



DIRECTORS' REPORT  
ON THE OPERATIONS OF  
**TOYA S.A.**  
IN 2012

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## 1. DESCRIPTION OF THE COMPANY

### 1.1 Toya S.A. — general profile

TOYA S.A. (hereinafter referred to as the "Company") is a joint-stock company, established on the basis of the Commercial Companies Code. The Company has its seat 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 Notary Public Jolanta Ołpińska in the Notarial Office in Wrocław (Rep. A No. 5945/99). Pursuant to a court decision of 3 December 1999, the Company was entered in the Commercial Register maintained by the District Court for Wrocław-Fabryczna, 6th Commercial Division, under entry No 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, resolved to enter the Company in the Register of Entrepreneurs under entry No KRS 0000066712. The entry in the Register took place on 5 December 2001.

The Company is a successor of the civil law partnership "TOYA IMPORT-EKSPORT" with its seat in Wrocław, which began to operate in August 1990. The partners, given the scale of the business and its rapid development, resolved to establish a joint-stock company and transfer the business of the civil law partnership to the new company.

Duration of the Company is unlimited.

As at the date of submission of the annual report, TOYA S.A. has 1 branch located outside its seat, 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 Company distributes goods manufactured and supplied mainly by companies located in China. For many years, the Company has been implementing its strategy of expanding into international markets. It focuses primarily on Central, Southern and Eastern Europe (the Czech Republic, Moldova, Germany, Hungary, Romania, the Balkan States, Lithuania, Russia, Ukraine and Belarus).

Since 12 August 2011, the Company's shares have been listed on the Warsaw Stock Exchange.

### 1.2 The Management Board and the Supervisory Board

During 2012, the Management Board consisted of the following members:

- |                    |  |
|--------------------|--|
| - Grzegorz Pinkosz | President of the Management Board      |
| - Dariusz Hajek    | Vice-President of the Management Board |

During 2012, there were no changes in composition of the Management Board.

As at 31 December 2012 and the date of submission of the annual report, the Supervisory Board of the Company consisted of:

- |                       |   |
|-----------------------|---|
| - Piotr Mondalski     | - President of the Supervisory Board      |
| - Jan Szmidt          | - Vice-President of the Supervisory Board |
| - Tomasz Koproński    | - Member of the Supervisory Board         |
| - Romuald Szałagan    | - Member of the Supervisory Board         |
| - Piotr Wojciechowski | - Member of the Supervisory Board         |
| - Dariusz Górka       | - Member of the Supervisory Board         |
| - Grzegorz Maciąg     | - Member of the Supervisory Board         |

During 2012, there were no changes in composition of the Supervisory Board.

### **1.3 Share capital**

As at 31 December 2012, the share capital amounted to PLN 7,521,358.90 and comprised 75,213,589 shares with a par value of PLN 0.1 each.

In 2012, the share capital increased by PLN 37,678.90, including:

- by PLN 18,784.20 according to the adopted payroll regulations for Members of the Supervisory Board,
- by PLN 18,894.70 as a result of realisation of the 1st tranche of the Incentive Scheme for the management staff and key employees

On 27 March 2012, the Management Board of Toya S.A. adopted a resolution concerning an increase of the share capital by issuing E series shares within authorised capital and a resolution concerning the exclusion of subscription right for new E series shares by existing shareholders. The Management Board, acting pursuant to an authorisation granted under § 7 paragraphs 5-7 of the Company's Articles of Association, adopted a resolution concerning an increase of the share capital from PLN 7,484 thousand to PLN 7,502 thousand, by way of issue of 187,842 ordinary bearer series E shares with par value of PLN 0.10 and issue price of PLN 0.10 per share.

The share capital was increased in order to offer shares to Members of the Supervisory Board in a private subscription. Persons entitled to subscribe for series E shares were exclusively Members of the Supervisory Board (or entities indicated by them) listed in the Resolution No 10 of the Ordinary General Shareholders' Meeting dated 23 May 2011 concerning the remuneration of Members of the Supervisory Board.

On 18 May 2012, the increase of the capital by PLN 18,784.20 was registered with the National Court Register.

On 16 July 2012, the Company's Supervisory Board adopted a resolution concerning granting of options to eligible persons as a part of the first tranche of the Incentive Scheme described in note 9.2. In connection with all warrant holders acquiring shares they were entitled to, 188,947 ordinary bearer series D shares with par value of PLN 0.10 each and total value of PLN 18,894.70 were issued as a part of the first tranche. As a result, the Company's share capital was further specified in § 7 paragraph 1 of the Company's Articles of Association; upon registration of the increase of capital by the National Court Register on 8 November 2012, it amounts to PLN 7,521,358.90.

Information about changes in the share capital after the balance sheet date can be found in item 20.2.

### **1.4 Own shares**

In 2012, the Company did not acquire its own shares.

## 1.5 Shareholders

The Company's shareholders as at the date of submission of the annual report:

Name	Status	Series of shares	Number of shares	Type of shares	Par value per share (PLN)	Par value of the shares (PLN)	Stake (%)
Jan Szmidt	natural person	A	28,170,647	ordinary, bearer	0.1	2,817,064.70	37.5%
Tomasz Koprowski	natural person	A	14,644,030	ordinary, bearer	0.1	1,464,403.00	19.5%
Romuald Szałagan	natural person	A	10,938,874	ordinary, bearer	0.1	1,093,887.40	14.5%
Piotr Wojciechowski	natural person	B	5,057,728	ordinary, bearer	0.1	505,772.80	6.7%
Generali OFE	legal person	C	4,800,000	ordinary, bearer	0.1	480,000.00	6.4%
Others — share below 5%	not applicable	C, D, E	11,602,310	ordinary, bearer	0.1	1,160,231.00	15.4%
<b>TOTAL:</b>			<b>75,213,589</b>			<b>7,521,358.90</b>	<b>100%</b>

According to the information available to Toya S.A., shareholders holding directly or indirectly at least 5% of the total number of votes are:

	Number of shares	Share (%)	Number of votes	Share (%)
Jan Szmidt	28,170,647	37.5%	28,170,647	37.5%
Tomasz Koprowski	14,644,030	19.5%	14,644,030	19.5%
Romuald Szałagan	10,938,874	14.5%	10,938,874	14.5%
Piotr Wojciechowski	5,057,728	6.7%	5,057,728	6.7%
Generali OFE	4,800,000	6.4%	4,800,000	6.4%

Since the submission of the last quarterly report (i.e. 1 March 2013), Toya S.A. has not received notification from the shareholders about any changes in the ownership structure of significant blocks of shares.

## 1.6 Shares held by managers and supervisors

### 1.6.1 Shares held by members of the Management Board

The number of shares and votes in the share capital of the Company held by members of the Management Board as at the day of submission of this report is reflected in the following table:

	Number of shares	Par value of the shares (PLN)	Number of votes	Share (%)
Grzegorz Pinkosz	51,006 (*)	5,100	51,006	0.07%
Dariusz Hajek	44,903 (**)	4,490	44,903	0.06%
<b>TOTAL Members of the Management Board</b>	<b>95,909</b>	<b>9,591</b>	<b>95,909</b>	<b>0.13%</b>

(\*) within this amount, 44,903 shares were acquired as a part of the Incentive Scheme

(\*\*) acquired as a part of the Incentive Scheme

Members of the Management Board participate in the Incentive Scheme described in note 14.2 of the financial statements and in item 1.6.4 below. As a part of this Scheme, Members of the Management Board are awarded subscription warrants which entitle them to acquire the Company's shares in the case of fulfilling the conditions described in detail in the Scheme. As a part of realisation of the first tranche of this Scheme, Members of the Management Board acquired shares in the amount indicated above. Information concerning an increase of capital in connection with realisation of the first tranche of the scheme was included in item 1.3.

### 1.6.2 Shares held by members of the Supervisory Board

The number of shares and votes in the share capital of the Company held by members of the Supervisory Board as at the day of submission of this report is reflected in the following table.

	Number of shares	Par value of the shares (PLN)	Number of votes	Share (%)
Jan Szmidt	28,170,647	2,817,065	28,170,647	37.5%
Tomasz Koprowski	14,644,030	1,464,403	14,644,030	19.5%
Romuald Szalagan	10,938,874	1,093,887	10,938,874	14.5%
Piotr Wojciechowski	5,057,728	505,773	5,057,728	6.7%
Piotr Mondalski	88,560	8,856	88,560	0.1%
Grzegorz Maciąg	51,141	5,114	51,141	0.06%
<b>TOTAL Members of the Supervisory Board</b>	<b>58,950,980</b>	<b>5,895,098</b>	<b>58,950,980</b>	<b>78.36%</b>

### 1.6.3 Share option scheme for the Supervisory Board

By virtue of Resolution No 10, the Annual General Shareholders' Meeting of 23 May 2011 approved the rules of remuneration of the Supervisory Board members. In accordance with the approved scheme, three members of the Supervisory Board appointed by the Shareholders' Meeting on 14 February 2011 are entitled to remuneration in the form of shares in the Company for serving as members of the Supervisory Board during a three-year term (2011–2013). According to the articles of association of Toya S.A., the term of office of the Supervisory Board lasts three years from the date of appointment and expires no later than on the day of the General Meeting which approves the financial statements for the last full financial year of the term of office.

Pursuant to the approved scheme:

- a) Three members of the Supervisory Board (Piotr Mondalski, Dariusz Górka and Grzegorz Maciąg) will receive remuneration in the form of a right to acquire the Company shares in an aggregate number equal to 0.75% of all the Company shares registered on the date when the offer to acquire the shares is made, of which Piotr Mondalski will have the right to acquire 0.35% of such shares, whereas Dariusz Górka and Grzegorz Maciąg will each have the right to acquire 0.2% of the shares. The shares will be acquired in three tranches, with the first one having been already realised (see item 1.3). Subsequent tranches will be realised on the following dates: the second tranche between 1 December 2012 and 30 April 2013 and the third tranche between 1 December 2013 and 30 April 2014. If the offered shares are not acquired by the eligible persons as stated above, they will be offered to these Members of the Supervisory Board in subsequent tranches. The entitled members of the Supervisory Board may indicate another entity to acquire the shares.

- b) The remaining four members of the Supervisory Board (the existing shareholders) will not be entitled to any remuneration for serving as members of the Supervisory Board.
- c) The Management Board will offer the shares to the Supervisory Board members at their par value (i.e. PLN 0.1).
- d) Each of the Supervisory Board members may decide to collect their remuneration in cash, up to the maximum amount of PLN 7 thousand a month. If a Supervisory Board member decides to collect a portion of their remuneration in cash, the number of shares offered to them by the Management Board will be reduced accordingly.

Detailed information on the measurement and recognition in the financial statements is presented in note 14.1 to the financial statements.

Information about resolutions adopted after the balance sheet date, connected with allocation of the first tranche of shares to the entitled members of the Supervisory Board is provided in item 20.2.

#### **1.6.4 Information on the employee stock option scheme control system**

A management incentive scheme has been introduced at the Company to create incentive mechanisms to ensure long-term growth of the Company's value and a steady increase of net profit, as well as stabilisation of the management staff. Based on Resolution No 2 of the Extraordinary General Shareholders' Meeting of 8 February 2011, approving the rules of the incentive scheme for the Company's management staff and key employees, the Company launched an incentive scheme which will be implemented over four consecutive financial years: 2011–2014. On 8 November 2011, the Supervisory Board approved detailed terms of the Incentive Scheme together with its Rules, the list of Eligible Persons and the number of Options available for each person. The total number of shares issued as part of the incentive scheme will not exceed 2,243,430. The eligible persons will have the right to acquire no more than: 18% of shares for 2011, 25% of shares for 2012, 27% of shares for 2013 and 30% of shares for 2014.

At the end of a given year of the scheme its participants will be granted the right to acquire the shares, provided that the Company achieves specific parameters and objectives. The objectives and parameters which the Company is required to attain were set forth by the Supervisory Board in its resolution of 24 May 2011 and in the Rules for the Incentive Scheme, which specified:

- a) Growth of the Group's consolidated net profit for the financial years 2011–2014 by at least 22% per annum. Upon fulfillment of this condition, eligible persons would be granted the right to acquire 100% of shares under the incentive scheme for year 2011 and 75% of the shares under the incentive scheme for years 2012–2014.
- b) The average price of shares of Toya S.A. from the last 40 exchange sessions in the year remaining in such a relation to WIG at the end of the year in each two subsequent years of the Scheme that the percentage increase or decrease of the Company's average share price in relation to the percentage increase or decrease in WIG will be accordingly higher or lower by at least one percentage point in favour of the Company's share price. Upon fulfillment of this condition, eligible persons will be granted the right to acquire 25% of the shares under the incentive scheme for years 2012–2014.
- c) Failure to fulfill any of the above conditions in a given year does not rule out the possibility to acquire shares if the conditions are met at the end of the term of the scheme.

As at 31 December 2012 there are 22 eligible persons, who may be granted 1,299,287 share options in total, of which 188,947 options have been granted under the 1st tranche of the scheme (see item 1.3).



Detailed information on the measurement and recognition in the financial statements is presented in note 14.2 to the financial statements.

### 1.7 Agreements that may lead to changes in the structure of shares held by the current shareholders.

Apart from the share option scheme for the Supervisory Board and the Management Board members, the Company has no knowledge of any other agreements that may lead to changes in the structure of shares held by the current shareholders.

### 1.8 Total value of remuneration, rewards and benefits paid or due to managers and supervisors

#### Remuneration of the Management Board:

Full name	Position	2012	2012	2011	2011
		Gross remuneration (PLN '000)	Cost of share options recognised in the financial result (PLN '000)	Gross remuneration (PLN '000)	Cost of share options recognised in the financial result (PLN '000)
Grzegorz Pinkosz	President of the Management Board	200	261	417	32
Dariusz Hajek	Vice-President of the Management Board	200	261	417	32
Tomasz Suchowierski	Management Board	-	-	436	-

#### Remuneration of the Supervisory Board

Full name	Position	2012	2011	2011
		Cost of share options recognised in the financial result (PLN '000)	Cost of share options recognised in the financial result (PLN '000)	Dividend paid from profit for 2010 (PLN '000)
Piotr Mondalski	President of the Supervisory Board	286	486	-
Jan Szmidt	Vice-President of the Supervisory Board	-	-	4,446
Tomasz Koprowski	Member of the Supervisory Board	-	-	2,311
Romuald Szałagan	Member of the Supervisory Board	-	-	1,727
Piotr Wojciechowski	Member of the Supervisory Board	-	-	798
Dariusz Górka	Member of the Supervisory Board	163	277	-
Grzegorz Maciąg	Supervisory Board	163	277	-

The cost of awarded share options, reflected in the tables above, relates to the cost recognised in the financial result for 2012 and 2011, resulting from the valuation of the share option scheme for the members of the Supervisory Board (for details, see item 1.6.3) and the Management Board (for details, see item 1.6.4). In 2012, Members of the Management Board and Supervisory Board, in connection with the exercised options, received the following numbers of shares:

**TOYA S.A.**

Directors' report on the Company's operations for 12 months ended 31 December 2012

Full name	Position	2012		2012
		Number of acquired shares	Par value of acquired shares in PLN '000	Value of acquired shares according to valuation as at the grant date in PLN '000
Grzegorz Pinkosz	President of the Management Board	44,903	4	120
Dariusz Hajek	Vice-President of the Management Board	44,903	4	120
Piotr Mondalski	President of the Supervisory Board	87,560	9	310
Grzegorz Maciąg	Member of the Supervisory Board	51,141	5	181

No shares were awarded to Members of the Management Board and Supervisory Board in 2011.

As at 31.12.2012, no agreements have been concluded between the Company and its management staff providing for compensation in case of resignation or dismissal of a member of management staff from his/her position without a valid reason or if his/her dismissal results from a merger of the Company by way of acquisition.

**1.9 Changes in the methods of managing the company**

There were no significant changes in the methods of managing the Company in 2012.

## 2. THE MOST SIGNIFICANT EVENTS OF 2012

### Issue of series D shares

On 16 July 2012, the Company's Supervisory Board adopted a resolution concerning granting of options to eligible persons as a part of the first tranche of the Incentive Scheme described in item 1.6.4. In connection with all warrant holders acquiring shares they were entitled to, 188,947 ordinary bearer series D shares with par value of PLN 0.10 each and total value of PLN 18,894.70 were issued as a part of realisation of the first tranche.

On 8 November 2012, an increase of capital to PLN 7,521,358.90 was registered.

### Issue of series E shares

Pursuant to the Resolution No 10 of the Ordinary General Shareholders' Meeting dated 23 May 2011 concerning the remuneration of Members of the Supervisory Board, the Management Board of Toya S.A. took steps to allocate shares in Toya S.A. to eligible Members of the Supervisory Board. On 27 March 2012, the Management Board of Toya S.A. adopted a resolution concerning an increase of the share capital by issuing E series shares within authorised capital and a resolution concerning the exclusion of subscription right for new E series shares by existing shareholders. The Management Board, acting pursuant to an authorisation granted under § 7 paragraphs 5-7 of the Company's Articles of Association, adopted a resolution concerning an increase of the share capital from PLN 7,484 thousand to PLN 7,502 thousand, by way of issue of 187,842 ordinary bearer series E shares with par value of PLN 0.10 and issue price of PLN 0.10 per share. On 18 May 2012, the increase of capital was registered in the National Court Register.

### Signature of an annex to a significant agreement — Bank Handlowy S.A. in Warsaw

In November 2012, TOYA S.A. signed an annex to a significant agreement, i.e. Overdraft Facility Agreement No BDK/KR-RB/000054601/0641/10 of 22 December 2010 (the "Facility Agreement"), concluded by and between TOYA S.A. and the Bank in total amount of PLN 25,000,000 with the repayment date falling on 20 December 2013.

The signed annex constitutes an extension of the facility agreement for a subsequent year, upon the following changes:

- a) An increase in the available overdraft from PLN 15,000,000 to PLN 25,000,000 from 1 March 2013
- b) The Bank commits to reduce the credit margin from the date of signature of the annex to the agreement
- c) The Bank waives the Borrower's obligation not to pay dividend in the amount exceeding 50% of net profit

d) According to annex No 4 of 28 November 2012 to the Agreement on Establishment of a Registered Pledge No BDK/ZR-RG/000054601/0103/10 of 22 December 2010, the Borrower establishes an additional registered pledge for the benefit of the Bank on the subject matter of the pledge, i.e. trading commodities stored in the warehouse in Młochów, Al. Kasztanowa 160 and in the warehouse in Wrocław, ul. Sołtysowicka 39 (new location).

### Signature of an annex to a significant agreement — Raiffeisen S.A. in Warsaw

On 5 December 2012, the Company and Raiffeisen Bank Polska S.A. in Warsaw concluded an annex to the Debt Limit Facility Agreement No CRD/L/11381/02 in the amount of PLN 30,000,000, concluded on 2 October 2002, stipulating amendments to the terms of the agreement.

The credit margin was reduced in comparison with the previous terms of the agreement.

### Signature of a significant agreement — BNP Paribas Bank Polska S.A. in Warsaw

On 26 September 2012, the Company concluded a significant agreement, i.e. the multi-purpose credit line agreement No WAR/4060/12/102/CB with BNP Paribas Bank Polska S.A. with its registered office in Warsaw, in the amount of PLN 35,000,000 with repayment date falling on 24 September 2013. Conclusion of the agreement was connected with full repayment of the loan in Bank Zachodni WBK S.A. with its registered office in Wrocław, in the amount of PLN 35,000,000.

In relation to the repaid loan in Bank Zachodni WBK S.A., the Company will achieve significant savings in financial costs and obtain more flexible options for using the loan.

### 3. ORGANISATIONAL AND EQUITY LINKS WITH OTHER ENTITIES

#### 3.1 Equity links

As at the date of publication of the report on operations, the Company is related in terms of equity to the following entities:

Entity name	Registered office	Business profile	Type of equity link	% of shares and votes held	Link establishment date	Method of consolidation / recognition as at the end of the reporting period
Toya S.A.	Wrocław, Poland	Distribution of tools and power tools, developer operations, servicing of golf fields	Parent Company	Not applicable	Not applicable	Not applicable
Toya Romania S.A.	Bucharest, Romania	Distribution of tools and power tools	Subsidiary	99.99	November 2003	Full consolidation method
Toya Golf & Country Club Sp. z o.o. (*)	Wrocław, Poland	Leisure, sports, real estate trading — the company is dormant	Subsidiary	100.00	November 2008	Full consolidation method
Yato China Trading Co., Ltd (**)	Shanghai, China	Distribution of tools and power tools	Co-subsiary	75.00 (51.00 until 2 January 2013)	June 2008	Full consolidation method from 2 January 2013 (Equity method until 1 January 2013)

(\*) In November 2008, the Company established Toya Golf & Country Club Sp. z o.o., acquiring 1,000 shares with a par value of PLN 50 per share in the new entity. All the shares were paid up with a cash contribution. By virtue of a resolution adopted by the shareholders on 21 January 2011, Toya Golf & Country Club Sp. z o.o. was put in liquidation.

(\*\*) In June 2008, the Company and Saame Tools (Shanghai) Import & Export Co., Ltd China established a joint venture under the name Yato China Trading Co., Ltd. The Company acquired a 51% stake in the share capital, the remaining 49% was acquired by Saame Tools (Shanghai) Import & Export Co., Ltd China. All the shares were paid up with a cash contribution. Although the Company holds 51% of the shares and total vote in Yato China Trading Co., Ltd., as at 31 December 2012, it does not control the company — in accordance with the articles of association of the joint venture, material operational and financial decisions must be made unanimously by the partners. After the end of the financial year, on 2 January 2013, the Company gained control over the company as a result of an increase in capital, in which the Company has held in total 75% of shares since 2 January. Detailed information can be found in item 20.1.

#### 3.2 Organisational links

As at the date of publication of the report on operations, the Company had organisational links with the following entities:

- Toya Development Sp. z o.o. S.K.A. — entity jointly controlled by the shareholders jointly controlling TOYA S.A.,
- Toya Development Sp. z o.o. S.K. in liquidation — entity jointly controlled by the shareholders jointly controlling TOYA S.A.,
- Toya Development Sp. z o.o. — entity jointly controlled by the shareholders jointly controlling TOYA S.A.,
- Golf Telecom Sp. z o.o. SKA — entity jointly controlled by the shareholders jointly controlling TOYA S.A.

#### 4. MAJOR R&D ACHIEVEMENTS.

In 2012, TOYA S.A. continued the development of the Product Development Centre, whose main purpose is creating new, better solutions within the scope of industrial design and quality offered to the end customer.

Using the innovative Product Development System, purchased in August 2011, which enables creation of virtual models and prototypes, in 2012, the Company introduced the first new product models to its commercial offer.

Currently, the Company prepares further product designs which are going to be outsourced for production to subcontractors ensuring high quality, using the main functionality of the system, including:

- surface modelling — basic surfacing tools & Interactive Surface Design Extension (ISDX) and
- Top Down Design technique — the Advanced Assembly Extension (AAX).

The Company, using many years of experience in the industry and realising issue objectives associated with broadening the product offer, has expanded the team of Product Managers. The main objective of the actions taken is increasing the competitive advantage within the scope of the chain of value added for the customer, who is the basis for improving the Company's financial results. New employees have extensive knowledge of the products and of product image development techniques. They have long-term experience in the industry and high skills in innovative product management process.

The Company's main task for the new team is planning the strategy for products already present in the commercial offer as well as managing the NPD (New Product Development) process.

#### 5. FACTORS AND EVENTS AFFECTING FINANCIAL RESULTS

##### 5.1 Basic economic and financial values; factors and events affecting the Company's operations in 2012.

##### Revenues and profitability of TOYA S.A. — continuing operations and discontinued operations (PLN '000).

	For 12 months ended 31 December	
	2012	2011
<b>Continuing operations</b>		
Sales revenues	194,043	202,352
Gross profit from sales	60,396	66,085
Operating profit	24,885	33,840
Pre-tax profit	21,494	29,911
Net profit from continuing operations	16,965	24,012
<b>Discontinued operations</b>		
Net profit (loss) on discontinued operations	0	497

In 2012, sales revenues from continuing operations amounted to PLN 194,043 thousand and were lower than the revenues achieved in 2011 by PLN 8,309 thousand, i.e. by 4.1%. A decrease in gross profit on sales by PLN 5,689 thousand in 2012 as compared to 2011 resulted from lower sales, higher costs associated with the purchase of goods and decreased gross margin on goods sold by 1.6 percentage points.

The operating profit in 2012 in the amount of PLN 24,885 thousand was lower than that achieved in 2011 by 26.5%.

In order to raise the necessary working capital, the Company uses mainly short-term bank loans and borrowings. Given the significant impact of financial costs associated with these loans and borrowings on the

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financial result, the Company negotiates the terms of loan agreements on a yearly basis so as to maximally reduce the corresponding costs. A decrease in the level of inventories as well as trade and other receivables in 2012 as compared to the end of the previous year resulted in lower borrowing needs of the Company and triggered lower financial costs as compared to 2011.

In 2012, the net profit from continuing operations amounted to PLN 16,965 thousand.

**Profit margins for continuing operations of TOYA S.A.**

	For the period ended 31 December	
	2012	2011
Sales profit	31.1%	32.7%
Operating profit	12.8%	16.7%
Pre-tax profit	11,1%	14.8%
Net profit	8.7%	11,9%

**Key:**

Sales profit margin — the ratio of gross profit to sales revenues

Operating profit margin — the ratio of operating profit to sales revenues

Pre-tax profit margin — the ratio of pre-tax profit to sales revenues

Net profit margin — the ratio of net profit from continuing operations to sales revenues.

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 2012 shows that the sales profit in this period decreased by 1.6 percentage points as compared to 2011.

Profit margins at the level of the operating profit, pre-tax profit and net profit from continuing operations show a clear downward trend in 2012 as compared to the previous year. This is mainly connected with reduced sales.

**Cash flows of TOYA S.A. (PLN '000)**

	For 12 months ended 31 December	
	2012	2011
<b>Continuing operations</b>		
Cash flows from operating activity	25,359	5,759
Cash flows from investment activity	-2,012	-2,347
Cash flows from financial activity	-21,913	-2,858
<b>Net change in cash balance — continuing operations</b>	<b>1,434</b>	<b>554</b>
Opening balance of cash and cash equivalents	1,820	1,598
Closing balance of cash and cash equivalents	3,248	1,820

In 2012, TOYA S.A. recorded positive cash flows from operating activities, amounting to PLN 25.4 million. Due to a lower scale of orders and purchases made by customers, the Company adapted to the market conditions and reduced its inventories by PLN 2.3 million and trade and other receivables by PLN 7.6 million.

In 2012, the Company did not undertake any significant investment activities. Cash outflows during that period were mainly connected with purchase of exhibition shelves, modernisation of an office building and development of an internet store platform.

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In 2012, the Company generated negative cash flows from financial activity, primarily due to the reduction of its credit exposure by PLN 19 million as compared to 2011.

The liquidity of TOYA S.A. during the analysed period was at the right level. The Group's net working capital was positive, covering the demand arising from the volume of sales revenues. The ability to cover short-term liabilities was correct.

**Liquidity ratios for continuing operations**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Current liquidity ratio	2.63	1.86
Quick liquidity ratio	0.69	0.58

Key:

Current liquidity ratio — the ratio of current assets to short-term liabilities

Quick liquidity ratio — the ratio of current assets less inventories to short-term liabilities

The value of the current liquidity ratio increased to 2.63 as at 31 December 2012 in relation to 1.86 as at 31 December 2011. Therefore, a higher level of the current liquidity ratio suggests a lower growth rate of liabilities in relation to the growth rate of the current assets.

The value of the quick liquidity ratio increased to 0.69 as at 31 December 2012 in relation to 0.58 as at 31 December 2011. It is notable that this ratio has achieved a very good level.

**5.2 The structure of assets and liabilities****The Structure of assets of TOYA S.A. (PLN '000)**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Fixed assets	24,993	20,250
Intangible assets	891	621
Tangible fixed assets	15,862	15,574
Investments in jointly-controlled entities appraised using the equity method	3,243	3,243
Current assets	125,579	137,590
Inventories	92,054	94,354
Trade and other receivables	30,277	41,416

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**% asset structure of TOYA S.A.**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Fixed assets / Assets	17%	13%
Intangible assets / Assets	1%	0%
Tangible fixed assets / Assets	11%	10%
Investments in jointly-controlled entities appraised using the equity method / Assets	2%	2%
Current assets / Assets	83%	87%
Inventories / Assets	61%	60%
Trade and other receivables / Assets	20%	26%

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

	<b>31.12.2012</b>	<b>31.12.2011</b>
Equity	102,406	83,555
Trade and other payables	18,548	23,114
Short-term liabilities	48,027	74,024
Long-term liabilities	139	261

**% liability structure of TOYA S.A.**

	<b>31.12.2012</b>	<b>31.12.2011</b>
Equity / Liabilities	68%	53%
Short-term payables / Liabilities	32%	47%
Long-term payables / Liabilities	0%	0%
Short-term liabilities / Payables	100%	100%
Long-term liabilities / Payables	0%	0%

**Ratios of return on equity, assets and current assets of TOYA S.A.**

	<b>For 12 months ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
Return on assets ratio (ROA)	11%	15%
Return on equity ratio (ROE)	17%	29%
Return on current assets ratio	14%	17%

**Key:**

Return on assets ratio (ROA) — the ratio of net profit from continuing operations to total assets as at the end of the period  
 Return on equity ratio (ROE) — the ratio of net profit from continuing operations to equity as at the end of the period

Return on current assets ratio — the ratio of net profit from continuing operations to current assets as at the end of the period



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As at 31 December 2012, the tangible fixed assets of TOYA S.A. constitute 10% of total assets used in continuing operations. Tangible fixed assets comprise primarily land, buildings and structures necessary for the TOYA S.A.'s commercial activity. There were no material changes in their structure during the analysed period.

As at 31 December 2012, investments in subsidiaries and jointly controlled entities include shares in Toya Romania S.A. totalling PLN 1,885 thousand, in Yato China Trading totalling PLN 1,307 thousand and in Toya Golf & Country Sp z o.o. (in liquidation) totalling PLN 51 thousand.

The structure of current assets used in continuing operations of TOYA S.A., which as at 31 December 2012 constitute 83% of total assets, includes primarily inventories and trade and other receivables, which is characteristic of the business activity conducted by TOYA S.A. Both these items constituted, in total, 97% of current assets involved in continuing operations as at 31 December 2012 and 99% as at 31 December 2011.

TOYA S.A. conducts efficient warehouse management by adjusting stock levels to the customers' demand. In 2012, the Company decreased its inventories by 2.5% as compared to the end of 2011, adapting them to the sales volume.

**Equity structure and debt ratios of TOYA S.A.**

	31.12.2012	31.12.2011
Total debt ratio	32%	47%
Equity debt ratio	47%	89%
Long-term debt ratio	0%	0%
Short-term debt ratio	32%	47%
The ratio of coverage of fixed assets with equity and long-term liabilities	410%	414%

**Key:**

Total debt ratio — the ratio of long- and short-term liabilities to total 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 liabilities

Short-term debt ratio — the ratio of short-term liabilities to total liabilities

The ratio of coverage of fixed assets with equity and long-term liabilities — the ratio of total equity and long-term liabilities to fixed assets

As at 31 December 2012, the main item in the equity of TOYA S.A. was retained earnings totalling PLN 68,954 thousand. As at 31 December 2012, the Group's share capital increased, as compared to 31 December 2011, by PLN 37.7 thousand through issue of 187,842 series E and 188,947 series D shares and amounted to PLN 7,521 thousand.

The main sources of financing continuing operations, in particular for current assets, include the Company's equity and short-term financing — mainly bank loans. As at 31 December 2012, TOYA S.A. financed 68% of its operations from equity. As at this date, the Company's short-term liabilities due to loans, borrowings and other debt instruments amounted to PLN 27,738 thousand. The long-term debt ratio in continuing operations as at 31 December 2012 amounts to 0%.

**TOYA S.A. management effectiveness ratios**

	For 12 months ended 31 December	
	2012	2011
Inventories turnover period (days)	171	168
Receivables inflow period (days)	56	74
Liabilities repayment period (days)	34	41

**Key:**

Inventories turnover period (days) — the ratio of inventories as at the end of the period, multiplied by 360 days, to revenue from sales

Receivables inflow period (days) — the ratio of trade and other receivables as at the end of the period, multiplied by 360 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 360 days, to revenue from sales

In 2012, the liabilities repayment period was shorter than the receivables inflow period. This means that the credit terms the Company extended to its customers were longer than those received from its suppliers. Such a situation implies a higher demand for the working capital, which is typical of the sector in which TOYA S.A. conducts its commercial activities. The inventories turnover period slightly increased in 2012 as compared to 2011, in spite of decreased inventories, primarily due to lower revenue from sales. Importantly, the Company conducts activity associated with selection of offer appropriately to the customer's needs, increasing the efficiency of the entire sales group as well as continuous improvement of logistics processes.

**SEASONALITY**

The fourth quarter of the year is usually characterised by a lower level of sales and net profit as compared to previous quarters (in Q4 2012, sales revenue amounted to PLN 44,693 thousand, which accounted for 23% of the annual sales revenue, while the net profit during this quarter amounted to PLN 2,842 thousand, making up 16.8% of the net profit on continuing operations for 2012). The main reasons for seasonality in sales are climate factors (lower demand for some of the Company's goods in winter), lower likelihood for customers to stock up on the goods at the end of the year due to the obligatory inventory counts as well as lower activity in industries making use of hand and power tools. TOYA S.A. counters seasonality mainly by expanding its product range.

**5.3 External and internal factors crucial for the Company's development; the Company's development perspectives in 2013, taking into account the components of its market strategy****Macroeconomic situation**

The Company's economic standing is connected with the macroeconomic situation in Europe and GDP growth rate, which has a considerable impact on demand for goods sold by the Company. As Polish economy is strictly interconnected with the global economy, the global economic situation can also impact the economic situation in Poland and the volume of purchases made by domestic customers. Additional factors, such as the government's economic policy, decisions made by the National Bank of Poland and the Monetary Policy Council which affect money supply, interest rates and FX rates, the tax system, inflation and unemployment rate, can also affect, in the company's opinion, internal demand and the company's development.

**Competition**

The Polish market for distribution of industrial goods, which is the Company's field of operation, is relatively highly dispersed in spite of the presence of several market leaders. Entities currently competing with the Company can take additional steps to intensify their development through an aggressive pricing policy aimed at the current, target or potential customers of the Company. Such actions may impede and slow down the increase in market share. Intense activity of the competition can also have a negative effect on the Company's financial standing and financial results. TOYA S.A. is monitoring the market in which it operates and takes measures in order to maintain a competitive advantage.

**Changes in FX markets**

The Company's strict link with foreign suppliers and settlements made primarily in USD make its financial results sensitive to changes in FX rates. The Company updates prices periodically as the market develops and thus margins can be subject to periodical fluctuations.

A part of the Company's sales revenues comes from export activity based on prices set in foreign currencies — USD and EUR — which to some extent protects the Company from adverse movements in exchange rates. However, due to the fact that the main currency used in trade with foreign customers is EUR, it is possible that in the future, FX fluctuations may still have negative impact on the financial performance. To minimise this risk, the Company concluded framework agreements with banks; however, the company did not carry out any transactions in derivatives in 2012.

**Interest rate movements**

The Company makes use of external capital funding. An increase in interest rates could have a negative influence on the servicing costs of financing and could impair the Company's profitability, since Toya S.A. has entered into loan agreements with variable interest rates in PLN.

In order to minimise this risk, the Company runs simulations of various scenarios in order to select optimal sources of financing, taking into consideration refinancing, roll-over of the existing positions and alternative financing.

**Interpretation and application of legal regulations**

Changes in legislation and diverse interpretations of the law impede the Company's operations. Possible changes in legislation, in particular in tax, customs, labour and social insurance law, may have negative consequences for the Company's activity. Frequent changes in the interpretation of the tax law and lack of uniform practices of national fiscal authorities and courts in the application of tax legislation, including the areas of transactions and restructuring processes, are particularly burdensome. Such transactions involve the risk of third-party claims and proceedings of various state authorities. Moreover, because of their complexity and inconsistent taxation practices, they are often the subject of disputes with tax authorities. The Company exercises due care to ensure that these transactions are compliant with legislation — in particular with the tax law. In spite of that, the risk of third-party claims, possible disputes with tax authorities or proceedings of various state authorities cannot be ruled out. Such claims, disputes or proceedings, as well as cases when fiscal authorities or courts and the Company adopt different interpretations of tax regulations and different tax qualification of events and transactions in which the Toya S.A. participated, may have adverse impact on the Company and its financial performance.

However, it should be noted that the Company takes measures to mitigate the effects of changes in law. The Company uses external services of renowned law and tax firms, which facilitate its current operations.

### **The Company's development prospects for 2013**

The Company intends to undertake a series of development activities in 2013. The key measures will be taken using funds raised through the initial public offering. Plans for this year include primarily:

- Development of Yato authorised retail stores. The Company estimates that with this formula, it will eventually establish a chain of 260–280 stores by the end of 2013.
- Expansion of internet stores operating at [www.toya24.pl](http://www.toya24.pl) and [www.toyaoutlet.pl](http://www.toyaoutlet.pl). The former store is intended for a broad range of customers, mainly those who seek a full product range; the latter one will be receiving standard quality goods, primarily “end-of-series” products.
- Strengthening the position in foreign markets. Last year, the Company recorded a considerable increase in sales in foreign markets. We can still see major potential in this expansion and we intend to maintain this trend. In particular, we would like to strengthen our position in Eastern markets, such as Russia, Ukraine and Belarus.
- Strengthening of the capital group. On 2 January 2013, we increased the capital in Yato China, taking full control over the company. This company has high potential in South-Eastern Asian markets and we expect it to further strengthen its position in that region. We also believe that this company will allow us to expand our presence in the local Chinese market as well as in other Asian countries.
- Acquisitions — the company remains interested in equity investments, which should lead to expansion Toya S.A. capital group. The goal of growth within this scope would be rapid development of the Group in the areas which the Company considers to be particularly attractive. We are constantly monitoring the market and are going to implement the project should an attractive entity that can be taken over emerge.
- Development of IT systems. The Company attaches great importance to development of IT systems. The second quarter should see completion of implementation of the SAP-Supply module, which will enable the SAP system to cover the entire supply chain, from order to acceptance of goods at the warehouse. This project will allow for better planning of orders, which combined with other measures may result in reduced transport costs, improved margin and better inventories turnover.
- Another large IT project is SAP CRM mobile, which will support sales and improve the efficiency of relations between the company and its customers. Completion of the project is expected in the second half of the year.

### **6. DIFFERENCES BETWEEN THE FINANCIAL RESULTS INDICATED IN THE ANNUAL REPORT AND EARLIER FORECASTS**

The Management Board of Toya S.A. did not publish financial result forecasts for 2012.

## 7. MAIN RISKS AND HAZARDS

### 7.1 Financial risks

The main financial risks include:

- FX risk
- interest rate risk
- liquidity risk

The above-mentioned financial risks and risk management are discussed in item 8.

### 7.2 Non-financial risks:

The main non-financial risks include:

- the risk of changes in the macroeconomic situation, especially changes in the GDP growth rate, inflation level, the situation in industrial, automotive, household and gardening, infrastructural and housing construction, construction and assembly segments, the level of investments in enterprises, interest rate policy, budget standing or the society's income situation
- competition risk
- risk associated with changes in legal regulations and taxation.

The above risks have been described in item 5.3.

## 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### 8.1 Financial instruments in the scope of the risk of price change, credit and liquidity risk

The purchase prices of goods sold by the Company fluctuate, in particular due to changing manufacturing costs of purchased items (incl. prices of raw materials) on the part of their manufacturers who are the Company's suppliers. Moreover, the purchase price of goods depends on the exchange rate of USD — the main currency used in settlements. The above factors affect the level of applied margins. To minimise the negative impact that fluctuations of goods purchase prices have on the financial result, the Company negotiates contracts with relatively high value and selects manufacturers who offer competitive prices. The Company does not use financial instruments hedging against the risk of changes in goods purchase prices as a result of FX rate fluctuations.

The credit risk is not material due to high dispersion of customers. The highest turnover is carried out with commercial chains with established market position. Additionally, to reduce the risk of overdue receivables from counterparties (customers), the Company periodically examines their creditworthiness and systematically monitors due balances (internally and externally). Credit limits for individual counterparties are set by the Management Board. Customers who systematically miss payment deadlines are subject to an appropriate debt collection procedure and to restrictions in the purchase of goods from the Company. To minimise risk, the Company also concludes agreements on insurance of its receivables.

Due to the specific nature of its operations, the Company requires working capital to secure settlements with suppliers before receiving payments from customers of goods. At present, this capital is provided, among others, by concluding short-term loan agreements for the financing of current assets. In order to diversify its lenders, the Company uses services of several banks. Its lenders include financial institutions with high credibility ratings. The interest rate on received loans is based on WIBOR rate. The Company does not employ instruments to hedge against the risk of movements in interest rates.

The Company has good relationships with banks and has had no problems renewing its loans thus far. Based on this, the Management Board believes that the risk resulting from short-term debt is not significant.

The Company's liquidity is secured for the foreseeable future. The Company pursues a rigorous liquidity risk management policy, which focuses on maintaining an adequate level of cash and securing the ability to use the credit facilities. The Company monitors the level of short-term liabilities and current assets, as well as current cash flows of the Company.

## **8.2 Objectives and methods of financial risk management**

Due to strict link with foreign suppliers and settlements made primarily in USD, the Company is sensitive to changes in FX rates and hence requires increased expenditure on purchase of goods abroad. On the other hand, a part of the Company's sales revenues comes from export activity based on prices set in foreign currencies, mainly EUR, as a result of which the Company is partly subject to natural hedging. There is a risk, however, that future FX fluctuations may have a negative effect on the Company's financial performance.

To minimise the FX risk, the Company has entered into framework agreements with two banks for cooperation regarding forward transactions and derivative transactions. In 2012, the Company did not conclude any transactions involving derivatives. Therefore, the Company does not apply hedge accounting.

## **9. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT AND THE ABILITY TO COVER LIABILITIES**

32% of the Company's activity is financed from external capital. Loan agreements require the Company to maintain its financial debt ratios and debt servicing ratios at an agreed level throughout the lending period. The bank has the right to terminate the loan agreements if the requirement to maintain such ratios at the level specified by the bank is not fulfilled.

The Company enjoys very good relationships with banks and financial institutions and so far has had no problems renewing its loans on advantageous terms. The Company continues dynamic development of its activity, maintains a high level of liquidity and pursues a conservative debt policy. This is why, in view of the Management Board, the Company's ability to cover liabilities is high.

At the moment, there are no events which may, according to the Management Board, have a negative effect on the Company's ability to cover its liabilities.

## **10. ASSESSMENT OF THE ABILITY TO CARRY OUT INVESTMENT OBJECTIVES**

In the opinion of the Management Board, there are no threats to the implementation of the Company's investment objectives. The activities planned for 2012 have been described in item 5.3. Apart from funds generated by its operations, the Company has secured external funding in the form of credit limits, pursuant to the agreements discussed in item 15.

## 11. MAIN COMMODITY GROUPS

The Company offers a wide range of goods sold under its own brands:

- YATO (professional hand tools, gardening tools),
- POWER UP, STHOR, LUND (power tools),
- VOREL (hand workshop and construction tools),
- FLO (hand and fuel-powered gardening tools, gardening power tools),
- FALA (bathroom furnishings).

TOYA S.A. is also the general distributor of the Italian brand GAV (pneumatic tools).



The Group's most recognisable and leading brand, which also generates the highest sales growth, is **YATO**. **Since 2012, YATO has had the largest share in the Group's sales.** It offers a wide range of professional hand and pneumatic tools intended for work in industrial and servicing conditions. YATO's products include both general-purpose and specialist tools.

The YATO brand sells primarily workshop, construction and gardening tools, such as spanners, sockets, impact sockets, torque wrenches and torque multipliers, screwdrivers and screwdriver bits, pliers and pipe wrenches, electrician tools, hammers, chisels, punches and axes, clamps, vices and supports, cutting and forming tools, hydraulic tools, fastening tools, construction tools, measuring tools, pneumatic tools, special automotive tools and equipment.

YATO products are made from high-quality steel alloys, using modern thermal and chemical treatment technologies. YATO products combine innovative designs and ergonomics. The Company continuously improves the quality of its products and expands their range, launching several hundred new products each year. As a result, YATO enjoys good reputation in the market, both with respect to quality and offered prices.

**Revenues from sales of YATO branded products accounted for 41% of the Company's revenues in 2012 (38% in 2011).**



**VOREL is the brand which has had the highest share in sales of the Group's products for approx. 10 years.** This brand's product range includes hand workshop and construction tools intended primarily for DIY enthusiasts and households. VOREL's product range includes, among others, spanners, sockets, accessories and sets, screwdrivers and screwdriver bits, pliers and pipe wrenches, electrician tools, hammers, chisels, punches and axes, clamps and vices, cutting tools, hydraulic tools, fastening tools, construction tools, measuring tools, pneumatic tools, special automotive tools and equipment, power tools and accessories, welding equipment, safes, padlocks, locks, tool bags, boxes, trolleys, safety products, electric products, garden tools.

**Revenues from sales of VOREL branded products accounted for 41% of the Company's revenues in 2012 (43% in 2011).**



**FLO is a brand which includes a wide range of** garden hand, electric and gasoline tools. Products offered under this brand are nearly all the tools required for gardening works, such as garden hand tools, electric garden tools, gasoline garden tools, gasoline and electric garden accessories as well as other garden accessories.

**Revenues from sales of FLO branded products accounted for 7% of the Company's revenues in 2012 and 2011.**



**The product range of POWER UP brand covers** power tools. **Products under this brand are intended for** workshops and demanding DIY enthusiasts. The range of POWER UP products includes, among others: impact drills, rotary hammers, cordless tools, grinders, polishers, jig saws, circular saws, planers, decoration tools, soldering guns, mortar mixers, stationary power tools, water pumps and electric pressure washers.

**Revenues from sales of POWER UP branded products accounted for 4% of the Company's revenues in 2012 (6% in 2011).**



Under the **FALA** brand, TOYA S.A. also sells bathroom fittings. The product range covers basic types of items, such as: faucets, bathroom and shower sets, shower hoses, pop-up wasters, shower heads, shower rails, bathroom scales, toilet seats and baby toilet seats as well as bathroom accessories.

**Revenues from sales of FALA branded products accounted for 2% of the Company's revenues in 2012 and 2011.**



Under the **STHOR** brand, the Company sells modern consumer power tools. The brand's product range is addressed to DIY enthusiasts and household members who do not use tools professionally. The tools offered include: impact drills, cordless tools, rotary hammers, grinders, jig saws, circular saws, planers, soldering guns and decoration tools.

**Revenues from sales of STHOR branded products accounted for 2% of the Company's revenues in 2012 and 2011.**



**The latest** brand, established in mid-2010, under which the Company sells power tools, is **LUND**. Its product offer includes a broad range of power tools useful in basic renovation, finishing and decoration works. LUND is a brand dedicated to DIY enthusiasts, for household and domestic workshop use. The product range of LUND includes: impact drills, cordless drills, angle grinders, multi-sanders, orbital sanders, polishers, jig saws, circular saws, cutters, hot air guns, and submersible pumps.

**Revenues from sales of LUND branded products accounted for 2% of the Company's revenues in 2012 (1% in 2011).**



**GAV is an Italian brand. TOYA S.A. is not its owner, but its general distributor. Products under this brand include pneumatic tools used in modern automotive services. The brand is characterised by Italian style, innovativeness and high-quality manufacturing.**

**Revenues from sales of GAV branded products accounted for 1% of the Company's revenues in 2012 and 2011.**

The most profitable brand is YATO. Every year, the Company records an increase in the sales volume of this brand in the domestic market. In 2012, for the first time, the Company achieved the highest revenues from sales of YATO.

Revenues from sales in the TOYA S.A.'s core business, broken down by brand and its profitability for each financial year, are shown in the following tables:

**Table. The structure and volume of sales revenues from core (trading) operations of the Company, broken down by brand**

Sales revenues	for 12 months ended 31 December			
	2012		2011	
	PLN '000	%	PLN '000	%
YATO	80,018	41%	78,247	38%
VOREL	79,120	41%	86,217	43%
FLO	13,244	7%	14,544	7%
POWER UP	7,583	4%	11,381	6%
FALA	4,366	2%	4,566	2%
STHOR	4,795	2%	3,502	2%
LUND	3,006	2%	2,342	1%
other	1911	1%	1,553	1%
<b>Total</b>	<b>194,043</b>		<b>202,352</b>	

**Table. The profitability of sales in core (trading) operations of the Company, broken down by brand**

Profitability of sales [%]	for 12 months ended 31 December	
	2012	2011
	YATO	37%
VOREL	29%	30%
FLO	27%	31%
POWER UP	27%	30%
FALA	17%	30%
STHOR	22%	27%
LUND	23%	26%
other	16%	25%
<b>Average</b>	<b>31%</b>	<b>33%</b>

## 12. MAIN SELLING MARKETS

### 12.1 Sales structure

The main distribution channels of Toya S.A. are:

a) domestically:

- The wholesale market, i.e. distributors, wholesalers and stores
- Retail chains and
- The on-line store,

b) export.

The largest part of sales is generated by TOYA S.A. through the domestic wholesale distribution channel (40% share of the segment "Trading activity — the wholesale market" in sales revenues for 2012, with a profit margin of 38%). The Company's second distribution channel with respect to share in sales is the "Trading activity — export" segment; in 2012, its share in sales amounted to 39% with a profit margin of 27%. Distribution through retail chains in the domestic market has the lowest share in sales revenues, which in 2012 reached the level of 21%, with a profit margin of 26%.

Abroad, the goods are launched through the subsidiary Toya Romania S.A., a company jointly controlled by Yato China Trading, as well as authorised distributors and representatives. Such a diversified sales network provides access to a broad market, ensures professional service and optimisation of the availability of the Company's entire product range.

Revenues of the Company, broken down by distribution channels and their profitability, are shown in the following tables.

**Table. The structure and volume of sales revenues from continuing (trading) operations of the Company, broken down by segments which are distribution channels**

Sales revenues of TOYA S.A.	for 12 months ended 31 December			
	2012		2011	
	PLN '000	%	PLN '000	%
Trading activity — the wholesale market	76,763	40%	91,365	45%
Trading activity — export	75,292	39%	65,008	32%
Trading activity — retail networks	41,684	21%	45,979	23%
Trading activity — other	304	0%	0	0%
<b>Total</b>	<b>194,043</b>		<b>202,352</b>	

**Table. Sales profitability on continuing operations of segments which are the Company's distribution channels**

Sales profitability [%]	for 12 months ended 31 December 2012	
	2011	
Trading activity — the wholesale market	38%	37%
Trading activity — export	27%	28%
Trading activity — retail networks	26%	31%
Trading activity — other	37%	0%
<b>Weighted average</b>	<b>31%</b>	<b>33%</b>

### 12.1.1 Wholesale market — sales in Poland

TOYA S.A. has been present in Poland for more than 20 years and during this time, it has been systematically strengthening its market position. The highest sales in Poland take place through traditional distribution channels, i.e. through distributors, wholesalers and stores. In 2012, TOYA S.A. cooperated with 8 authorised distributors and with several dozen wholesale customers in all regions in order to increase its sales, margins and to promote its own brands. The company employs several dozen sales representatives — assistants of partners in the wholesale market — and is planning to further develop this distribution channel.

**Table. The structure and volume of the Company's sales revenues in wholesale market in Poland**

Sales revenues	for 12 months ended 31 December			
	2012		2011	
	PLN '000	%	PLN '000	%
Authorised distributors	45,055	59	55,998	61%
Wholesalers and stores	31,708	41	35,367	39%
<b>Total</b>	<b>76,763</b>		<b>91,365</b>	

### 12.1.2 Retail networks — sales in Poland

Domestic sale to retail chains constitutes approx. 21% of the company's sales revenues. TOYA S.A. cooperates with more than 10 large networks in Poland.

The Company sells industrial goods on the basis of its customers' orders for specific quantities of products to be delivered on specific dates. Upon acceptance, these orders give rise to typical contractual obligations.

In 2012, the Company's turnover with Castorama Sp. z o.o. constituted 10% of the Company's total revenues. This entity is not formally associated with TOYA S.A.

### 12.1.3 The Company's export sales and foreign activity

#### Export sales — TOYA S.A.

For many years, the Company has been operating in international markets, focusing primarily on Central, Southern and Eastern Europe — on Romanian, Moldavian, Hungarian, Czech, German, Italian, Balkan and Russian, Ukrainian, Belorussian and Lithuanian markets.

**Table. The structure and volume of revenues from the Company's export sales, broken down by countries.**

Sales revenues	for 12 months ended 31 December			
	2012		2011	
	PLN '000	%	PLN '000	%
Russia	21,012	27%	21,144	33%
The Baltic States	11,329	15%	9,782	15%
Romania	9,585	13%	7,792	12%
The Balkan States	6,910	9%	1,994	3%
Ukraine	5,888	8%	3,166	5%
Hungary	5,366	7%	5,731	9%
The Czech Republic	4,272	6%	4,132	6%
Germany	3,731	5%	4,582	7%
Belarus	2,138	3%	2,681	4%
Italy	1,295	2%	676	1%
Spain	655	1%	402	1%
Moldova	473	1%	1,476	2%
Other	2,638	3%	1,450	2%
<b>Total</b>	<b>75,292</b>		<b>65,008</b>	

#### 12.1.4 On-line store — sales in Poland

In the current year, Toya S.A. carried out a comprehensive modernisation of the on-line store, which is currently being launched at [www.toya24.pl](http://www.toya24.pl). Due to changes introduced mid-year and relatively short operation in its new formula, the share of this channel in the company's sales is not significant yet. The company is planning dynamic development of this distribution channel in the upcoming period.

Another idea implemented by the company is simultaneous launching of an on-line sale store at [www.toyaoutlet.pl](http://www.toyaoutlet.pl). This store is intended for users who seek a broad range of tools at extremely attractive prices, for example in connection with sale of short series. Outlet sale is one of the components of efficient inventory management.

#### 12.2 Suppliers

The network of suppliers the Company cooperates with is highly diversified. For many years, the Company has cooperated with more than 100 foreign and more than 70 domestic suppliers, which has allowed it to establish durable business contacts. Such a broad range of suppliers ensures high independence and even enables the Company to strengthen its negotiating position. This position is additionally improved by the presence of Yato China Trading, both thanks to higher confidence of Asian manufacturers in a local partner as well as larger volumes of orders. The Company usually signs short-term agreements on delivery of specific products or places one-off orders for products.

### 13. CONCLUDED AGREEMENTS IMPORTANT TO THE COMPANY'S OPERATIONS

The criterion adopted by the Company for recognising agreements as important is agreement value exceeding 10% of TOYA's equity.

According to this criterion, the commercial cooperation agreement, concluded with Castorama Sp. z o.o. on 1 October 2012 was deemed important.

The table below includes insurance policies.

Item	Policy No	Insurance period	Insurer	Object of insurance	Total sum insured
1.	PO/00492944/01/2012	1 July 2012 –30 June 2013	Generali T.U. S.A. with its registered office in Warsaw / Ergo HESTIA S.A. Branch in Wrocław, with its registered office in Sopot	Insurance against all risks of physical loss or damage of property (property in Wrocław, ul. Sołtysowicka 39)	PLN 11 million
2.	PO/00492944/02/2012	1 July 2012 –30 June 2013		Insurance against all risks of physical loss or damage of property (property in Wrocław, ul. Sołtysowicka 13-15)	PLN 8 million
3.	PO/00492944/03/2012	1 July 2012 –30 June 2013		Insurance against all risks of physical loss or damage of property (tangible fixed assets, cash, employee property)	PLN 10.2 million
4.	PO/00492944/04/2012	1 July 2012 –30 June 2013		Insurance against all risks of physical loss or damage of property (current assets – inventories of goods)	PLN 82 million
5.	PO/00492944/05/2012	1 July 2012 –30 June 2013		Insurance against all risks of physical loss or damage of property (computer hardware, data and software, increased costs)	PLN 2.8 million
<b>Total value of insurance of property constituting tangible fixed assets and inventories of the Company's commercial goods</b>					<b>PLN 114 million</b>
6.	General Agreement WROD/17/2012	18 August 2012–17 August 2013	TUiR Warta S.A. with its registered office in Warsaw	Motor insurance of the vehicle fleet – a total of 52 vehicles	The market value of the vehicles (according to Info Export)
7.	PO/00492941/2012	1 July 2012 –30 June 2013	Generali T.U. S.A. with its registered office in Warsaw / Ergo HESTIA S.A. Branch in Wrocław, with its registered office in Sopot	Civil liability insurance due to owned property and conducted activity	PLN 2 million
8.	000-12-444-05891699	20 September 2012–19 September 2013	TUiR Allianz S.A. with its registered office in Warsaw	Civil liability insurance of members of companies' bodies	PLN 10 million
9.	702914	1 May 2012–30 April 2013	TU Euler Hermes S.A. with its registered office in Warsaw	Insurance of the trade credit risk on certain agreements	maximally 40 times the contribution paid for a given insurance year
10.	0861001050	1 March 2013–28 February 2014	AIG Europe Limited Sp. z o.o. Branch in Poland with its registered office in Warsaw	Insurance of property in CARGO transport	Liability limit per 1 vehicle: USD 230,000 (road transport) USD 2,000,000 (maritime transport)

Moreover, item 17 describes loan agreements.

#### 14. INFORMATION ABOUT THE ENTITY AUDITING THE FINANCIAL STATEMENTS

The entity authorised to audit and review individual and consolidated statements is PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, Al. Armii Ludowej 14, 00-638 Warszawa.

The agreement on audit and review was concluded on 6 August 2012 and it covers semi-annual review and annual review of the individual and consolidated financial statements for 2012.

Remuneration of the entity authorised to conduct the audit is presented below (in PLN '000)

	2012	2011
Audit of annual financial statements (individual and consolidated)	120	165
Review of semi-annual financial statements	60	55
Other certification services (*)	-	35
Other services (**)	-	537
<b>TOTAL</b>	<b>180</b>	<b>792</b>

(\*) concerns certification services rendered in relation with development of the prospectus before public issue of series C shares

(\*\*) includes advisory services in relation with public issue of series C shares

#### 15. TRANSACTIONS WITH RELATED ENTITIES

Transactions with related entities are entered into on arm's length terms in the course of the Company's day-to-day operations. These transactions have been presented in note 30 to the financial statements.

In 2012, TOYA S.A. did not conclude any transactions with related entities which were atypical or divergent from arm's length basis, whose character and terms did not follow from the current operations and whose value exceeded the PLN equivalent of EUR 500 thousand.

#### 16. DISPUTES

As at 31 December 2012, the total value of the proceedings pending before courts, authorities responsible for arbitration and public administration bodies, concerning receivables and liabilities of the Company, did not amount to at least 10% of the equity of TOYA S.A.

#### 17. TAKEN OUT LOANS AND BORROWINGS

The list of bank loans has been presented in a table on the subsequent page.

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Object and value of agreement	Bank / person acquiring the bonds / granting the borrowing	Loan amount as per agreement as at 31 December 2012	Amount outstanding as at 31 December 2012	Amount outstanding as at 31 December 2011	Current interest rate	Date of expiry	Post-balance-sheet events
1. Debt limit facility agreement No CRD/L/11381/02 of 2 October 2002 (with the option to be used in PLN, USD and EUR)	Raiffeisen Bank Polska S.A. with its registered office in Warsaw	30,000	2,897	25,899	WIBOR 1M + bank's margin EURIBOR/LIBOR 1M + bank's margin	5 March 2013	Change of the maturity date to 5 March 2014 and reduction of loan amount to PLN 20,000 thousand
2. Overdraft facility agreement No BDK/KR-RB/000054601/0641/10 of 22 December 2010	Bank Citi Handlowy with its registered office in Warsaw	15,000	12,678	13,094	WIBOR 1M + bank's margin	20 December 2013	Limit increased to PLN 25,000 thousand from 1 March 2013
3. Multi-purpose credit line agreement No WAR/4060/12/102/CB of 26 September 2012	BNP Paribas Bank Polska S.A. with its registered office in Warsaw	35,000	12,163	-	WIBOR 1M + bank's margin	24 September 2013	
4. Overdraft facility agreement No K0007156 of 30 November 2011	Bank Zachodni WBK S.A. with its registered office in Wrocław	-	-	7,699	WIBOR 1M + bank's margin	30 September 2012	
<b>Total liabilities, of which:</b>		<b>80,000</b>	<b>27,738</b>	<b>46,692</b>			
- short-term portion		80,000	27,738	46,692			
- long-term portion		-	-	-			

## 18. PROVIDED LOANS AND BORROWINGS

In 2012, the Company did not provide any borrowings or loans.

## 19. GRANTED GUARANTEES AND SURETIES. CONTINGENT LIABILITIES AND ASSETS

In 2012, the Company granted the following guarantees:

Item	Counterparty	Type of guarantee	Subject matter and value	Date of expiry
1	Bank Handlowy	Guarantee of repayment of loan liabilities by Yato China Trading (*)	Bank guarantee of USD 1,500 thousand	31 December 2013

(\*) To secure repayment of the loan, Toya S.A. established a USD 1,500 thousand mortgage on real estate located at ul. Sołtysowicka 13-15 in Wrocław (Land and Mortgage Register No WR1K/00096765/9).

On 29 November 2012, the Company and TOYA Development Sp. z o.o. Spółka Komandytowo-Akcyjna concluded an agreement concerning a legal defect of the real estate which was contributed in kind on 6 April 2011 pursuant to Resolution No 1 of Extraordinary General Meeting of TOYA Development SKA by TOYA S.A., which at that time was the company's general partner. The real estate the agreement concerns comprises land with expenditures incurred thereon. The contributed real estate had a legal defect, i.e. on 6 April 2011, TOYA S.A. was not its owner since pursuant to the decision of the Head of Wisznia Mała Municipality of 7 May 2007, this plot of land became the property of Trzebnicki Powiat on 8 June 2007. TOYA S.A. is entitled to pursue claims against Trzebnicki Powiat due to expropriation of the above-mentioned real estate and expenditures incurred thereon. Had the legal defect of the in-kind contribution not existed and had the transfer of ownership of the real estate been effective, TOYA Development Sp. z o.o. SKA. would be entitled to the claims of Toya S.A. Thus, by way of compensation for the damage resulting from the property's legal defect, TOYA S.A. committed to pay TOYA Development SKA compensation in the amount of compensation obtained from the Trzebnicki Powiat. The right to compensation will arise provided that Toya S.A. receives compensation from the Trzebnicki Powiat and in the amount obtained from the Trzebnicki Powiat. On 31 December 2012, TOYA S.A. received compensation due to expropriation of land in the amount of PLN 333 thousand, which was handed over of TOYA Development SKA after the date ending the reporting period, pursuant to the agreement. As a result, as at 31 December 2012, the contingent liability includes compensation due to incurred expenditures whose value is estimated at PLN 2 million. At the same time, as at 31 December 2012, the Company has a contingent asset due to compensation for incurred expenditures from the Trzebnicki Powiat in the same amount, i.e. approx. PLN 2 million.



## **20. INFORMATION ABOUT SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE**

### **20.1 Taking control over Yato China Trading Ltd.**

On 2 January 2013, Toya S.A. increased the capital in Yato China Trading Co. Ltd. (hereinafter: Yato China). As a result of this transaction, the Company increased its share in Yato China from 51% to 75%. At the same time, changes were introduced to Yato China's articles of association, whereby Toya S.A. gained the right to nominate the majority of members of Yato China's Management Board. As a result, on 2 January 2013, Toya S.A. took control over Yato China and from this date, the entity will be subject to full consolidation.

The purpose of taking control over Yato China was to make better use of the potential of the local Chinese market, Asian markets and other markets where Yato China is present. It was also one of the issue objectives of the initial public offering.

The purchase price of the stake of shares included cash in the amount of PLN 3,944 thousand and Yato China's capital increased by CNY 7,896 thousand.

### **20.2 Increase in capital**

On 18 February 2013, the Management Board of the Company adopted a resolution concerning an increase of the share capital through issue of series F shares within the authorised capital and a resolution concerning the exclusion of subscription right for new series F shares by existing shareholders.

The share capital will be increased from PLN 7,521,358.90 to PLN 7,540,237.50, i.e. by PLN 18,878.60, by way of issue of 188,786 ordinary bearer series F shares.

The share capital is increased in order to offer shares to Supervisory Board Members in a private subscription. Persons entitled to subscribe for series F shares will be exclusively Members of the Supervisory Board listed in the Resolution No 10 of the Ordinary General Shareholders' Meeting dated 23 May 2011 concerning the remuneration of the Company's Supervisory Board. The right to subscribe for shares may be transferred by an eligible Member of the Supervisory Board, on terms specified in the above-mentioned Resolution, to a third party or parties indicated to the Company in writing.

The deadline for exercising the right to subscribe for series F shares and concluding an agreement on subscription of these shares is 25 May 2013.

As at the date of publication of this report, the increase in capital has not been registered in the National Court Register.

### **20.3 Annex to the agreement with Raiffeisen Bank Polska S.A.**

On 25 February 2013, TOYA S.A. and Raiffeisen Bank Polska S.A. in Warsaw concluded an annex to the Debt Limit Facility Agreement, which extended the agreement until 5 March 2014.

As compared to the previous terms and conditions of the agreement, the loan amount decreased from PLN 30,000 thousand to PLN 20,000 thousand and the credit costs were reduced thanks to a lower credit margin and up-front fee.

#### **20.4 Adoption of a resolution concerning the dividend policy**

On 25 March 2013, the Company's Management Board adopted a resolution concerning adoption of the Company's dividend policy.

According to the adopted resolution, the Management Board of the Company is planning consequent payment of dividend in subsequent years at 40–60% of generated net profit. As the first step, at the next Ordinary General Shareholders' Meeting, the Management Board intends to present to the General Meeting a proposal of payment of a dividend to the shareholders in the amount of 50% of net profit generated for 2012.

The recommended dividend amount in the future will depend on the current market conditions, perspectives and the needs of funding the Company and Capital Group's development and it will take into account maintenance of the appropriate financial liquidity. A decision on dividend payment will be made annually by the Ordinary General Meeting.

#### **20.5 Conclusion of a significant agreement with the distributor**

On 1 April 2013, as a part of continuation of trade cooperation, the Company concluded a significant Distribution Agreement with KLIMAR – M. KLITYŃSKI, N. KLITYŃSKI Spółka Jawna with its registered office in Wrocław.

The agreement regulates the general framework and principles of trade cooperation between the parties, in particular organisation of an efficient system for distribution and promotion of products on TOYA's offer, terms and conditions of orders and deliveries as well as principles of extending a trade credit.

The terms and conditions of the Agreement do not differ from terms and conditions commonly applied for this type of agreements.

## 21. STATEMENT ON THE APPLICATION OF THE PRINCIPLES OF CORPORATE GOVERNANCE

### 21.1 The set of principles of corporate governance to which the Company is subject and the location where the text of the principles is publicly available

The Company adopted the principles of corporate governance in the document entitled "Good Practices of Companies Listed on the Warsaw Stock Exchange", the content of which is available on the website [www.corp-gov.pl](http://www.corp-gov.pl). This statement concerning application of the principles of corporate governance, included in the Annual Report for the financial year 2012, refers to the principles of corporate governance applicable in 2012.

### 21.2 The scope in which the Company departed from the provisions of the set of principles of corporate governance, indication of these provisions and explanation of the reasons for this departure

In 2012, the Company observed the principles of corporate governance specified in the document entitled "Good Practices of Companies Listed on the Warsaw Stock Exchange", except for the principles listed below.

#### A. With regard to recommendations concerning the best practices for listed companies:

- Enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website
- The Company did not broadcast General Meetings over the Internet in 2012. In the opinion of the Management Board, incompliance with the principle to the aforesaid extent does not pose a risk since the Company publishes news in the form of current reports and makes available on its website all the legally required information and documents, which enables the investors to acquaint with the subjects discussed during the General Meeting. Due to the shareholding structure, this solution would result in costs disproportionate to the effects. The Company will consider fulfilling this recommendation in the future.
- The company should have a remuneration policy in place, as well as rules for defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.
- This principle was not observed with regard to remuneration of members of the Supervisory Board since in accordance with the Company's current Articles of Association, remuneration of the members of the Supervisory Board is determined by the General Meeting. By way of resolution dated 23 May 2011, the General Meeting determined the principles of remuneration of the Supervisory Board members for a three-year term of office. According to the Articles of Association, remuneration of Management Board Members is determined by the Supervisory Board. The Company has no documents specifying the principles of shaping the remuneration policy. The amount of remuneration of the Company's bodies is presented in annual reports.
- The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business.
- In the opinion of the Company's Management Board, the main criterion for electing members of the Management Board or the Supervisory Board is the candidate's experience and

competences for the applied position. The Company declares that it will consider the subject recommendation and possibly comply with corporate governance in this respect.

- According to the Best Practices II item 2a, the Company published information about the proportion of women and men in the Management Board and the Supervisory Board in 2011–2012 on its website.

**B. With regard to good practices applied by management boards of listed companies:**

- The Company ensures operation of its website, also in English, at least in the scope indicated in part II item 1.
- TOYA S.A. is gradually implementing its website, including in English — in the scope indicated in part II item 1.

**C. With regard to good practices implemented by the shareholders**

- The Company should enable its shareholders to participate in the general meeting using electronic means of communication in the following manner:
  - 1) real-time transmission of the general meeting,
  - 2) bilateral real-time communication which allows the shareholders to speak during the general meeting while being present at a location other than the location of the meeting,
  - 3) exercising the voting right during the general meeting, in person or through a proxy.
- The Company did not implement these principles in 2012. TOYA S.A. declares that it will consider gradual implementation of appropriate corporate mechanisms, in particular additional organisational and technical means, allowing for application of the principles of corporate governance in the above-mentioned scope.

**21.3 Description of basic features of internal control and risk management systems applied in the Company with respect to the process of preparing the financial statements**

The Management Board of the Company is responsible for the internal control system in the Company and its effectiveness in the process of preparing financial statements and periodical reports, which are developed and published in accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and on conditions for deeming equivalent the information required by the provisions of the law of a Non-Member State (Journal of Laws No 33, item 259). The Company applies internal control systems with regard to accounting and financial reporting to ensure reliable and transparent presentation of its financial and assets standing. The Company has in place documentation describing the adopted accounting principles, specifying the methods of assets and liabilities valuation and determination of the financial result, as well as the manner of keeping the books of account and the system for protection of data and data collections. The adopted accounting principles are applied on a continuous basis by ensuring comparability of financial statements while using the rule of going concern and prudent valuation. The Company's financial statements are audited by authorised entities chosen by way of resolution of the Supervisory Board. The statements are published according to the applicable provisions of the law.

The books of account are kept by the Company in the ERP class IT system. Access to information resources of the IT system is restricted by appropriate rights of authorised employees solely in the scope of their duties.

**TOYA S.A.**

Directors' report on the Company's operations for 12 months ended 31 December 2012

The Financial Director supervises the process of preparing the Company's financial statements and periodical reports from the subject-matter point of view.

Organising works related with preparing annual and semi-annual financial statements is the competence of the accounting and control department.

After its approval by the Financial Director and before its publication, financial statements are verified by the Company's Management Board and Supervisory Board.

**21.4 Shareholders who hold, directly or indirectly, major blocks of shares, the number of shares held by these entities, their percentage share in the share capital, the number of votes resulting from them and their percentage share in the total number of votes at the general meeting.**

The share capital of TOYA S.A. as at 31 December 2012 amounted to PLN 7,521,358.90 and was divided into 75,213,589 ordinary bearer shares with par value of PLN 0.10 each.

	Number of shares	Number of votes	Share (%) in the share capital	Share (%) in votes at the general meeting
Jan Szmidt	28,170,647	28,170,647	37.5%	37.5%
Tomasz Koprowski	14,644,030	14,644,030	19.5%	19.5%
Romuald Szałagan	10,938,874	10,938,874	14.5%	14.5%
Piotr Wojciechowski	5,057,728	5,057,728	6.7%	6.7%
Generali OFE	4,800,000	4,800,000	6.4%	6.4%
Other shareholders	11,602,310	11,602,310	15.4%	15.4%
<b>TOTAL</b>	<b>75,213,589</b>	<b>75,213,589</b>	<b>100%</b>	<b>100%</b>

**21.5 Holders of any securities which provide special control rights**

All shares in the company are ordinary bearer shares. Apart from shares, the company issued no other securities.

**21.6 Any restrictions regarding exercising of voting rights**

Shares of the Company do not involve any restrictions with respect to exercising voting rights. According to the Articles of Association of TOYA S.A., each share entitles to one vote at the General Meeting.

**21.7 Any limitations in transferring the ownership right to the issuer's securities**

On 29 August 2011, by signing appropriate agreements, shareholders of the Company (i.e. Jan Szmidt, Tomasz Koprowski, Romuald Szałagan and Piotr Wojciechowski) committed themselves towards Wood & Company Financial Services ("Wood & Co") that within twelve months of allocation of Offered Shares, without prior written agreement:

(a) they shall not sell any shares of the Company held on the date of execution of the "Lock up" agreement, provided that shares can be sold without approval of Wood & Co exclusively in the case of: (i) a public call for sale or conversion of the Company's shares in a quantity ensuring that 33% of the total number of votes in the

Company is achieved or exceeded or (ii) sale of shares to an investor who acquires or holds a majority block of all shares in the Company; and

(b) they shall not perform any other actions which may result in transfer of the ownership of shares during the contractual period of reduced transferability. Reduced transferability of shares will not apply to any transfer of ownership of the shares by a shareholder of the Company to other shareholders (listed above), provided that the shareholder purchasing shares submits a written declaration to Wood & Co that they will be bound by all transferability restrictions.

Shareholders are liable towards Wood & Co for failure to execute or duly execute agreements on reduced transferability on general principles following from the Civil Code, i.e. for damage caused by failure to execute or duly execute obligations under these agreements.

Moreover, on 30 June 2011, the Company committed itself towards Wood & Co that within 360 days of the date of allocation of Series C Shares under the Offer, without prior written agreement, it would not take any actions aimed, directly or indirectly, at:

- offering any shares or other equity securities of the Company to be taken up or acquired, except for debt securities, such as bonds,
- public announcement of the intention to offer the shares of the Company to be taken up or acquired,
- sale of shares of the Company or other disposal of these shares,
- commitment to issue or sell shares of the Company or otherwise dispose of these shares (including not to establish a pledge on the Company's shares),
- issue of the Company's shares or any financial instruments convertible or exchangeable for shares of the Company or financial instruments which provide any other rights to acquire shares of the Company,
- concluding any other transaction concerning the Company (including a transaction involving use of derivatives) whose economic effect would be similar to that of sale or issue of the Company's shares.

On 9 August 2011, new shareholders joined the Company. On 9 August 2011, Ms Beata Szmidt, Ms Beata Szałagan, Ms Elżbieta Wojciechowska and Ms Wioletta Koprowska (new shareholders) concluded a lock-up agreement with WOOD & Co on the same terms as lock-up agreements concluded with hitherto shareholders. Lock-up agreements of current shareholders have been adjusted appropriately in order to take into account changes in the shareholding structure.

As at 31 December 2012, the above-mentioned limitations no longer apply.

#### **21.8 Description of principles concerning appointment and dismissal of managers and their entitlements, in particular the right to decide on issuance or redemption of shares.**

Pursuant to the Articles of Association, the Management Board comprises from one to seven members, including the President of the Management Board and, in the case of a management board comprising several members, the Vice-President of the Management Board. The number of Management Board members for a given term is specified by the Supervisory Board. Members of the Management Board are appointed for a joint, three-year term of office, while mandates of the Management Board members expire no later than on the day of the General Meeting which approves the financial statements for the last full financial year of the term of office.

Members of the Management Board of TOYA S.A. are appointed and dismissed by the Supervisory Board. Members of the Management Board can be dismissed at any time, without detriment to their claims from the work relationship or a different legal relationship which is the basis for holding the office of a Management Board Member.

The Management Board's competences relate to all matters of the Company not restricted to the competences of the General Meeting or the Supervisory Board.

The Management Board operates on the basis of the Regulations approved by the Supervisory Board, as specified in the Articles of Association of TOYA S.A. The Regulations also specify detailed competencies of the Management Board. The Management Board handles the affairs of the Company, manages its assets and represents the company in front of third parties.

The following corporate documents, including a description of principles concerning appointment and dismissal of managers and their entitlements, in particular the right to decide on issuance or redemption of shares, are available on the website [www.yato.pl](http://www.yato.pl) in the Investor Relations tab.

- Articles of Association of Toya S.A.
- Regulations of the Management Board
- Regulations of the Supervisory Board
- Regulations of the General Meeting

### **21.9 Principles of introducing amendments to the articles of association**

Amendments to the articles of association of the Company, including increases or decreases in the share capital, are introduced according to the provisions of the Commercial Companies Code and are the sole competence of the Company's General Meeting.

### **21.10 The functioning of the General Meeting, its basic entitlements, the rights of shareholders and the manner of exercising these rights and entitlements**

The General Meeting of the Company Toya S.A. (the Company) takes place in accordance with the provisions of the Commercial Companies Code, the Articles of Association of the Company as well as provisions of the Regulations, while taking into account other generally applicable provisions of the law. Subject to cases specified in the Commercial Companies Code, if the General Meeting was convened correctly, it is valid and capable of adopting resolutions regardless of the number of shares represented at the meeting. The General Meeting of the Company is convened by an announcement published on the Company's website and in a manner specified for transmitting current information, according to generally applicable regulations. The announcement should be made at least twenty-six days before the date of the General Meeting. The announcement about the General Meeting of the Company should include at least:

- 1) the date, time and place of the General Meeting as well as a detailed agenda,
- 2) a precise description of procedures regarding participation in the General Meeting and executing the voting right, in particular information about:
  - a) the shareholder's right to demand specific issues to be included on the agenda,
  - b) the shareholder's right to submit draft resolutions regarding issues on the General Meeting's agenda or issues which are to be included in the agenda before the date of the General Meeting,
  - c) the shareholder's right to submit draft resolutions regarding issues on the General Meeting's agenda during the General Meeting,
  - d) the manner of exercising the voting right via proxy, including, in particular, information about forms used in voting through a proxy and the manner of notifying the Company about appointment of a proxy using electronic means of communication,
  - e) the possibility and the manner of participating in the General Meeting using electronic means of communication,
  - f) the manner of voicing opinions during the General Meeting, using electronic means of communication,
  - g) the manner of exercising the voting right by correspondence or using electronic means of communication,
- 3) the date of registration of participation in the General Meeting,
- 4) information that the right to participate in the General Meeting only applies to persons who are shareholders of the Company on the date of registering their participation in the General Meeting,

- 5) information on where and how the person entitled to participate in the General Meeting can obtain the full text of documentation to be presented to the General Meeting as well as draft resolutions,
- 6) address of the website on which information concerning the General Meeting will be made available.

The right to participate in the General Meeting of the Company applies exclusively to persons who are shareholders of the Company sixteen days before the date of the General Meeting (the date of registering participation in the General Meeting). The shareholder or their proxy are hereinafter also referred to as the Participants of the General Meeting (the Participant or Participants). The General Meeting can be attended by shareholders who submitted, to the entity keeping the securities account, a request for issue of a registered certificate of the right to participate in the General Meeting not earlier than after the announcement on the General Meeting being convened and not later than on the first business day following the date of registration for the General Meeting. The Company determines the list of shareholders entitled to participate in the General Meeting on the basis of the list prepared by the entity maintaining the depository of securities, according to the provisions on trade in financial instruments, submitted to the Company not later than a week before the date of the General Meeting.

Shareholders can participate in the General Meeting and exercise the voting right in person or through a proxy. The power of attorney should be made in writing or in electronic form.

Upon arrival at the General meeting, each shareholder on the list of shareholders entitled to participate in the General Meeting reports their attendance (at the shareholder registration point) to the shareholder service team and is entered onto the attendance list. Preparing the attendance list of the General Meeting Participants involves the following tasks:

- 1) verification of identity of the shareholder or their proxy (if the shareholder is represented by a proxy, this fact must be indicated on the attendance list),
- 2) providing the number of shares held by the reporting Participant,
- 3) specifying the number of votes to which the reporting Participant is entitled,
- 4) the Participant placing a signature on the attendance list,
- 5) issue of a voting card, voting instructions and other materials for the meeting to the Participant.

The attendance list is signed by the Chairperson of the General Meeting (the Chairperson) immediately after their election. The Chairperson is competent for resolving complaints regarding this list. The attendance list is made available to the Participants of the General Meeting throughout the time of the meeting and is updated on a current basis.

Upon the request of shareholders holding a tenth of the share capital represented at the General Meeting, the attendance list will be verified by a commission appointed for this purpose, comprising at least three persons, including one chosen by the applicants. If the commission issues a decision disadvantageous to a certain person, that person can appeal to the General Meeting, which will resolve the issue by voting. If a Participant left the room during the General Meeting, the Chairperson corrects the attendance list, making note of the time when the Participant left the room, and recalculates the number of votes and the percentage of represented share capital. After calculations, the Chairperson declares whether the General Meeting has the required quorum and the majority of votes required to adopt resolutions, in particular if votes are planned on resolutions which require the qualified majority of votes.

If a Participant entitled to participate in the General Meeting is late, they should be allowed to attend the meeting. In such a case, the Chairperson orders a correction of the attendance list, marking the arrival time of the delayed Participant and the item of the agenda starting from which this person participates in the General Meeting, and once again calculates the number of votes and quorum represented since the arrival of the latecomer.

Members of the Management Board and the Supervisory Board participate in the General Meeting in composition which allows them to provide factual answers to questions asked during the General Meeting. If attendance of any of the participants of these bodies is impossible for important reasons, the participants of the General Meeting are informed about these reasons.



Members of the Management Board and the Supervisory Board of the Company taking part in the General Meeting should, within their competences and to the extent necessary to resolve issues on the agenda, provide the Participants with explanations and information concerning the Company, subject to restrictions following from the applicable regulations. In cases which require detailed, specialist knowledge of a given discipline, a Member of the Management Board or the Supervisory Board can appoint a person from among the employees of the Company who will provide such information or explanations. The registered auditor conducting the audit of the Company's financial statements is invited to the General Meeting, in particular if the agenda includes an item of the Company's financial issues. The General Meeting can be transmitted via the Internet. Information about public transmission of the meeting will be published on the Company's website immediately before the General Meeting.

The General Meeting is commenced by the President of the Supervisory Board or, if they are absent, the Vice-President of the Supervisory Board or a person appointed by the President or the Vice-President of the Supervisory Board, respectively. The person opening the meeting orders and conducts the election of the Chairperson from among persons who are entitled to vote. Until the above-mentioned elections, the person opening the General Meeting has the Chairperson's rights.

Every Participant of the General Meeting is entitled to run for the Chairperson as well as to present one candidature for this post. The candidate is entered on the list of candidates after stating that they accept the candidature. The Chairperson of the General Meeting is elected in a secret ballot. The person opening the General Meeting supervises the correct course of the ballot and announces its results.

The Chairperson ensures smooth course of the meeting and observance of the rights and interests of all shareholders. The Chairperson should counter, in particular, abuse of Participants' rights and ensure that the rights of minority shareholders are respected. The Chairperson should not resign from their function without material reasons and neither can they, without justified causes, delay the signature of the minutes of the General Meeting.

Duties and rights of the Chairperson of the General Meeting, apart from those listed in the Regulations of the General Meeting, include in particular:

- 1) declaring correctness of the manner in which the General Meeting was convened and the ability to adopt resolutions,
- 2) presenting the announced agenda of the General Meeting,
- 3) giving floor and removing it from a Participant who voices their opinion clearly off-topic or violates the principles of decent behaviour with their speech,
- 4) ordering ballots, supervising their correct course and announcing their results,
- 5) removing persons who are not entitled to participate in the General Meeting or who interrupt the meeting from the room,
- 6) ordering breaks in meetings, subject to the provisions of Regulations of the General Meeting,
- 7) resolving doubts concerning regulations, if needed after obtaining the opinions of persons listed in the Regulations of the General Meeting,
- 8) closing the General Meeting after the meeting agenda has been exhausted.

The Chairperson is entitled to appoint a Secretariat of the General meeting (the Secretariat) comprising 1–3 persons for cooperation with the Chairperson during the General Meeting. The Chairperson of the General Meeting is entitled to consult the notary public, lawyers and other independent consultants appointed by the Management Board of the Company to service the General Meeting. The Chairperson informs the attendants about the presence of the above-mentioned persons at the General Meeting.

Every Participant of the General Meeting is entitled to submit a motion regarding formal issues. Motions regarding formal issues are motions regarding the manner of holding the meeting and voting, in particular motions for:

- 1) postponement or closure of discussion,
- 2) breaks in the meeting,
- 3) the voting order of motions submitted under a given item of the agenda,
- 4) closure of the list of candidates upon elections.

Subject to paragraph 5 of the Regulations of the General Meeting, motions regarding formal issues are resolved by the Chairperson and if any Participant objects to their decision — by voting.

The Chairperson may order a short break in the meeting, in particular in order to allow:

- 1) formulation of conclusions,
- 2) agreement upon the Participants' positions,
- 3) obtaining opinions of persons referred to in § 6 paragraph 5 of the Regulations of the General Meeting,
- 4) allow the Management Board and the Supervisory Board to assume their positions,
- 5) handling other cases which require such breaks, in particular if the General Meeting lasts longer than 2 hours.

The ordered breaks cannot be aimed at impeding Participants in exercising their rights. Should a break in the meeting cause postponement of the General Meeting at least until the following day, the General Meeting must adopt the relevant resolution with at least 2/3 of votes. In total, such breaks cannot be longer than 30 days.

Subject to the provisions of § 8 of the Regulations of the General Meeting, every Participant should voice their opinion only on matters covered by the adopted agenda which are currently being considered, in particular by asking questions to the representatives of the Company. Motions concerning draft resolutions or amendment thereof should be submitted, along with their justification, in writing to the Secretariat, or in the case of lack thereof, to the Chairperson. When taking the floor or submitting a motion, the Participant should provide their full name and, if they are not applying on their own behalf, also details of the shareholder they are representing.

The Chairperson gives the floor to Participants according to the order of applications and for the purpose of retorts — after the list of persons speaking on a given issue on the agenda is exhausted. The Chairperson can give the floor to the members of the Company's Supervisory Board and Management Board out of turn. The Chairperson can limit the speaking time of a Participant of the General Meeting if the number of Participants who intend to take part in the discussion is so large that lack of time limits for their speeches could, taking into account the agenda, render impossible conducting the General Meeting efficiently. Restriction of the speaking time cannot cause a restriction in the shareholders' rights. The Participant can also voice their opinion by submitting a written statement, question or motion. After the list of speakers has been exhausted, the Chairperson informs the General Meeting about the content of such statements and organises explanations and, if needed, puts the submitted motions to vote. If there are doubts regarding the motion under vote, before voting, the Participant can ask the Chairperson to read the motion out. The Participant of the General Meeting who demanded an objection to be recorded in the minutes after the General Meeting adopted a resolution against which they had voted can briefly motivate the objection.

The Company publishes questions asked in relation with the General Meeting as well as provided answers on its website, immediately after the end of the General Meeting.

Resolutions cannot be adopted with respect to issues not covered by the agenda unless the entire share capital is represented at the General Meeting and none of the attendants objects to adoption of the resolution. The General Meeting can adopt, at any time, a resolution on convening an Extraordinary General Meeting, resolutions regarding the announced agenda and resolutions of organisational nature, which include:

- 1) a resolution on changing the order of individual discussed items on the agenda,
- 2) a resolution on removing individual issues from the agenda,
- 3) a resolution on the method of voting,
- 4) a resolution on breaks in the meeting.

A motion for a resolution on removing a specific issue from the agenda should be motivated. A matter whose consideration is obligatory pursuant to applicable regulations cannot be removed from the agenda.

A resolution is deemed adopted if its adoption was voted for by shareholders representing the majority of votes required according to the provisions of the Commercial Companies Code or the Articles of Association. If amendments were suggested for a draft resolution, these suggestions, subject to § 8 paragraph 2 of the

Regulations of the General Meeting, are put to vote in the order determined by the Chairperson and subsequently, a vote is held on the entire draft resolution, together with adopted amendments.

The Chairperson orders a secret ballot for elections and in the case of motions for dismissal of members of the Company's bodies, for holding them liable as well as in the case of personnel issues. The Chairperson also orders a secret ballot on other issues upon request of at least one Participant, except for votes on motions relating to formal issues. Voting and counting votes are assisted by a company which counts votes using a computer technique or in a different manner, specified in the voting instruction submitted by the Chairperson.

The Supervisory Board comprises from five to seven members, appointed for a joint term of office in a manner specified in the Company's Articles of Association. The number of members of the Supervisory Board for a given term is determined by the General Meeting.

The principles below apply to appointment of members of the Supervisory Board by the General Meeting.

A candidate for an independent member of the Supervisory Board submits their agreement to be appointed member of the supervisory board and a curriculum vitae, as well as a written declaration of meeting the independence criteria referred to in the Company's Articles of Association. Every Participant of the General Meeting is entitled to put forward candidatures for a member of the Supervisory Board. The candidature put forward is accompanied by a justification and a short curriculum vitae of the candidate, which covers in particular their education and hitherto work experience.

The candidate put forward is added to the list of candidates after declaring acceptance of the candidature and compliance with the criteria, adopted by the Company, necessary to be recognised as an independent member of the Supervisory Board, as well as submitting other declarations, if any, required by generally applicable provisions. A candidate who is absent at the General Meeting is entered onto the list of candidates after the person who proposes them presents:

- 1) the candidate's written agreement along with a declaration of compliance with the independence requirements, or
- 2) a written declaration concerning the candidate being put forth with respect to agreement for candidature and compliance with the independence criteria and
- 3) the candidate's other declarations required by the provisions of the law, submitted in the appropriate form.

Upon the request of the Chairperson or another Participant, the list of candidates for the Supervisory Board can be closed by the Chairperson if the number of elected candidates is at least equal to the number of posts to be appointed in the Supervisory Board. The list of proposed candidates for members of the Supervisory Board is prepared in alphabetic order by the Secretariat of the General Meeting.

Voting for the members of the Supervisory Board takes place separately for each candidate, in a secret ballot, according to absolute majority of votes. A vote cast for a number of candidates exceeding the number of mandate posts is invalid. The Supervisory Board comprises candidates who obtained the largest number and the absolute majority of votes; if there is an equal number of votes for the last mandate post, another vote is held for these candidates, with the above principles applying respectively. The provisions of this section also apply if the agenda of the General Meeting covers changes in the composition of the Supervisory Board.

A special voting procedure is ordered by the Chairperson of the General Meeting in the case of group elections to the Supervisory Board. Upon the motion of shareholders representing at least one fifth of the share capital, the Supervisory Board should be elected by way of voting in separate groups even if the Articles of Association provide for a different manner of appointment of the Supervisory Board. During a group ballot, one share corresponds to one vote. Groups of shareholders are created at the General Meeting in order to elect members of the Supervisory board, provided that the number of created groups corresponds to the number of posts to be appointed in the Supervisory Board. A shareholder can only be a member of one voting group. The minimum number of shares needed for creating a group is established by dividing the number of shares represented at the General Meeting by the number of mandates to be appointed in the Supervisory Board. The group of shareholders is entitled to elect the number of members of the Supervisory Board equal to the number of times the shares represented by it exceed the calculated minimum. Groups of shareholders can

merge in order to make optimal use of jointly held shares to elect members of the Supervisory Board. For each group, the Chairperson orders a separate attendance list to be prepared. Each group holds a vote for the chairperson of the meeting of a given group, who will ensure organisation of the ballot within the group, i.e. proposing candidates, holding ballots and minutes from the group's meeting being drawn up by the notary public. Each of the established groups is provided with a separate room to hold the elections unless this is impossible for organisational reasons. In such a case, groups take turns and use a single room. Each group holds the ballot before the notary public, who draws up the minutes; the order is determined by the Chairperson of the General Meeting. After holding a group ballot, the chairperson of the group delivers written results of secret ballots held in groups to the Chairperson of the General Meeting. The Chairperson of the General Meeting announces the composition of the Supervisory Board after collecting all results of group ballots.

Resolutions of the General Meeting are recorded in the minutes by the notary public, otherwise being null and void. The minutes are signed by the notary public and the Chairperson of the General Meeting. The minutes declare that the General Meeting has been convened correctly and can adopt resolutions; they also list the adopted resolutions and next to each of them, the number of shares from which valid votes were cast, the percentage of these shares in the share capital, the total number of valid votes, the number of votes for, against and withheld as well as voiced objections. The minutes are supplemented by the attendance list with signatures of the Participants. The Management Board of the Company enters the extract from the minutes to the minutes book. The minutes book is also supplemented with evidence for convening the General Meeting.

On its website, the Company publishes the ballot results within a week of the conclusion of the General Meeting. The ballot results will be available until the deadline for appealing against the resolution of the General Meeting.

General Meetings can be recorded; in such cases, the recording of the meeting will be published on the Company's website immediately after conclusion of the General Meeting.

#### **21.11 Principles of introducing amendments to the articles of association or memorandum of association of the Company**

Adopting resolutions concerning amendments to the Articles of Association of the Company, including increases or decreases in the share capital, is the competence of the Company's General Meeting.

In cases concerning amendments to the Articles of Association, including issue of new shares, resolutions of the General Meeting are adopted by the majority of  $\frac{3}{4}$  votes cast (except for amendments for which the Commercial Companies Code provides otherwise).

#### **21.12 Composition and operation of the company's managing and supervisory bodies and their committees**

##### **MANAGEMENT BOARD**

The composition of the Management Board as at 31.12.2012 was as follows:

- Grzegorz Pinkosz — President of the Management Board
- Dariusz Hajek — Vice-President of the Management Board

The Management Board operates on the basis of the Articles of Association of the Company, Regulations of the Management Board and in accordance with adopted principles of corporate governance.

The Management Board handles the affairs of the Company and led by the President of the Management Board, manages the Company and represents it in front of third parties. The manner of representation of the Company is specified in the Articles of Association, according to which the persons authorised to make declarations of will and place signatures on behalf of the Company are the President of the Management Board individually or the Vice-President of the Management Board jointly with a member of the Management Board.

Detailed principles of operation of the Management Board are specified in the Regulations of the Management Board, published on the website [www.yato.pl](http://www.yato.pl)

**SUPERVISORY BOARD**

As of 31 December 2012, the composition of the Supervisory Board was as follows:

- Piotr Mondalski — President of the Supervisory Board — since 14 February 2011
- Jan Szmidt — Vice-President of the Supervisory Board — since 14 February 2011  
(Member of the Supervisory Board since 13 January 2011)
- Tomasz Koprowski — Member of the Supervisory Board — since 14 February 2011
- Romuald Szałagan — Member of the Supervisory Board — since 14 February 2011
- Piotr Wojciechowski — Member of the Supervisory Board — since 13 January 2011
- Grzegorz Maciąg — Member of the Supervisory Board — since 14 February 2011
- Dariusz Górka — Member of the Supervisory Board — since 14 February 2011

Pursuant to the Resolution No 1/07/2011 of 27 July 2011, the Supervisory Board, fulfilling the obligation referred to in Article 86 of the Act of 7 May 2009 on registered auditors and their council, entities entitled to provide an audit of the financial statements and public supervision, appointed from among its members the Audit Committee in the following composition:

- Piotr Wojciechowski
- Dariusz Górka
- Grzegorz Maciąg

The member of the Audit Committee who meets the conditions of independence, has qualification in the field of accounting and financial revisions provided for in the Act is Dariusz Górka.

**The tasks of the Audit Committee include:**

- monitoring the Company's financial reporting process and performing financial revision tasks, among others by monitoring the process of preparation of the financial statements and monitoring reliability of the financial information presented by the Company;
- monitoring the effectiveness of internal control systems, internal audit (if appointed) and risk management through, among others, reviewing, at least once a year, the internal control and risk management procedures in order to ensure compliance with the provisions and internal regulations, as well as assessment of compliance with risk management principles and presenting recommendations in this scope;
- monitoring performance of financial revision tasks, among other through monitoring independence of the auditor with respect to audit conducted by them and discussion of the audit process with the auditor;
- monitoring the independence of the registered auditor and the company authorised to audit financial statements, including rendering services other than financial review activities.

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Grzegorz Pinkosz  
President of the  
Management Board

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Dariusz Hajek  
Vice-President of the Management  
Board

Wrocław, 10 April 2013