks of the committee were performed by the Supervisory Board. The chair of the audit committee does not meet the independence criteria referred to in principle II.Z.4.

On 25 September 2017, in conformity with the changes to the respective regulations, the Supervisory Board appointed the Company Supervisory Board Audit Committee. With the present composition of the Committee, the Chairman of the Committee meets the independence criteria laid out in rule II.Z.4.

Recommendation 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.

Notes: Currently the Company does not follow the recommendation regarding including separate units responsible for the performance of tasks in individual systems or functions in full. Some of the internal systems and functions have a diversified character, more on this topic, see explanatory notes to recommendations III.Z.1-III.Z.5.

Recommendation 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.

Notes: At this stage of the Company's development this rule is not applicable in full scope. Internal control and risk management systems have a dispersed character and are realized by the financial division of the Company, as well as by other organizational units, including operational division. Whilst compliance systems have been till now implemented only punctually, in selected areas.

In the second half of 2017 the Company began implementation of a compliance programme adopted by the Management Board including, in particular, 'The Code of Conduct and Good Practices, 'The Misconduct Prevention Policy,' 'The Conflict of Interests Management Policy,' 'The Confidentiality Policy,' 'The Mobbing Prevention Policy,' and 'The Occupational Health and Safety and Environment Protection Policy.' The program aims at ensuring compliance of the Company's activities with the law, business standards and other market requirements through proper management of the non-compliance risk. Under the programme the Company has defined, among other things, the process of managing the risk of misconduct and conflict of interest.
In 2017, the Company did not perform internal audit. In the first quarter of 2018, an internal audit unit was created within the Company's structure.

Recommendation 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.

Notes: As in current stage of development of the Company the III.Z.1 recommendation is not implemented in full, implementation of above mentioned recommendation is not possible. However, currently the persons responsible for risk management, compliance and internal audit essentially report directly to the Management Board and regularly attend the meetings of the Supervisory Board and of the Supervisory Board Audit Committee.

Recommendation 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.

Notes: Due to the fact that the Company does not apply the Recommendation III.Z.1 to the full extent, application of the recommendation in question is not possible.

Due to the creation of an internal audit unit in the first quarter of 2018, the Company will implement the recommendation in question.

Recommendation III.Z.4.
The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.

Notes: As in current stage of development of the Company the III.Z.1 recommendation is not implemented in full, implementation of above mentioned recommendation is not possible.

Due to the creation of an internal audit unit in the first quarter of 2018, the Company will implement the recommendation in question.

Recommendation III.Z.5.
The supervisory board should monitor the efficiency of the systems and functions referred to in principle III.Z.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and make an annual assessment of the efficiency of such systems and functions according to principle II.Z.10.1. Where the company has an audit committee, it should monitor the efficiency of the systems and functions referred to in principle

III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.

Notes: As in current stage of development of the Company the III.Z.1 recommendation is not implemented in full, implementation of above mentioned recommendation by the Supervisory Board is not possible. The Board of Supervisors declared using the above mentioned recommendation from the moment when all the systems and functions described in recommendation III.Z.1 are implemented in the Company.

Due to the creation of an internal audit unit in the first quarter of 2018, the Company will implement the recommendation in question.

Recommendation IV.R.2.
If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:
1) *real-life broadcast of the general meeting;*
2) *real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;*
3) *exercise of the right to vote during a general meeting either in person or through a plenipotentiary.*

Notes: The standard is applied by the Company. Making it possible for the shareholder to exercise the voting right during the General Meeting, using means of electronic communication, can make it much easier for the shareholders to take part in AGMs. One needs to notice that, in the opinion of the company, there are many technical and legal factors, which might influence the correct course of AGM, and because of this, on the right execution of aforementioned regulation. In the opinion of the Company, current rules of participation in the AGM being in force, make it possible to exercise the rights resulting from holding shares and protecting the rights of Company's shareholders. At the same time, the Company does not exclude possibility of using the recommendation in the future, if the shareholders express such a will, whilst currently no such will has been expressed by the shareholders.

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

Notes: The standard is applied by the Company. The Company realizes a transparent and effective policy of communication, providing suitable communication with investors and analysts, using traditional methods. In the opinion of the Company, current methods of communicating to the shareholders and investors the course of the General Meeting are enough to become familiar with matters being discussed during a General Meeting. At the same time, the Company does not exclude the possibility of future live broadcast of the General Meeting on the website, whilst currently no such expectations of the Shareholders have been registered.

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

Notes: The matters of conflict of interest in the Company are addressed punctually, in relation to the most important areas. The management board and the supervisory board decided on implementing the rules of chapter V of Best Practice in their activities. Furthermore, internal regulations define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise.

In the second half of 2017, the Company began implementation of the compliance programme adopted by the Management Board, including, among other things, 'The Conflict of Interest Management Policy.' The document lays out the notion of a conflict of interest and specifies the procedures to follow in the event of occurrence of such conflict or a risk of its occurrence. The policy also provides for a permanent supervision over managing a conflict of interest.

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

Notes: In periodic activity reports, the company reports on the remuneration policy required by law regulations, including remuneration of each management board member. Currently the Company does not present the report on the remuneration policy fully in line with the recommendation. At the same time, the Company does not exclude the possibility of preparing such a report in the future.

3. Key features of the Company's internal control and risk management systems used in the preparation of separate and consolidated financial statements

The Company's financial statements and periodic reports are prepared by the Chief Financial Officer Accountant in accordance with the applicable laws and regulations and the accounting policies adopted by the Company; the Management Board, which is responsible for reliability and accuracy of the prepared information, reviews the financial statements and periodic reports on an ongoing basis.
The financial statements are prepared only by people with access to relevant financial data. The financial data serving as the basis of the financial statements and periodic reports comes from the accounting and financial system which records accounting events in accordance with the Company's accounting policy (approved by the Management Board), which is based on the International Accounting Standards and the International Financial Reporting Standards. The Company monitors on an ongoing basis changes to laws and regulations on reporting requirements for listed companies, and prepares for their adoption appropriately in advance.
The financial reporting process is also monitored by the Supervisory Board Audit Committee, which reviews the interim and annual reports of the Company and controls the correctness of the particular stages of financial reporting. The Audit Committee is also responsible for verification of and expressing opinion on the financial reporting systems applied by the Company.
Financial statements approved by the Management Board are verified by an independent auditor - an audit firm selected by the Company's Supervisory Board upon recommendation of the Supervisory Board Audit Committee from among reputed audit firms.
Based on the circumstance identified during a financial statements audit, the Company's Financial Division attempts, in cooperation with an audit firm, to prepare recommendations related to improving the Company's internal control system.
The Financial Division and Division Heads prepare periodic management information reports including an analysis of the key financial data and operating ratios of the business segments, and provide them to the Management Board.
Due to the creation of an internal audit unit in the first quarter of 2018, the organization and accuracy of financial statements will be periodically audited also in the course of an external audit.

4. Shareholders directly or indirectly holding significant blocks of shares; numbers of shares and percentages of company's share capital held by such shareholders, and the numbers of votes and percentages of the total vote that such shares represent at the general shareholders meeting [as at the publication date]

(in thousand PLN)

No.	Shareholder	Number of shares	Number of votes at GM	% in overall number of voting shares
1.	OK Automotive Investments B.V.*	3,726, 721	3,726, 721	26.30%
2.	AVIVA Otwarty Fundusz Emerytalny Aviva BZ WBK	1,896, 778	1,896, 778	13.39%
3.	Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny	1,416, 799	1,416, 799	9.99%
4.	Andrzej Oliszewski	1,277, 370	1,277, 370	9.02%
5.	Immersion Capital LLP**	748,776	748,776	5.29%
5.	Other shareholders	5,101, 656	5,101, 656	36.01%
	Total number of shares / votes	**14,168,100**	**14,168, 100**	**100%**

*OK Automotive Investments B.V. is a company which is dependent from Krzysztof Oleksowicz, Member of the Management Board of the Company
**) Immersion Capital LLP – acts for and on behalf of Immersion Capital Master Fund Limited managed by it.

5. Holders of any securities conferring special control powers, and description of those powers

There are no securities conferring special control powers over the Company.

6. Restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities

On 17 March 2017, the Extraordinary Shareholders Meeting of the Company passed a resolution changing the Company's Articles of Association and adopting a consolidated text thereof. Pursuant to the resolution, §18a was incorporated into the Articles, limiting the right of the shareholders holding over 33% of the total number of votes in the Company in such a way as to prevent each of them from casting more than 33% of votes at the General Meeting. The above limitation shall not apply to determining the purchasers of significant blocks of shares as provided for in the Public Offer of Financial Instruments Act of 29 July 2005.
Furthermore, pursuant to the provisions of the Articles, this limitation shall expire if one of the shareholders purchases (on their own behalf and account) and registers at the General Meeting over 50% of the total number of votes in the Company, provided that all shares above 33% of the total number of shares in the Company and all shares above this threshold are purchased by such shareholder in response to a call to subscribe for all shares of the Company announced in conformity with the Act.
The underlying purpose of the said limitation is to strengthen the minority shareholders in the event of a change in the controlling entity relative to their status guaranteed by the applicable law by providing them with the possibility of disinvestment and an equal participation in the bonus, which the entity intending to take control over the Company shall pay for the controlling interest.
A change to the Company's Articles of Association registered by the registry court - the District Court for the capital city of Warsaw in Warsaw, XII Commercial Department of the National Court Register, on 17 May 2017.

7. Restrictions on limitations of transfer of the property rights to securities of the company

There are no restrictions in the Articles of Association which apply to the shares of the Company.

8. Rules governing the appointment and removal of the company's management personnel and such personnel's powers, including in particular the power to make decisions to issue or repurchase shares

The term of office of the Management Board of the Company is four years. Its members are appointed for a common term and dismissed by a resolution of the Supervisory Board. The Board is composed of three to nine members of the Board. The number of the Members of the Management Board is

established by the Supervisory Board. A Member of the Board can be dismissed or suspended also by the General Meeting.
Members of the Management Board may be appointed from among the shareholders or from outside this group. The President and Vice-President of the Management Board are appointed by a resolution of the Supervisory Board. The Supervisory Board adopts a resolution to appoint the President and, possibly, Vice-President of the Management Board. The term of the Member of the Board extinguishes on the day of General Shareholders Meeting which approves financial statement for the last full accounting year when the Member was in term. The mandate of the Member of the Board also becomes void in case of death, resignation or dismissing the Member from his function in the Board.
The mandate of a member of the Management Board expires also as a result of their death, resignation or dismissal. A resolution of the Supervisory Board on suspending, for important reasons, particular members of the Management Board, as well as a resolution on appointing a member of the Board to a temporary term is adopted by a majority of 4/5 of the votes, in the presence of at least 4/5 of the composition of the Supervisory Board.
The members of the Management Board represent the Company in court and outside it. The scope of operation of the Board includes all matters of the Company not reserved for the General Meeting or the Supervisory Board. The Company is represented by two members of the Management Board or one Member of the Management Board together with a proxy.
The Members of the Management Board comply with the existing law, the Articles of Association and the Regulations of the Management Board of Inter Cars S.A, which stipulate the scope of laws and responsibilities of the Board and its operations. These Regulations are adopted by the Management Board and approved by the Supervisory Board. The Regulations of the Management Board are available on the Company's website.
Except for the provisions of the Articles of Association and the Rules of Board of Directors, the matters not exceeding the range of standard activities of the Company do not require a resolution of the Board. Should the matter described above be objected by a member of the Management Board before it is realized, it shall need a resolution of the Management Board. The resolutions are adapted by an absolute majority of votes with presence of at least a half of the Members of the Board. The Board Meetings take place not less often than once every two weeks. Members of the Management Board can take part in passing resolutions of the Board by voting in writing, through the other member of the Board. Voting in writing cannot apply to matters being entered into the agenda during the Board Meeting. Resolution of the Board can be passed also in a written form or using means of direct communication at a distance.
Decisions regarding issuing or repurchasing of shares are governed by the provisions of the Commercial Companies Code, however, the General Shareholders Meeting is exclusively authorized to make decisions regarding any changes to the Company's share capital or redemption of shares.

9. Rules governing amendments to the Company's articles or memorandum of incorporation.

The validity of an amendment to the Company's Articles of Association requires a resolution of general shareholders' meeting, taken by 3/4 majority of vote - article 415 of Code of Commercial Companies (resolution on important change of scope of activities requires a resolution taken by majority of 2/3 votes cast – art. 416 C.C.C.); and entry in the National Court Register (art. 430 C.C.C.).

10. Manner of operation of the general shareholders meeting, its basic powers and description of the shareholders' rights along with the procedure for their exercise, in particular the rules stipulated in the rules of procedure for the general shareholders meeting

The General Shareholders Meeting operates in accordance with the provisions of the Company's Articles of Association, Commercial Companies Code and the Rules of Procedure for the General Shareholders Meeting published on the Company's website.
The General Shareholders Meeting decides on matters stipulated in the Commercial Companies Code, except when under the Company's Articles of Association such matters fall within the scope of powers of the Company's other governing bodies. The following matters require a General Shareholders Meeting's resolution: changing the share capital of the Company and creating, increasing and using other capitals, funds and reserves, issue of convertible bonds or bonds conferring pre-emptive rights, amendments to the Articles of Association, retirement of shares, disposal of the Company's enterprise or its organised part, liquidation, division, merger, dissolution, or transformation of the Company, distribution of profit, coverage of loss, and creation of capital reserves, appointment and removal from office of members of the Supervisory Board, approval of the Rules of Procedure for the Supervisory Board, and establishing remuneration policies for members of the Supervisory Board delegated to perform on-going individual supervision, granting permission to sell or

encumber a company or an organized part of a company under the business name Inter Cars Marketing Services Ltd. and granting permission to sell or encumber industrial rights and trademarks under the business name Inter Cars Marketing Services Ltd. and expressing approval for any change in the Company's initial capital, under the business name Inter Cars Marketing Services Ltd. and expressing approval to sell or encumber shares under the business name of Inter Cars Marketing Services Ltd." Acquisition or disposal of real property, perpetual usufruct right to or interest in real property does not require the approval of the General Shareholders Meeting.
The General Meeting is convened by the Board of Directors or, in cases and following the procedure determined in the Code of Commercial Companies, other entities. The General Meeting may be held in the seat of the Company or in Cząstków Mazowiecki (commune of Czosnów, Mazovian Province) or in Kajetany (commune of Nadarzyn, Mazovian Province). Unless the Code of Commercial Companies or any provisions of the Articles of Association do not provide for stricter conditions, the resolutions of the General Meeting are adopted with an absolute majority of votes.

11. Composition and activities of the issuer's management, supervisory and administrative bodies or of their committees; changes in their composition in the last financial year

11.1. Composition and Rules governing the operation of the Management Board

As at 01 January 2017, the following people composed the Board of Managers:
- Robert Kierzek – President of the Management Board
- Krzysztof Soszyński – Vice-President of the Management Board
- Krzysztof Oleksowicz – Member of the Management Board
- Wojciech Twaróg - Member of the Management Board
- Maciej Oleksowicz – Member of the Management Board
- Piotr Zamora – Member of the Management Board
- Tomáš Kaštil – Member of the Management Board

On 10 April 2017 Mr Robert Kierzek handed in his resignation from the position of the President of the Management Board of the Company, remaining the Member of the Management Board of current term of office. The resignation became effective on 1 May 2017. On 20 April 2017, the Supervisory Board appointed Mr. Maciej Oleksowicz the new President of the Management Board and Mr Robert Kierzek the Vice-President of the Management Board.

In the period between 1 May 2017 and 31 December 2017, the composition of the Management Board was as follows:
- Maciej Oleksowicz CEO
- Robert Kierzek Vice-President of the Management Board
- Krzysztof Soszyński Vice-President of the Management Board
- Krzysztof Oleksowicz – Member of the Management Board
- Wojciech Twaróg - Member of the Management Board
- Piotr Zamora – Member of the Management Board
- Tomáš Kaštil – Member of the Management Board

The composition of the Management Board remained unchanged as at the date of publication of this statement.

All other information on the rules of operations of the Board of Directors were included in point 8 above.

11.2. Composition and rules governing the operation of the Supervisory Board

In the period between 1 May 2017 and 31 December 2017, the composition of the Supervisory Board was as follows:
- Andrzej Oliszewski – Chairman of the Supervisory Board,
- Piotr Płoszajski – Member of the Supervisory Board,
- Jacek Klimczak – Member of the Supervisory Board
- Michał Marczak – Member of the Supervisory Board

- Tomasz Rusak – Member of the Supervisory Board

As at the date of publication of these financial statements the personal composition of the Supervisory Board remained unchanged.

The Supervisory Board is composed of five to thirteen members, appointed by the General Shareholders Meeting, which also appoints the Chairman of the Supervisory Board. From among other members, the Supervisory Board appoints the Vice-Chairman. The Supervisory Board appoints Deputy Chairman from among other members of the Supervisory Board. The number of members of the Supervisory Board is fixed by the General Meeting. In the event of block voting, the Supervisory Board is composed of thirteen members. Term of office of the Supervisory Board is 5 years and is common for all members. Members of the Supervisory Board can be appointed for subsequent terms.
The Supervisory Board adopts resolutions by an absolute majority of votes, in the presence of at least half of the members. A resolution may only be considered valid if all members of the Supervisory Board have been invited to the meeting. Meetings of the Supervisory Board are held at least once a quarter. Meetings are convened with a prior written notice containing information on the place, time and proposed agenda of the meeting and served to all members at least 7 days prior to the date of the meeting. Meetings of the Supervisory Board are convened by its Chairman on their own initiative or at the request of a member of the Supervisory Board. The Supervisory Board may adopt resolutions without holding a meeting, by casting votes in writing or using means of remote communication, provided that all members of the Supervisory Board have received the draft of the resolution which is to be voted upon and have agreed to such manner of voting. Resolutions of the Supervisory Board regarding the suspension from duties of a member of the Management Board for a good reason, as well as resolutions regarding the delegation of a Supervisory Board member to temporarily perform the duties of a Management Board member, are adopted by a majority of 4/5 of the votes cast in the presence of no less than 4/5 of the Supervisory Board members.
The Supervisory Board exercises supervision over the Company's activities in the manner stipulated in the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure for the Supervisory Board adopted by the General Shareholders Meeting. The competences of the Supervisory Board include, in particular, auditing the Company's financial statements, the Management Board's report and the Management Board's proposals related to profit distribution and coverage of loss, as well as submitting annual reports on the results of these audits, selecting an audit firm to audit the Company's financial statements, appointing and dismissing the members of the Management Board, selecting the President and, possibly, Vice-President of the Management Board from among the Board's members, entering into agreements with the members of the Management Board, determining the remuneration rules for the members of the Management Board, expressing consents for the sale or purchase of real estate, long-term lease rights or shares in real estate.

On 25 September 2017, the Supervisory Board appointed the Company Supervisory Board Audit Committee.

The following Members of the Supervisory Board of Inter Cars S.A. were appointed to the Audit Committee:

- Piotr Płoszajski – Chairman of the Committee;
- Jacek Klimczak – Member of the Committee;
- Andrzej Oliszewski – Member of the Committee.

The composition of the Audit Committee remained unchanged as at the date of publication of this statement.

The Audit Committee is composed of at least three members, including the Chairman of the Audit Committee, appointed by the Supervisory Board from among its members.

The Audit Committee holds meeting at least four times a year.

Its opinions and recommendations are adopted by resolutions. The resolutions of the Audit Committee are adopted by an absolute majority of votes cast with at least fifty percent of members of the Audit Committee present. The members of the Audit Committee may also adopt resolutions in writing or using remote communication means.

The Audit Committee functions under the auspices of the Supervisory Board and is appointed for the purposes of supervising the financial reporting process, the effectiveness of the internal control systems, the internal audit and the risk management systems, as well as for the purposes of monitoring the financial review activities.

In the performance of its tasks, the Audit Committee may demand that the Company provide it with explanations and information, as well as submit the required documentation.

12. Description of the diversity applied to the administrative, managing and supervisory bodies of the issuer with respect to e.g. age, sex or education, purposes of this diversity policy, the methods of pursuing it and its effects in a given reporting period; if the issuer does not have such policy in place, they must provide a statement explaining their decision.

The Company does not pursue a defined diversity policy with respect to the administrative, managing and supervisory bodies thereof. The decision of not having the policy in place is dictated by the many years of experience in managing human resources, which shows that it is through natural selection of staff based on market mechanisms rather than through the application of special preferences or limitations that the Company has been able to maintain a highly motivated and effective team of employees. The staff selection criteria applied by the Company, including the criteria related to selecting the managerial staff, have yielded satisfactory results also in terms of pursuing the diversity criterion.

The Company applies and follows the applicable law in this respect, including internal regulations, such as 'The Code of Conduct and Good Practices.' The Code provides for the equal treatment principle irrespective of sex, age, race, views, health, trade union membership and position, appearance or sexual orientation. The Company also applies clear and fair criteria of job evaluation and promotion.