

TOYA S.A.

Letter from the President of the Management Board

Independent Registered Auditor's Opinion

Financial statements

Directors' report

Report on the audit of the financial statements

Selected financial data

Statement of the Management Board

**For the financial year from 1 January to 31 December
2013**

Contents:

Letter from the Management Board

prepared by the Management Board of TOYA S.A.

Independent Registered Auditor's Opinion

prepared by PricewaterhouseCoopers Sp. z o.o.

Financial statements

prepared by the Management Board of TOYA S.A.

Directors' report on the Company's operations

prepared by the Management Board of TOYA S.A.

Report on the audit of the financial statements

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Selected financial data

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Statement of the Management Board

prepared by the Management Board of TOYA S.A.

Independent Registered Auditor's Opinion to the General Shareholders' Meeting and the Supervisory Board of TOYA Spółka Akcyjna

We have audited the accompanying financial statements of TOYA Spółka Akcyjna (hereinafter referred to as the "Company") with its registered office in Wrocław at ul. Sołtysowicka 13/15, comprising statement of financial position prepared as at 31 December 2013 with total assets and liabilities of PLN 145,260 thousand, statement of profit or loss and other comprehensive income for the period from 1 January to 31 December 2013 showing comprehensive income of PLN 23,164 thousand, statement of changes in equity, statement of cash flows for the financial year then ended and accounting policy, as well as notes and explanations.

The Management Board of the Company is responsible for preparing the financial statements and a Directors' Report in accordance with the applicable regulations and for the correctness of the books of account. The Management Board and Members of the Supervisory Board of the Company are required to ensure that the financial statements and the Directors' Report meet the requirements set out in the Accounting Act of 29 September 1994 ("Accounting Act" – Journal of Laws of 2013, item 330).

Our responsibility was to perform an audit of the accompanying financial statements and to express an opinion on whether the financial statements comply in all material respects with the applicable accounting policies and whether they present fairly, in all material respects, the Company's financial position and results, and whether the accounting records constituting the basis for their preparation are properly maintained.

We conducted our audit in accordance with the following:

- a. the provisions of Chapter 7 of the Accounting Act;
- b. national standards of auditing issued by the National Chamber of Registered Auditors.

Our audit was planned and performed to obtain reasonable assurance that the financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the financial statements. The audit also included an assessment of the accounting policies applied by the Company and significant estimates made in the preparation of the financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provides a reasonable basis for our opinion.

**Independent Registered Auditor's Opinion
to the General Shareholders' Meeting and the Supervisory Board of
TOYA Spółka Akcyjna (continued)**

In our opinion, the accompanying financial statements, in all material respects:

- a. present truly and fairly the Company's financial position as at 31 December 2013 and its financial result for the financial year from 1 January to 31 December 2013 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union;
- b. comply in terms of form and content with the applicable laws and the Company's Articles of Association;
- c. have been prepared on the basis of properly kept books of account in accordance with accounting principles (policy) that must be applied.

The information included in the Directors' Report for the financial year from 1 January to 31 December 2013 takes into account the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a Member State ("Decree" – Journal of Laws of 2014 item 133) and is consistent with the information contained in the audited financial statements.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o.,
Registered Audit Company No 144:

Katarzyna Ignaszak

Key Registered Auditor
No 11715

Wrocław, 2 April 2014

TOYA S.A.

**Report on the audit of the financial statements
for the financial year from 1 January to 31 December 2013**



**Report on the audit of the financial statements
for the financial year from 1 January to 31 December 2013
to the General Shareholders' Meeting and the Supervisory Board of
TOYA Spółka Akcyjna**

This report contains 11 consecutively numbered pages and consists of:

	Page
I. General information about the Company.....	2
II. Information about the audit.....	5
III. The Company's results, financial position and the material items of the financial statements	6
IV. Statements of the independent registered auditor	9
V. Final information and comments.....	11

TOYA S.A.
Report on the audit of the financial statements
for the financial year from 1 January to 31 December 2013

I. General information about the Company

- a. The registered office of TOYA Spółka Akcyjna (“Company”) is in Wrocław, ul. Sołtysowicka 13/15.
- b. The Company is a successor of civil law partnership “TOYA IMPORT-EKSPORT” whose partners resolved to transfer the business in 1999 to a newly established joint stock company TOYA Spółka Akcyjna (the “Company”) in Wrocław. The articles of incorporation of the Company were drawn up in the form of a notarial deed in the Notary’s Office of the notary public Jolanta Ołpińska in Wrocław on 17 November 1999 and recorded in Rep. A No 5945/99. On 5 December 2001, the District Court for Wrocław-Fabryczna, 6th Commercial Division of the National Court Register, entered the Company in the Register of Entrepreneurs under number KRS 0000066712.
- c. For the purpose of making tax settlements, on 22 December 1999, the Company was assigned a Tax Identification Number (NIP) 895-16-86-107. For statistical purposes, the Company was assigned a Statistical Identification Number (REGON) 932093253 on 3 December 1999.
- d. As at 31 December 2013, the Company’s share capital amounted to PLN 7,540,237.50 and consisted of 75,402,375 shares, with the nominal value of PLN 0.10 each. Equity as at that date was positive and amounted to PLN 115,096 thousand.
- e. As at 31 December 2013 and the date of this Report, the Company’s shareholders were:

Shareholder’s name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
Jan Szmidt	28,170,647	2,817,064.70	ordinary	37.4
Tomasz Koprowski	14,644,030	1,464,403.00	ordinary	19.4
Romuald Szalagan	10,938,874	1,093,887.40	ordinary	14.5
Generali OFE (*)	6,038,147	603,814.70	ordinary	8.0
Piotr Wojciechowski	5,044,878	504,487.80	ordinary	6.7
Others – share below 5%	10,565,799	1,056,579.90	ordinary	14.0
	75,402,375	7,540,237.50		100.0

(*) status according to information held by TOYA S.A. as at the dividend record date for 2012, i.e. 11 July 2013.

In 2013, the share capital of the Company was increased by PLN 18,878.60 through the issue of 188,786 ordinary shares, as a result of the adoption of a resolution by the Management Board of the Company on 18 February 2013, concerning an increase of the share capital through the issue of series F shares within the authorised capital and a resolution concerning the exclusion of subscription right for new shares by existing shareholders.

TOYA S.A.
Report on the audit of the financial statements
for the financial year from 1 January to 31 December 2013

I. General information about the Company (continued)

As at 31 December 2012, the Company's shareholders were:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
Jan Szmidt	28,170,647	2,817,064.70	ordinary	37.5
Tomasz Koprowski	14,644,030	1,464,403.00	ordinary	19.5
Romuald Szalagan	10,938,874	1,093,887.40	ordinary	14.5
Piotr Wojciechowski	5,057,728	505,772.80	ordinary	6.7
Generali OFE	4,800,000	480,000.00	ordinary	6.4
Others – share below 5%	11,602,310	1,160,231.00	ordinary	15.4
	75,213,589	7,521,358.90		100.0

f. During the audited period, the core business activities of the Company included import and distribution of industrial goods, including primarily hand and power tools for professional and DIY use.

g. During the financial year, the Management Board of the Company comprised:

- Grzegorz Pinkosz President of the Management Board;
- Dariusz Hajek Vice-President of the Management Board.

h. The Company has the following related entities as at 31 December 2013:

TOYA Romania SA	- subsidiary
Yato Tools (Shanghai) Co., Ltd.	- subsidiary

Transactions with related parties are disclosed in note No 30 to the financial statements. On 2 January 2013, due to increasing the capital of the company and amending the articles of Association of Yato Tools (Shanghai) Co., Ltd., the Company increased its share in the capital of this entity from 51% to 75% and, consequently, took control over this entity. As a consequence, as of 2 January 2013, this entity became subject to consolidation on the basis of the full method. On 19 June 2013, the company Toya Golf & Country Club Sp. z o.o. was deleted from the court register as a result of liquidation.

i. The Company is an issuer of securities admitted for trading on the Warsaw Stock Exchange. Owing to the possibility offered to the Company by the Act to elect which accounting principles to use, since 2010 the Company has been preparing its financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

TOYA S.A.
Report on the audit of the financial statements
for the financial year from 1 January to 31 December 2013

A decision to prepare the Company's financial statements in accordance with those standards was made by the General Shareholders' Meeting by Resolution No 5 of 30 September 2010.

I. General information about the Company (continued)

- j. Being the parent company of the Capital Group, the Company has also prepared, as at 2 April 2014, consolidated financial statements in accordance with IFRS as adopted by the European Union. In order to understand the financial standing and the operating results of the Company as a parent company, the individual financial statements should be read in conjunction with the consolidated statements.

TOYA S.A.
Report on the audit of the financial statements
for the financial year from 1 January to 31 December 2013

II. Information about the audit

- a. The audit of the financial statements for the financial year from 1 January to 31 December 2013 was conducted by PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, Al. Armii Ludowej 14, a registered audit company No 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor Katarzyna Ignaszak (No 11715).
- b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Company by Resolution No 1/7/2013 of the Supervisory Board dated 8 July 2013 in accordance with section 17 paragraph 2 item (a) of the Company's Articles of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited company within the meaning of Article 56 paragraphs 2–4 of the Act on registered auditors and their council, entities entitled to provide an audit of the financial statements and public supervision of 7 May 2009 (Journal of Laws No 77, item 649, as amended).
- d. The audit was performed on the basis of an agreement dated 10 July 2013 and conducted in the following periods:
 - interim audit from 21 to 25 October 2013;
 - final audit from 24 February to 2 April 2014.

TOYA S.A.
Report on the audit of the financial statements
for the financial year from 1 January to 31 December 2013

III. The Company's results, financial position and the material items of the financial statements

STATEMENT OF FINANCIAL POSITION as at 31 December 2013
(chosen items)

	31.12.2013 PLN '000	31.12.2012 PLN '000	Change		Structure	
			PLN '000	(%)	31.12.2013 (%)	31.12.2012 (%)
ASSETS						
Non-current assets	29,166	24,993	4,173	16.7	20.1	16.6
Current assets	116,094	125,579	(9,485)	(7.6)	79.9	83.4
Total assets	145,260	150,572	(5,312)	(3.5)	100.0	100.0
EQUITY AND LIABILITIES						
Equity	115,157	102,406	12,751	12.5	79.3	68.0
Liabilities total	30,103	48,166	(18,063)	(37.5)	20.7	32.0
Total equity and liabilities	145,260	150,572	(5,312)	(3.5)	100.0	100.0

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the financial year from 1 January to 31 December 2013 (chosen items)

	2013 PLN '000	2012 PLN '000	Change		Share in revenues	
			PLN '000	(%)	2013 (%)	2012 (%)
Sales revenue	210,993	194,043	16,950	8.7	100.0	100.0
Cost of sales	(144,538)	(133,647)	(10,891)	8.1	(68.5)	(68.9)
Gross profit on sales	66,455	60,396	6,059	10.0	31.5	31.1
Net profit	23,169	16,965	6,204	36.6	11.0	8.7
Other comprehensive income	(5)	-	(5)	-	-	-
Net comprehensive income for the financial year	23,164	16,965	6,199	36.5	11.0	8.7

TOYA S.A.
Report on the audit of the financial statements
for the financial year from 1 January to 31 December 2013

III. The Company's results, financial position and the material items of the financial statements (continued)

Presentation of financial ratios summarising the Company's financial position and results

The following ratios characterise the Company's activities, results of operations during the year and its financial position as at the balance sheet date compared with previous years:

	2013	2012	2011
Activity ratios			
– receivables turnover	47 days	54 days	57 days
– inventory turnover	216 days	251 days	219 days
Profitability ratios			
– net profit margin	11%	9%	12%
– gross profit margin	14%	14%	16%
– return on capital employed	21%	18%	29%
Liability ratios			
– gearing	21%	32%	47%
– payables turnover	41 days	45 days	51 days
	31.12.2013	31.12.2012	31.12.2011
Liquidity ratios			
– current ratio	3.9	2.6	1.9
– quick ratio	1.2	0.7	0.6
Other ratios			
– effective income tax rate	20.4%	21.1%	19.7%

Ratios presented above were calculated on the basis of the financial statements.

The audit was not aimed at presenting the entity in the context of operating results and the achieved ratios. Detailed interpretation of the results requires further analysis of the entity's operation and its conditions.

TOYA S.A.
Report on the audit of the financial statements
for the financial year from 1 January to 31 December 2013

III. The Company's results, financial position and the material items of the financial statements (continued)

The financial statements do not recognise the impact of inflation. The overall consumer price index (December to December) in the audited year amounted to 0.7% (2012: 2.4%).

The following comments are based on information obtained during the audit of the financial statements.

- As at the end of the financial year, the Company's assets amounted to PLN 145,260 thousand. During the year, total assets decreased by PLN 5,312 thousand, i.e. by 3.5%. The decrease in total assets is mainly a result of a decrease in inventory by PLN 10,957 thousand with a simultaneous increase in investments in subsidiaries by PLN 3,893 thousand and trade and other receivables by PLN 3,576 thousand.
- Liability ratios and the structure of Company's liabilities changed. The debt ratio decreased from 32% as at the end of the previous year to 21% as at the end of the current year. The payables turnover ratio decreased from 45 days to 41 days. The changes within this scope were mainly due to lower purchases of goods during the last months of the year and overdraft on the current account.
- Total sales amounted to PLN 210,993 thousand, which constituted an increase by PLN 16,950 thousand, i.e. 8.7%, compared with the previous year. The Company's core activities in the current financial year consisted of sales industrial goods, in particular hand and power tools for DIY use. On these activities, the Company recorded an increase by PLN 16,679 thousand, i.e. 8.6% as compared with the previous period. This increase resulted mainly from the increase in the number of customers in each distribution channel.
- The cost of goods and materials sold was the largest item of operating expenses and amounted to PLN 144,538 thousand in the audited year, which constituted 79.6% of operating expenses. The value of goods and materials sold increased by PLN 10,891 thousand, i.e. 7.5% as compared with the previous year, primarily as a result of an increase the scale of business.
- Profitability measured by the gross profit remained unchanged and amounted to 14%.
- The Company's liquidity changed. In the audited year, the current and quick liquidity ratios were, respectively: 3.9 (2012: 2.6) and 1.2 (2012: 0.7).

IV. Statements of the independent registered auditor

- a. The Management Board of the Company provided all the information, explanations and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and informed us about material post-balance-sheet events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. The Company has up-to-date documentation of its accounting policies, approved by the Management Board. The Company's accounting policies were tailored to its needs and ensured the recognition of all events with a material effect on the assessment of its financial position and results, taking into consideration the prudence principle. Changes in accounting policies and their effects were correctly disclosed in the notes to the financial statements.
- d. The closing balance as at the end of the previous year was correctly brought forward as the opening balance of the current financial year in all material respects.
- e. The counts of assets and liabilities were carried out and reconciled in accordance with the Accounting Act, and the results were included in the accounting records for the audited year.
- f. The Company's financial statements for the financial year from 1 January to 31 December 2012 were approved by Resolution No 6 of the General Shareholders' Meeting of 25 June 2013 and filed with the National Court Register in Wrocław on 28 June 2012.
- g. Pursuant to the Resolution No 7 of the General Shareholders' Meeting of 25 June 2013, the profit for the previous year of PLN 16,965 thousand was appropriated and distributed as follows:
 - PLN 10,556 thousand for payment of dividend,
 - PLN 6,409 thousand to the supplementary capital.
- h. The financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.
- i. We have assessed the operation of the accounting system. Our assessment covered in particular:
 - the accuracy of the documentation relating to business transactions;
 - the fairness, accuracy and verifiability of the books of account, including computerised books of account;
 - the methods used for controlling access to data and the computerised data processing systems;
 - the safeguarding of accounting documentation, books of account and the financial statements.

This assessment, together with our verification of individual items of the financial statements, provides the basis for expressing a general, comprehensive opinion on these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

TOYA S.A.
Report on the audit of the financial statements
for the financial year from 1 January to 31 December 2013

IV. Statements of the independent registered auditor (continued)

- j. The notes to the financial statements present all significant information required by the International Financial Reporting Standards as adopted by the European Union.
- k. The information included in the Directors' Report for the financial year from 1 January to 31 December 2013 takes into account the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws of 2014, item 133) and is consistent with the information contained in the audited financial statements.

TOYA S.A.
Report on the audit of the financial statements
for the financial year from 1 January to 31 December 2013

V. Final information and comments

This report was prepared in connection with the audit of the financial statements of TOYA Spółka Akcyjna with its registered office in Wrocław at ul. Sołtysowicka 13/15. The financial statements were signed by the Company's Management Board and by a person entrusted with maintaining the books of account on 2 April 2014.

The report should be read in conjunction with an unqualified opinion of the independent auditor to the General Shareholders' Meeting and the Supervisory Board of TOYA Spółka Akcyjna of 2 April 2014 concerning the above described financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit. This conclusion does not sum up the assessments of the results of auditing particular items of the statements or issues, but assigns respective weight (significance) to individual findings, in consideration of the impact of the determined facts on the fairness and correctness of the financial statements.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o.,
Registered Audit Company No 144:

Katarzyna Ignaszak

Key Registered Auditor
No 11715

Wrocław, 2 April 2014