DIRECTORS' REPORT ON THE OPERATIONS OF

TOYA S.A.

IN THE FIRST HALF OF 2023

Contents

1. PROFILE OF THE PARENT COMPANY

1.1 General Information – Toya S.A.

TOYA S.A. (the "Company" or the "Parent Company") is a joint stock company established under the Commercial Companies Code. The Parent Company has its registered office in Wrocław at ul. Sołtysowicka 13/15.

TOYA S.A. was formed on the basis of a Notarial Deed drawn up on 17 November 1999 by the Notary Public Jolanta Ołpińska in the Notarial Office in Wrocław (Rep. A No 5945/99). Pursuant to a decision of 3 December 1999, the Company was entered in the Commercial Register maintained by the District Court for Wrocław-Fabryczna, 6th Commercial Division, with the reference number RHB 9053. By virtue of a decision of 4 December 2001, the District Court for Wrocław-Fabryczna, 6th Commercial Division of the National Court Register, decided to enter the Parent Company in the Register of Entrepreneurs, with the reference number KRS 0000066712. The entry in the Register took place on 5 December 2001.

The duration of the Company is unlimited.

As at the date of submission of the annual report, the Parent Company has 1 branch located outside the registered office, in Nadarzyn.

The core business activities of TOYA S.A. include import and distribution of industrial goods, including primarily hand and power tools for professional and DIY use. The Group distributes goods manufactured and supplied mainly by companies located in China. For many years, the Group has been implementing its strategy of expanding onto international markets. It focuses primarily on Central, Southern and Eastern Europe (Ukraine, Romania, Hungary, Baltics Countries, Belarus, Czech Republic).

1.2 Management Board and Supervisory Board

In the first half of 2023 and as at the date of approval of this report, the Management Board was composed of the following members:

- Grzegorz Pinkosz	President of the Management Board;
- Maciej Lubnauer	Vice-President of the Management Board;
- Robert Borys	Vice-President of the Management Board.

In the first half of 2023 and as of the date of approval of this report for publication, the Supervisory Board was composed of the following members:

- Piotr Mondalski	President of the Management Board;
- Jan Szmidt	Vice-President of the Management Board;
- Dariusz Górka	Member of the Supervisory Board;
- Michał Kobus	Member of the Supervisory Board;
- Grzegorz Maciąg	Member of the Supervisory Board;
- Wojciech Bartłomiej Papierak	Member of the Supervisory Board;
- Beata Szmidt	Member of the Supervisory Board.

1.3 Share capital

As at 30 June 2023, the share capital of the Parent Company amounted to PLN 7,504,222.60 and comprises 75,042,226 shares with a par value of PLN 0.1 each.

In the first half of 2023, there were no changes in share capital.

1.4 Shareholders structure and indication of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the general meeting

According to information possessed by TOYA S.A., the Parent Company's ownership structure as of 30 June 2023 was as follows:

Name	Status	Number of shares	Type of shares	Par value per share (PLN)	Par value of the shares (PLN)	Structure (%)
Jan Szmidt	natural person	28,284,304	ordinary bearer	0.1	2,828,430.40	37.69%
Romuald Szałagan	natural person	9,652,290	ordinary bearer	0.1	965,229.00	12.86%
Generali OFE	legal person	5,001,147	ordinary bearer	0.1	500,114.70	6.66%
Other – share below 5%	not applicable	32,104,485	ordinary bearer	0.1	3,210,448.50	42.79%
TOTAL		**75,042,226**			**7,504,222.60**	**100.00%**

1.5 Shares held by managers and supervisors

1.5.1 Shares held by members of the Management Board

The number of shares as at the date of submitting the report and changes in the shares held by the Management Board Members from the date of submitting the last report (quarterly report for the 1st quarter of 2023 published on 11 May 2023), in accordance with the information possessed by the Company is presented in the table below:

	According to information possessed as of 11 May 2023	Increases / Decreases	According to information possessed as of 24 August 2023
Grzegorz Pinkosz	146,812	-	146,812
Maciej Lubnauer	61,831	-	61,831
Robert Borys	8,528		8,528
TOTAL	**217,171**	**-**	**217,171**

1.5.2 Shares held by members of the Supervisory Board

The number of shares as at the date of submitting the consolidated semi-annual report and changes in the shares held by the Supervisory Board Members from the date of submitting the last report (quarterly report for the 1st quarter of 2023 published on 11 May 2023), in accordance with the information possessed by the Company is presented in the table below:

	According to information possessed as of 11 May 2023	Increases / Decreases	According to information possessed as of 24 August 2023
Jan Szmidt	28,284,304	-	28,284,304
Beata Szmidt	3,239,253	-	3,239,253
Grzegorz Maciąg	5,275	-	5,275
TOTAL	**31,528,832**	**-**	**31,528,832**

1.5.3 Share option plans

There are no share option plans in the Company and in the Group.

2. ORGANIZATIONAL STRUCTURE OF THE CAPITAL GROUP AND ITS CHANGES

As at the date of approval of the consolidated semi-annual report for publication, the Group consists of the following entities:

Entity name	Registered office	Business profile	Type of equity link	% of shares and votes held	Link establishment date	Method of Consolidation as at the end of the reporting period
TOYA S.A.	Wrocław, Poland	Distribution of tools and power tools	Parent Company	Not applicable	Not applicable	Full consolidation method
Toya Romania S.A.	Bucharest, Romania	Distribution of tools and power tools	Subsidiary	99.99	November 2003	Full consolidation method
Yato Tools (Shanghai) Co., Ltd.	Shanghai, China	Distribution of tools and power tools	Subsidiary	100.00	January 2013	Full consolidation method
Yato Tools (Jiaxing) Co., Ltd.	Baibu, China	Distribution of tools and power tools	Subsidiary	100.00	December 2019	Full consolidation method

In the first half of 2023, there were no changes in the organizational structure of the TOYA S.A. Capital Group.

3. POSITION OF THE MANAGEMENT BOARD ON THE POSSIBILITY OF FULFILLING PREVIOUSLY PUBLISHED FORECASTS

The Management Board of Toya S.A. did not publish forecasts of the Company's or the Group's results for 2023.

4. DESCRIPTION OF THE MOST IMPORTANT EVENTS DURING THE FIRST HALF OF 2023, SIGNIFICANT ACHIEVEMENTS OR FAILURES

4.1 Changes in the composition of the TOYA S.A. Audit Committee

On 2 January 2023, the Supervisory Board made the following changes in the composition of the Audit Committee:

1. The Supervisory Board dismissed the following members from the TOYA S.A. Audit Committee:

- Mr Piotr Mondalski
- Mr Jan Szmidt
- Mr Grzegorz Maciąg

2. The Supervisory Board of TOYA S.A. appointed the following members of the TOYA S.A. Audit Committee:

- Mr Wojciech Papierak
- Mr Michał Kobus

At the same time, the Supervisory Board entrusted Mr. Wojciech Papierak with the function of the Chairman of the Audit Committee.

After the above changes, the Audit Committee of TOYA S.A. consists of the following people:

1. Mr Wojciech Papierak – Chairman of the Audit Committee
2. Mr Michał Kobus – Member of the Audit Committee
3. Mr Dariusz Górka – Member of the Audit Committee

4.2 Annex to a significant contract

On 29 March 2023, TOYA S.A. concluded the Annex no. 5 to the Current Account Credit Agreement No. 09/030/19/Z/VV with mBank S.A. based in Warsaw. Pursuant to the annex, the final repayment date of the loan was set at 29 March 2024. The remaining terms and conditions of the Agreement do not differ from those commonly used for this type of agreements.

4.3 Impact of the war between Ukraine and Russia on the Group's operations

The Group has been present on the markets of Eastern Europe for a long time, in particular in Ukraine, Belarus and Russia. Despite its long presence on these markets, the Group did not have any assets there and transactions with local customers were of a short-term nature. The Russian-Ukrainian conflict that started with hostilities on 24 February 2022 disrupted trade relations in these markets, resulting in a temporary freezing of relations with some clients or suspension of cooperation. It should be emphasized that the Parent Entity complied with all sanctions imposed by the Polish government, European Union structures, governments of other countries and international institutions on entities, persons and goods indicated in the relevant legal acts. TOYA S.A. has implemented appropriate procedures in this regard. However, the implemented procedures and the need to verify and comply with all economic sanctions resulted in a slowdown in trade with customers from these markets, which is, however, beyond the Group's control. This may impact trade with customers present in these markets in future quarters.

4.4 Resolutions adopted by the Extraordinary General Meeting of Shareholders on 29 June 2023

On 29 June 2023, the General Meeting of Shareholders of Toya S.A. approved the financial statements of TOYA S.A. Group for 2022, and also decided to transfer the profit of TOYA S.A. for 2022 in the amount of PLN 48,068 thousand to reserve capital.

5. DESCRIPTION OF FACTORS AND EVENTS, INCLUDING THOSE OF UNUSUAL NATURE, WHICH HAVE A SIGNIFICANT IMPACT ON THE CONDENSED STAND-ALONE AND CONSOLIDATED FINANCIAL STATEMENTS

5.1 Comment on the financial results achieved by Toya S.A.

Revenue and profitability of TOYA S.A. (PLN '000)

	6 month period ended June 30	
	2023	**2022**
Sales revenue	291,533	290,954
Gross sales profit	81,311	82,200
Operating profit	34,100	37,140
Profit before tax	31,407	33,803
Net profit	25,078	27,212

In the first half of 2023, sales revenues amounted to PLN 291,533 thousand and were higher by 0.2% than the revenues achieved in the first half of 2022. The increase in sales was recorded mainly in the export channel (by PLN 2,472 thousand) and the retail channel - mainly e-commerce (by PLN 2,421 thousand), with a simultaneous decrease in sales in the network channel (by PLN 5,267 thousand). Slightly lower gross profit on sales by PLN 889 thousand (1.1%) in the analyzed period of 2023 compared to the corresponding period of 2022 was mainly caused by the higher cost of purchasing goods, which did not fully translate into sales prices.

Operating profit was lower by PLN 3,040 thousand as compared to the first half of 2022, which was mainly due to higher costs of organizing promotional campaigns and higher costs of employee benefits.

The Company reduced its exposure to short-term bank loans compared to the first half of 2022, as a result of which financial costs decreased. Interest costs on loans amounted to PLN 2,261 thousand in the first half of 2023 as compared to PLN 3,018 thousand in the same period of the previous year.

Net profit in the first half of 2023 decreased by PLN 2,134 thousand, i.e. by 7.8% as compared to the period of the first six months of 2022, to the level of PLN 25,078 thousand.

Profitability ratios

	6 month period ended June 30	
	2023	**2022**
Sales profit margin	27.9%	28.3%
Operating profit margin	11.7%	12.8%
Pre-tax profit margin	10.8%	11.6%
Net profit margin	8.6%	9.4%

Key:

Sales profit margin – the ratio of gross profit to sales revenue
Operating profit margin – the ratio of operating profit to sales revenue
Pre-tax profit margin – the ratio of pre-tax profit to sales revenue
Net profit margin — the ratio of net profit to sales revenue

For TOYA S.A., the sales profit margin is the key indicator of the Company's market competitiveness and has a decisive impact on its financial position. Analysis of this ratio for the first half of 2023 shows that the sales profit margin in this period slightly decreased to the level of 27.9%, mainly as a result of higher purchase costs of goods, which did not fully translate into selling prices. It should be noted that this profitability remains high.

Cash flows of the Company (PLN '000)

	6 month period ended June 30	
	2023	**2022**
Cash flows from operating activities	56,300	(40,694)
Cash flows from investment activities	(1,019)	(6,618)
Cash flows from financial activities	(54,440)	47,817
Change in net cash	**841**	**505**
Cash and cash equivalents at the beginning of the period	1,386	1,229
Cash and cash equivalents at the end of the period	2,244	1,746

In the first 6 months of 2023, the Company disclosed negative cash flows from operating activities in the amount of PLN 56,300 thousand, which was caused by increased purchases of commercial goods aimed at matching the level of inventory to the level of demand.

In the first half of 2023, the Company did not conduct any significant investment activities. The funds spent during this period were mainly related to the development of office and warehouse infrastructure and IT projects.

In the analyzed six-month period of 2023, the Company generated negative cash flows from financing activities mainly as a result of reducing its debt under loans to PLN 33,561 thousand, i.e. by PLN 48,606 thousand as compared to the period ended 31 December 2022.

TOYA S.A. liquidity in the analysed period was at the appropriate level. The net working capital of the Company was positive, covering the demand resulting from the amount of realized revenues from sales. The Company did not finance tangible fixed assets with short-term liabilities and was able to pay its short-term liabilities on time.

Liquidity ratios

	30.06.2023	30.06.2022
Current ratio	4.46	1.95
Quick ratio	0.64	0.28

Key:
Current ratio – the ratio of current assets to short-term liabilities
Quick ratio – the ratio of current assets less inventories to short-term liabilities

The current liquidity ratio decreased compared to the corresponding period of 2022, mainly as a result of high stocks at warehouses. The quick ratio decreased mainly due to a lower balance of cash in bank accounts. Both indicators are still at a good level.

5.2 Structure of TOYA S.A. assets and liabilities

The structure of assets of TOYA S.A. (PLN '000)

	30.06.2023	31.12.2022
Non-current assets, including:	**103,808**	**107,113**
Property, plant and equipment	17,851	17,715
Intangible assets	3,748	3,776
Right-of-use assets	9,465	12,865
Investments in subsidiaries	70,803	70,803
Current assets, including:	**287,154**	**310,289**
Inventory	246,219	247,870
Trade and other receivables	36,773	60,186
Total assets	**390,962**	**417,402**

% asset structure of TOYA S.A.

	30.06.2023	31.12.2022
Non-current assets / Assets	27%	26%
Property, plant and equipment / Assets	5%	4%
Intangible assets / Assets	1%	1%
Right-of-use assets / Assets	2%	3%
Investments in subsidiaries / Assets	18%	17%
Current assets / Assets	73%	74%
Inventory / Assets	63%	59%
Trade and other receivables / Assets	9%	14%

The structure of equity and liabilities of TOYA S.A. (PLN '000)

	30.06.2023	**31.12.2022**
Equity	316,619	291,541
Long-term liabilities	9,891	23,235
Short-term liabilities, including:	64,452	102,626
Short term trade and other liabilities	24,921	22,664
Total equity and liabilities	390,962	417,402

% equity and liability structure of TOYA S.A.

	30.06.2023	**31.12.2022**
Equity / Equity and liabilities	81%	70%
Short-term liabilities / Equity and liabilities	16%	25%
Long-term liabilities / Equity and liabilities	3%	6%
Short-term liabilities / Liabilities	87%	82%
Long-term liabilities / Liabilities	13%	18%

Ratios of return on equity, assets and current assets

	6 months period ended June 30	
	2023	**2022**
Return on assets (ROA)	6%	5%
Return on equity (ROE)	8%	10%
Return on current assets	9%	7%

Key:

Return on assets (ROA) – the ratio of net profit to total assets as at the end of the period
Equity ratio (ROE) – the ratio of net profit to equity as at the end of the period
Return on current assets – the ratio of net profit to current assets as at the end of the period

As at 30 June 2023, the Company's property, plant and equipment constitute 5% of total assets. Property, plant and equipment comprise primarily land, buildings and structures necessary for the Company's commercial activity. A significant item of non-current assets are also the right-of-use assets, which account for 2% of total assets (3% as at 31 December 2022).

The structure of TOYA S.A.'s current assets, which as at 30 June 2023 account for 73% of total assets, is dominated by inventories and trade and other receivables, which is typical for type of business activity conducted by TOYA S.A. Both these items together account for over 99% of current assets as at 30 June 2023 and 31 December 2022.

Equity structure and debt ratios

	30.06.2023	**31.12.2022**
Total debt ratio	19%	30%
Equity debt ratio	23%	43%
Long-term debt ratio	3%	6%
Short-term debt ratio	16%	25%
The ratio of coverage of non-current assets with equity and long-term liabilities	315%	294%

Key:

Total debt ratio – the ratio of long- and short-term liabilities to total equity and liabilities
Debt to equity ratio – the ratio of long- and short-term liabilities to equity
Long-term debt ratio – the ratio of long-term liabilities to total equity and liabilities
Short-term debt ratio – the ratio of short-term liabilities to total equity and liabilities
The ratio of coverage of non-current assets with equity and long-term liabilities – the ratio of total equity and long-term liabilities to non-current assets

As at 30 June 2023, retained earnings totalling PLN 273,182 thousand were the main item in the equity of TOYA S.A. The Company's share capital as at 30 June 2023 amounted to PLN 7,504 thousand.

The main sources of financing operating activities, in particular current assets, include equity and short-term financing – primarily from bank loans and trade credit. As at 30 June 2023, TOYA S.A. financed 81% of its operations from equity As at that date, the Company had short-term liabilities due to loans in the amount of PLN 27,846 thousand and long-term in the amount of PLN 5,715 thousand.

TOYA S.A. management effectiveness ratios

	For the 6-month period ended 30 June 2023	**For the 6-month period ended 30 June 2022**
Inventories turnover period (days)	152	206
Receivables inflow period (days)	23	34
Liabilities repayment period (days)	15	23

Key:

Inventories turnover period (days) – the ratio of inventories as at the end of the period, multiplied by 180 days, to revenue from sales
Receivables inflow period (days) – the ratio of short-term trade and other receivables as at the end of the period, multiplied by 180 days, to revenue from sales
Liabilities repayment period (days) – the ratio of trade and other liabilities as at the end of the period, multiplied by 180 days, to revenue from sales

In the first half of 2023, the liabilities repayment period was shorter than the receivables collection period. This means that the Company granted a longer trade credit to recipients than it received from suppliers itself. Such a situation means an increase in the demand for working capital, which is typical for the industry in which the Company conducts its commercial activities. Moreover, the period of inventory turnover was extended, which resulted from significant commodity purchases aimed at improving the availability of goods for end customers.

5.3 Commentary on the financial results achieved by TOYA Group

Revenue and profitability of TOYA S.A. GROUP (PLN '000).

	6 month period ended June 30	
	2023	**2022**
Sales revenue	367,994	367,832
Gross sales profit	120,901	121,915
Operating profit	44,777	51,993
Profit before tax	41,904	48,376
Net profit	33,453	38,369

In the first half of 2023, sales revenues amounted to PLN 367,994 thousand and were higher by PLN 162 thousand as compared to the revenues achieved in the first half of 2022. Lower gross profit on sales by PLN 1,014 thousand (i.e. 0.8%) in the analyzed period of 2023 as compared to the corresponding period of 2022, was mainly caused by the higher cost of purchasing goods, which did not fully translate into sales prices.

The increase in sales was recorded primarily in the retail channel - mainly e-commerce (by PLN 2,336 thousand, mainly in Poland) and the traditional channel (by PLN 1,552 thousand, mainly in Poland and Romania), with a simultaneous decline in sales in the network channel (by PLN 4,467 thousand). Sales increase in the export channel by PLN 741 thousand was mainly caused by an increase in sales to Ukraine, Hungary and Belarus in the Parent Company with a simultaneous decrease in exports by subsidiaries in China to countries located in Central and South America and Asia. An important factor influencing the level of sales was the high, constant availability of goods for sale in Poland.

Operating profit was lower by PLN 7,216 thousand as compared to the first half of 2022, which was mainly due to higher costs of organizing promotional campaigns and higher costs of employee benefits in the Parent Company. Net profit in the first half of 2023 decreased by PLN 4,916 thousand, i.e. by 14% compared to the period of the first six months of 2022, to PLN 33,453 thousand.

The Group reduced its exposure to short-term bank loans as compared to the first half of 2022, as a result of which financial costs decreased. Interest costs on loans amounted to PLN 2,261 thousand in the first half of 2023 as compared to PLN 3,018 thousand in the same period of the previous year.

Profitability ratios.

	6 month period ended June 30	
	2023	**2022**
Sales profit margin	32.9%	33.1%
Operating profit margin	12.2%	14.1%
Pre-tax profit margin	11.4%	13.2%
Net profit margin	9.1%	10.4%

Key:

Sales profit margin – the ratio of gross profit to sales revenue
Operating profit margin – the ratio of operating profit to sales revenue
Pre-tax profit margin — the ratio of pre-tax profit to sales revenue
Net profit margin — the ratio of net profit to sales revenue

Sales profitability is for the Group. a basic indicator of market competitiveness and has a decisive impact on its financial situation. The analysis of this indicator for the first half of 2023 shows that sales profitability decreased slightly compared to the first half of 2022, mainly as a result of higher costs of purchasing goods, which did not fully translate into sales prices. It should be noted that this profitability continues still at a high level.

Cash flows of the Group (PLN '000)

	6 month period ended June 30	
	2023	**2022**
Cash flows from operating activities	52,848	(33,319)
Cash flows from investment activities	(6,764)	(9,017)
Cash flows from financial activities	(55,908)	45,992
Net change in cash before foreign exchange differences	**(9,824)**	**3,656**
Cash and cash equivalents at the beginning of the period	38,836	38,855
Cash and cash equivalents at the end of the period	24,807	43,392

In the first 6 months of 2023, the Group reported positive cash flows from operating activities, which amounted to PLN 52,848 thousand, which was caused by reduced purchases of commercial goods aimed at matching the level of inventories to the level of demand.

Investment expenditure in the first half of 2023 amounted to PLN 9,824 thousand and concerned mainly expenditure on equipping a new warehouse in China, as well as expenditure on the development of office and warehouse infrastructure and IT projects in the Parent Company.

In the analyzed six-month period of 2023, the Group generated negative cash flows from financing activities mainly as a result of reducing its debt under loans to PLN 33,561 thousand, i.e. by PLN 48,606 thousand as compared to the period ended 31 December 2022.

Liquidity of the TOYA S.A. Capital Group in the analyzed period was at an appropriate level. The Group's net working capital was positive, covering the demand resulting from the volume of sales revenues. The Group did not finance property, plant and equipment with short-term liabilities and was able to settle short-term liabilities on time.

Liquidity ratios

	30.06.2023	30.06.2022
Current ratio	3.49	1.88
Quick ratio	0.97	0.54

Key:

Current ratio – the ratio of current assets to short-term liabilities
Quick ratio – the ratio of current assets less inventories to short-term liabilities

The current liquidity ratio increased as compared to the corresponding period of 2022, mainly as a result of high stocks at warehouses. The quick ratio decreased mainly as a result of a lower balance of cash in bank accounts. Both indicators are still at a good level.

5.4 Structure of the TOYA S.A. Group's assets and liabilities

The structure of assets of TOYA S.A. Capital Group (PLN '000)

	30.06.2023	31.12.2022
Non-current assets, including:	**97,925**	**104,590**
Property, plant and equipment	62,260	64,672
Intangible assets	4,415	4,610
Right-of-use assets	25,684	29,725
Current assets, including:	**437,953**	**486,208**
Inventory	316,624	341,166
Trade and other receivables	94,604	105,359
Total assets	**535,878**	**590,798**

% asset structure of TOYA S.A. Capital Group

	30.06.2023	31.12.2022
Non-current assets / Assets	18%	18%
Property, plant and equipment / Assets	12%	11%
Intangible assets / Assets	1%	1%
Right-of-use assets / Assets	5%	5%
Current assets / Assets	82%	82%
Inventory / Assets	59%	58%
Trade and other receivables / Assets	18%	18%

The structure of equity and liabilities of TOYA S.A. Capital Group (PLN '000)

	30.06.2023	31.12.2022
Equity attributable to shareholders of the Parent Company	388,552	370,694
Long-term liabilities	21,812	35,530
Short-term liabilities, including:	125,514	184,574
Short-term trade and other liabilities	79,020	95,619
Total equity and liabilities	**535,878**	**590,798**

% equity and liability structure of TOYA S.A. Capital Group

	30.06.2023	31.12.2022
Equity attributable to shareholders of the Parent Company / Equity and liabilities	73%	63%
Short-term liabilities / Equity and liabilities	23%	31%
Long-term liabilities / Equity and liabilities	4%	6%
Short-term liabilities / Liabilities	85%	84%
Long-term liabilities / Liabilities	15%	16%

Ratios of return on equity, assets and current assets

	6 month period ended June 30	
	2023	**2022**
Return on assets (ROA)	6%	6%
Return on equity attributable to shareholders of the Parent Company ROE	9%	11%
Return on current assets	8%	6%

Key:

Return on assets (ROA) – the ratio of net profit to total assets as at the end of the period
Equity ratio (ROE) – the ratio of net profit to equity as at the end of the period
Return on current assets – the ratio of net profit to current assets as at the end of the period

The largest item of fixed assets is property, plant and equipment, which constitutes 12% of total assets (11% as of 31 December 2022). Tangible fixed assets consist mainly of land, buildings and structures necessary for the Group's commercial activities, primarily the new warehouse at Yato Jiaixng Co. Ltd., which commenced operations in 2022.

Right-of-use assets, which constitute 5% of fixed assets, are also an important item. This item mainly includes assets resulting from lease agreements for warehouses in Poland, Romania and China, perpetual usufruct of land, as well as lease agreements for computer equipment and cars in the Parent Company.

The structure of current assets of the TOYA S.A. Capital Group, which as at 30 June 2023 constitutes 82% of total assets, is dominated by inventories and trade receivables and other receivables, which is typical of the business run by TOYA S.A. and its business Capital Group. Both of these items together constitute 94% of total current assets as of 30 June 2023 (92% as of 31 December 2022).

Equity structure and debt ratios

	30.06.2023	**31.12.2022**
Total debt ratio	27%	37%
Equity debt ratio	38%	60%
Long-term debt ratio	4%	6%
Short-term debt ratio	23%	31%
The ratio of coverage of non-current assets with equity and long-term liabilities	419%	388%

Key:

Total debt ratio – the ratio of long- and short-term liabilities to total equity and liabilities
Equity debt ratio – the ratio of long- and short-term liabilities to equity
Long-term debt ratio – the ratio of long-term liabilities to total equity and liabilities
Short-term debt ratio – the ratio of short-term liabilities to total equity and liabilities
The ratio of coverage of non-current assets with equity and long-term liabilities – the ratio of total equity and long-term liabilities to non-current assets

As at 30 June 2023, the main item of the Group's equity attributable to the shareholders of the Parent Company were retained earnings in the amount of PLN 350,167 thousand. Share capital of TOYA S.A. as of 30 June 2023 amounted to PLN 7,504 thousand.

The main sources of financing operating activities, and in particular current assets, are equity capital, as well as short-term financing - bank loans and trade credit. As at 30 June 2023, the Group financed its operations with equity capital in 72.5%. As at that date, the Group had short-term liabilities due to loans in the amount of PLN 27,846 thousand and long-term in the amount of PLN 5,715 thousand.

Group management effectiveness ratios

	For the 6-month period ended 30 June 2023	**For the 6-month period ended 30 June 2022**
Inventories turnover period (days)	155	214
Receivables inflow period (days)	46	54
Liabilities repayment period (days)	39	73

Key:

Inventories turnover period (days) – the ratio of inventories as at the end of the period, multiplied by 180 days, to revenue from sales
Receivables inflow period (days) – the ratio of short-term trade and other receivables as at the end of the period, multiplied by 180 days, to revenue from sales
Liabilities repayment period (days) – the ratio of trade and other liabilities as at the end of the period, multiplied by 180 days, to revenue from sales

In the first half of 2023, the repayment period of liabilities was shorter than the receivables collection period. This means that the Group granted longer trade credit to customers than it received from suppliers. This situation means an increase in the need for working capital, which is typical for the industry in which the Group conducts its commercial activities. Moreover, the inventory turnover period was shortened, which resulted from the optimization of the level of merchandise purchases aimed at matching the level of orders from end customers.

5.5 Assessment of the Company's and Group's ability to meet their obligations

At present, there are no events that, in the opinion of the Management Board, may adversely affect the ability of the Parent and the Group to meet their obligations.

6. DESCRIPTION OF BASIC RISKS, THREATS AND FACTORS WHICH WILL AFFECT THE RESULTS ACHIEVED IN THE NEXT HALF YEAR

6.1 Basic risks and threats

Macroeconomic situation

The Group is present on markets in various parts of the world, although most of its clients run businesses in Poland. Due to the connection of the Polish economy with the global system and due to the extensive activities conducted outside the local market, the global economic situation affects the turnover of the Group's clients. Destabilization of the political situation in one of the local regions may temporarily reduce the Group's expansion on foreign markets and force it to look for new customers.

The Group's Parent Company noted the deterioration of the macroeconomic environment in which the Group operates. This is related to increased inflation in Poland, the Eurozone and other developed countries of the world, which results from the attempt to balance the world economy after the COVID-19 pandemic as well as from the armed conflict between Russia and Ukraine.

European markets constitute one of the largest areas of activity of the Toya Group, therefore potential internal problems of the European Union may have a negative impact on the economy. This may result in a reduction in the purchasing power of European societies and the creation of barriers to trade, which may be additionally strengthened by the devaluation of local currencies in relation to the most important world currencies. However, the impact of these factors is difficult to estimate because the future economic and regulatory situation may differ from the expectations of the Management Board of the Parent Company. The Group's management closely monitors developments and adjusts strategic plans to minimize these threats.

The economic situation on the Asian market related to the current increase in GDP of those countries also affects the financial situation of the entire Group due to the fact that the Group purchases goods mainly from manufacturers in that region. This is related to the prices of purchased goods, trade conditions, order fulfilment deadlines, as well as the logistics system between Asia and Europe.

The Parent Company of the Group is a Polish entity and the vast majority of its business activities are conducted in Poland. Therefore, the government's economic policy, the Polish tax system, the unemployment rate and decisions made by the National Bank of Poland and the Monetary Policy Council are additional factors influencing the development of the entire capital group.

Competition

The Polish market for the distribution of industrial products, where the Group mainly operates, is quite dispersed despite the presence of several market leaders. Entities previously competing with the Group are constantly taking steps to intensify their development by adopting an aggressive pricing policy addressed to current, target or potential recipients. Such actions will have a negative impact on the Group's financial situation, as further market expansion may be slowed down, difficult or even impossible. The Group will monitor the market and its environment, conducting various activities aimed at maintaining and increasing its competitive advantage.

Changes in currency markets

The Group's strong connection with foreign suppliers and settlements with them mainly in USD make the Group's financial results sensitive to changes in currency exchange rates. The Group carefully monitors the currency situation on global markets and trends there and periodically updates the prices of its goods. Therefore, margins may fluctuate from time to time.

It should be emphasized, however, that since a large part of the Group's revenues is generated in the export channel, prices specified in foreign currencies to some extent protect the Group against sudden fluctuations in exchange rates. This security is incomplete and insufficient, which means that currency fluctuations may have a negative impact on financial results.

Interest rate movements

The group uses external capital financing. An increase in interest rates on the financial market may have a negative impact on the costs of financing and reduce the Group's profitability, as the Parent Entity concludes loan agreements with variable interest rates in PLN.

To minimize this risk, the Parent Entity simulates various scenarios in order to select optimal sources of financing, taking into account refinancing, renewal of existing positions, alternative financing as well as medium-term trends on the debt market.

Interpretation and application of legal regulations

The Group's operations are hampered by changing legal regulations and their various interpretations. Changes in legal provisions, in particular tax, customs, labour and social security law and introducing new burdens may have negative effects on the business. Particularly burdensome are frequent changes in the interpretation of tax regulations and the lack of uniformity in the practice of tax administration and court decisions in the field of application of tax regulations. This may involve with the risk of claims from third parties and proceedings of various state authorities. Moreover, due to the complex nature and non-uniform tax practice, interpretations are often the subject of disputes with tax authorities. Although the Parent Entity makes every effort to ensure the correctness of transactions in terms of their compliance with legal provisions, in particular tax law, the risk of claims from third parties, possible disputes with tax authorities or proceedings of other state authorities cannot be ruled out. Such claims, disputes or proceedings, as well as the adoption by the tax administration or court decisions of interpretations of tax regulations, tax classification of events and transactions in which the Parent Entity participated, other than the Parent Entity, may have a negative impact on the Group's financial results.

It should be emphasized, however, that the Group takes actions to limit the effects of changing law. The Parent Entity uses external services of reputable law and tax firms that facilitate ongoing operations.

Supply chain

The group purchases goods from suppliers located in various parts of the world, mainly in Asia. These goods are transported by sea. Such a supply chain means that any unfavourable events regarding, among others, means of production and transport, labour, infrastructure, natural phenomena and events of a common nature may disrupt the supply chain. The Group limits this risk by cooperating with many contractors who are also based in various regions of many countries. However, in the event of particularly geographically extensive events, the above strategy may be insufficient.

6.2 Factors influencing the result in the next six months

The Capital Group attaches great importance to the quality of customer service. This is a key factor in maintaining a competitive advantage on the market, and one of its most important elements is ensuring full availability of the product offer to every customer in any region of the world. In support of these goals, the Group improves logistics processes and maintains good relationships with suppliers, taking into account the need to minimize delivery costs. The Group intends to strengthen its market position and look for new, attractive expansion opportunities.

The most important activities for the implementation of this program are:

- Development of the capital group
  The subsidiaries, despite the unfavourable economic situation on global markets, achieved good financial results in the first half of 2023, showing that, having good organizational and financial support, they are ready for further intensive development.

  The subsidiary Yato Tools (Jiaxing), based in Baibu Town, a town located in the Zhejiang Province of the People's Republic of China, has launched a high-bay warehouse, which is to be the central warehouse of the Group. This warehouse is equipped with modern warehouse automation, enabling the optimization of logistics processes without requiring the involvement of significant human resources. The very good location of the warehouse, which is located close to two sea ports, which are one of the largest transhipment centres in the world, and relatively close to the largest suppliers, will support the optimization of logistics processes, which will improve the availability of the product offer for each client of the Group.

- Development of the export channel
  The war conflict between Russia, Belarus and Ukraine has an impact on sales in the export channel. Sales to customers based in these countries accounted for over 10% of the Group's total sales. The group is closely monitoring the developments in these countries. The Group's detailed position on the war conflict can be found in section 4.3.

  Regardless of the situation referred to above, the Group will strengthen its position on the other markets where it is present. This applies to markets where the Group has traditionally been present for many years, e.g. the Hungarian market, but also in southern European countries, where the Group has been less visible so far.

  The Group will also strengthen itself outside Europe, on African and Asian markets and in South and Central America. In these markets, the Chinese subsidiary Yato Tools (Jiaxing) will develop sales and acquire new customers. The foreign expansion of this company will be supported by the development of logistics processes in the capital group, based on a newly built warehouse in China, equipped with modern infrastructure.

- Effective product management
  The Group's good financial results and its constant development would not be possible without the constant development of the product offer so that it is very well suited to customer expectations. This process is carried out, among others, by Product Managers from the Product Development Department who have very extensive knowledge about the product, techniques of shaping its image, who know customer habits and emerging trends both locally and on global markets. The team is supported by modern IT technology and systems and devices supporting product management.

  This process will continue in the coming quarters.

- Development of logistics processes
  The Parent Company conducts analytical work aimed at optimizing logistics processes on the local market. On the one hand, it involves equipping currently used warehouses with modern warehouse automation supporting warehousing processes, and on the other hand, it involves finding solutions that provide a competitive advantage in the long term.

- Capital investments
  The Company systematically supports the development of its subsidiaries. In December 2022, the Company paid the last capital tranche for Yato Tools (Jiaxing), completing the capital payment process for this entity in the amount of USD 12.5 million.

  The Company continues to monitor the market in search of an attractive acquisition target from outside the Toya S.A. Capital Group, which would constitute added value for the Company.

7. DISPUTES

As at 30 June 2023, TOYA S.A. is not a party to significant proceedings pending before a court, a body competent for arbitration proceedings or a public administration body.

8. RELATED PARTY TRANSACTIONS

Transactions with related entities are concluded in the normal course of the Group's business and are made on market terms. These transactions are presented in note 25 of the consolidated interim condensed financial statements and the separate interim condensed financial statements.

9. GUARANTEES GRANTED AND RECEIVED

No	Counterparty	Type of guarantee	Subject matter and value	Date of expiry
1	Bank Handlowy w Warszawie S.A.	Guarantee of payment for the lease of warehouses in Nadarzyn	Bank guarantee in the amount of EUR 482,640.52	28 February 2024
2	Sopockie Towarzystwo Ubezpieczeń ERGO Hestia S.A.	Contract on granting a customs debt guarantee	The security for repayment of custom debts, taxes and other fees associated with goods released into free circulation based on customs declaration, in the amount of PLN 270,000	31 December 2023
3	BRD Groupe Societe Generale	Guarantee of payment for warehouse rental in Bucharest	Bank guarantee in the amount of EUR 246,355	29 July 2027

On 12 June 2019, TOYA S.A. granted a guarantee of payment of liabilities arising from warehouse and office rental agreement by Toya Romania S.A. to the landlord up to the amount of EUR 115 thousand. The lease agreement was concluded on 8 February 2019 and covers a period of 10 years, with the option of changing this period. The warranty expires 3 months after the date of termination of the lease.

Apart from the above guarantee, neither the Parent Company nor its subsidiaries have granted any significant credit or loan guarantees or granted joint guarantees to one entity or subsidiary.

10. CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2023, the Group had no significant contingent liabilities or contingent assets.

11. INFORMATION ON SIGNIFICANT EVENTS AFTER 30 JUNE 2023

No significant events occurred after 30 June 2023.

Management Board of Toya S.A.

Date	Name and surname	Position	Signature
24 August 2023	Grzegorz Pinkosz	President of the Management Board	
24 August 2023	Maciej Lubnauer	Vice-President of the Management Board	
24 August 2023	Robert Borys	Vice-President of the Management Board	