# SELECTED FINANCIAL DATA

**Selected financial data relating to the consolidated financial statement of Toya Group in Wrocław**

| | PLN thousands | | EUR thousands | |
|---|---|---|---|---|
| | **period from 1.01.2015 to 31.12.2015** | **period from 1.01.2014 to 31.12.2014** | **period from 1.01.2015 to 31.12.2015** | **period from 1.01.2014 to 31.12.2014** |
| I. Revenue | 282 642 | 262 179 | 67 540 | 62 583 |
| II. Operating profit | 32 615 | 34 139 | 7 794 | 8 149 |
| III. Profit before income tax | 31 907 | 33 259 | 7 624 | 7 939 |
| IV. Net profit | 25 395 | 26 649 | 6 068 | 6 361 |
| V. Total comprehensive income | 26 499 | 28 379 | 6 332 | 6 774 |
| VI. Weighted average number of shares | 78 255 | 76 341 | 78 255 | 76 341 |
| VII. Earnings per share (PLN/EUR) | 0,32 | 0,35 | 0,08 | 0,08 |
| VIII. Net cash from operating activities | 27 561 | (5 549) | 6 587 | (1 324) |
| IX. Net cash from investing activities | (5 522) | (2 878) | (1 320) | (687) |
| X. Net cash from financing activities | (26 845) | 11 162 | (6 415) | 2 664 |
| XI. Total net cash | (4 806) | 2 735 | (1 148) | 653 |

| | **As at 31 December 2015** | **As at 31 December 2014** | **As at 31 December 2015** | **As at 31 December 2014** |
|---|---|---|---|---|
| XII. Non-current assets | 26 404 | 23 288 | 6 196 | 5 464 |
| XIII. Current assets | 170 024 | 185 050 | 39 898 | 43 415 |
| XV. Total assets | 196 428 | 208 338 | 46 094 | 48 879 |
| XVI. Non-current liabilities | 740 | 907 | 174 | 213 |
| XVII. Current liabilities | 32 603 | 70 895 | 7 651 | 16 633 |
| XVII. Total equity | 163 085 | 136 536 | 38 269 | 32 033 |

The following currency rates were applied in the calculation of selected financial data in EUR:

- for the calculation of comprehensive income and cash flow for the period from 1 January 2015 to 31 December 2015 the rate of **4,1848 PLN / EUR (*)**
- for the calculation of comprehensive income and cash flow for the period from 1 January 2014 to 31 December 2014 the rate of **4,1893 PLN / EUR (*)**
- - for the calculation of assets, liabilities and equity at 31 December 2014 at the rate of **4,2615 PLN / EUR**
- for the calculation of assets, liabilities and equity at 31 December 2014 at the rate of **4,2623 PLN / EUR**

(*) the rates represent the arithmetic mean of current average Exchange rates announced by the NBP on the last day of each month during the periods from January to December respectively of 2015 and 2014.

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

## *Opinion on the consolidated financial statements*

We have audited the accompanying consolidated financial statements of the TOYA Spółka Akcyjna Capital Group (hereinafter referred to as the "Group") in which the parent company is TOYA Spółka Akcyjna (hereinafter referred to as the "Parent Company") with its registered office in Wrocław at ul. Sołtysowicka 13/15, comprising consolidated statement of financial position prepared as at 31 December 2015, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and additional information regarding adopted accounting principles as well as other notes and explanations.

*Responsibility of the Management Board and Members of the Supervisory Board*

The Management Board of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements, preparation of a Directors' Report and for the correctness of accounting records, pursuant to the Accounting Act of 29 September 1994 ("the Accounting Act" — Journal of Laws of 2013, item 330, as amended). The Management Board of the Parent Company is also responsible for such internal control as the Management Board deems necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Management Board and Members of the Supervisory Board of the Parent Company are required to ensure that the consolidated financial statements and the directors' report for the Group meet the requirements set out in the Accounting Act.

*Responsibility of the registered auditor*

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express, based on this audit and the report, an opinion on whether the financial statements present fairly, in all material respects, the Group's financial position and results in accordance with the applicable regulations and adopted accounting policies, and whether the accounting records constituting the basis for their preparation are properly maintained.

We conducted our audit in accordance with the provisions of Chapter 7 of the Accounting Act and National Standards of Auditing in the wording of the International Standards of Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

The audit involved performing procedures to obtain evidence of examining the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the registered auditor considers internal control relevant to the Group's preparation and presentation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluation of the overall presentation of the consolidated financial statements.

*PricewaterhouseCoopers Sp. z o.o., Aleja Armii Ludowej 14, 00-638 Warszawa, Polska*
*Telefon +48 22 746 4000, Faks +48 22 746 4040, www.pwc.pl*

PricewaterhouseCoopers Sp. z o.o. wpisana jest do Krajowego Rejestru Sądowego prowadzonego przez Sąd Rejonowy dla m. st. Warszawy, pod numerem KRS 0000044655, NIP 526-021-02-28. Kapitał zakładowy wynosi 10.363.900 złotych. Siedzibą Spółki jest Warszawa, Al. Armii Ludowej 14.

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

We believe that the audit evidence we have obtained provides a sufficient and reasonable basis for expressing our opinion on the audit.

*Opinion*

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

a. give a true and fair view of the Group's financial position as at 31 December 2015 and the financial result and cash flows for the financial year from 1 January to 31 December 2015, in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union and the adopted accounting policies;

b. comply in terms of form and content with the laws applicable to the Group including the requirements of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a Member State (the "Decree" – Journal of Laws of 2014, item 133);

c. have been prepared on the basis of properly maintained consolidation documentation.

***Report on other legal and regulatory requirements***

*Opinion on the Directors' Report*

The information in the directors' report for the Group for the financial year from 1 January 2015 to 31 December 2015 has been presented in accordance with the provisions of Article 49(2) of the Accounting Act and of the Decree, and is consistent with the information presented in the audited consolidated financial statements.

In the light of our knowledge about the Group and its environment obtained during our audit, we have not identified any material misstatements in the directors' report.

In the statement on the application of the corporate governance, which is a separate part of the directors' report, the Group has disclosed information in line with the scope specified in the Decree. This information is consistent with the applicable regulations and information contained in the consolidated financial statements.

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

Anna Antoszewska

Key Registered Auditor
No 12807

Wrocław, 17 March 2016



*Translation note:*
*This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

# TOYA S.A. Capital Group

**Consolidated financial statements**

**for the year ended 31 December 2015**

# Contents

(amounts are expressed in PLN thousand, unless specified otherwise)

## Consolidated statements of financial position

| | Note | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 21,271 | 18,754 |
| Intangible assets | 9 | 2,640 | 1,813 |
| Goodwill | 7, 10 | 786 | 740 |
| Trade and other receivables | 11 | 341 | 356 |
| Deferred income tax assets | 30 | 1,366 | 1,625 |
| | | 26,404 | 23,288 |
| **Current assets** | | | |
| Inventory | 12 | 112,460 | 122,429 |
| Trade and other receivables | 13 | 54,068 | 54,845 |
| Income tax receivables | | 65 | - |
| Cash and cash equivalents | 14 | 3,431 | 7,776 |
| | | 170,024 | 185,050 |
| **Total assets** | | **196,428** | **208,338** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity per shareholders of the parent company** | | | |
| Share capital | 15 | 7,833 | 7,815 |
| Share premium | | 35,677 | 35,351 |
| Other comprehensive income | | 2,143 | 1,039 |
| Other reserve capital | 16 | - | 294 |
| Result on transactions with non-controlling interests | 17 | (6,270) | (6,270) |
| Retained earnings | 18 | 123,702 | 98,307 |
| **Total equity** | | **163,085** | **136,536** |
| **Long-term liabilities** | | | |
| Liabilities from finance leases | | 500 | 678 |
| Liabilities from employee benefits | | 240 | 229 |
| | | 740 | 907 |
| **Short-term liabilities** | | | |
| Trade and other payables | 20 | 22,793 | 34,780 |
| Liabilities from employee benefits | 21 | 2,105 | 1,864 |
| Liabilities from loans | 19 | 6,662 | 32,470 |
| Liabilities from finance leases | | 176 | 166 |
| Liabilities from current income tax | 30 | 533 | 1,310 |
| Provisions | 24 | 334 | 305 |
| | | 32,603 | 70,895 |
| **Total liabilities** | | 33,343 | 71,802 |
| **Total equity and liabilities** | | **196,428** | **208,338** |

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(amounts are expressed in PLN thousand, unless specified otherwise)

## Consolidated statements of profit or loss and other comprehensive income

| | Note | 12 months ended 31 December | |
|---|---|---|---|
| | | **2015** | **2014** |
| Revenue from sales of goods | 25, 34 | 282,642 | 262,179 |
| Cost of goods sold | 26, 34 | (186,025) | (168,920) |
| **Gross sales profit** | | **96,617** | **93,259** |
| Selling costs | 26 | (48,185) | (43,801) |
| Administrative expenses | 26 | (14,613) | (12,958) |
| Other operating revenue | 28 | 986 | 329 |
| Other operating expenses | 28 | (2,190) | (2,690) |
| **Operating profit** | | **32,615** | **34,139** |
| Financial revenue | 29 | 207 | 196 |
| Financial expenses | 29 | (915) | (1,076) |
| **Profit before tax** | | **31,907** | **33,259** |
| Income tax | 30 | (6,512) | (6,610) |
| **Net profit** | | **25,395** | **26,649** |
| *Items that can be transferred to profit or loss:* | | | |
| Currency translation differences | | 1,085 | 1,760 |
| *Items that cannot be transferred to profit or loss* | | | |
| Actuarial gains or losses | | 23 | (37) |
| Income tax on other comprehensive income | | (4) | 7 |
| **Other net comprehensive income** | | **1,104** | **1,730** |
| **Net comprehensive income for the financial year** | | **26,499** | **28,379** |
| **Net profit for the year attributable to:** | | | |
| Shareholders of the parent company | | 25,395 | 26,540 |
| Non-controlling interests | | - | 109 |
| **Comprehensive income for the year attributable to:** | | | |
| Shareholders of the parent company | | 26,499 | 28,236 |
| Non-controlling interests | | - | 143 |
| **Other comprehensive income attributable to:** | | | |
| Shareholders of the parent company | | 1,104 | 1,696 |
| Non-controlling interests | | - | 34 |
| **Basic/diluted earnings per share (PLN)** | 31 | **0.32** | **0.35** |

(amounts are expressed in PLN thousand, unless specified otherwise)

## Consolidated statements of changes in equity

| | Attributable to shareholders of the parent company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Other comprehensive income | Other reserve capital | Result on transactions with non-controlling interests | Retained earnings | Total equity per shareholders of the parent company | Equity attributable to non-controlling interests | Total equity |
| **As at 1 January 2015** | **7,815** | **35,351** | **1,039** | **294** | **(6,270)** | **98,307** | **136,536** | **-** | **136,536** |
| Net profit | - | - | - | - | - | 25,395 | 25,394 | - | 25,395 |
| *Other comprehensive income* | | | | | | | | | |
| Actuarial gains or losses | - | - | 23 | - | - | - | 23 | - | 23 |
| Income tax on other comprehensive income | - | - | (4) | - | - | - | (4) | - | (4) |
| Currency translation differences | | - | 1,085 | - | - | - | 1,085 | - | 1,085 |
| **Total comprehensive income** | **-** | **-** | **1,104** | **-** | **-** | **25,395** | **26,498** | **-** | **26,499** |
| **Transactions with owners** | | | | | | | | | |
| Issue of shares | 18 | 326 | - | (326) | - | - | 18 | - | 18 |
| Share option scheme | - | - | - | 32 | - | - | 32 | - | 32 |
| **Total transactions with owners** | **18** | **326** | **-** | **(294)** | **-** | **-** | **50** | **-** | **50** |
| **As at 31 December 2015** | **7,833** | **35,677** | **2,143** | **-** | **(6,270)** | **123,702** | **163,084** | **-** | **163,085** |
| | | | | | | | | | |
| **As at 1 January 2014** | **7,540** | **24,722** | **(657)** | **1,333** | **-** | **86,119** | **119,057** | **1,974** | **121,031** |
| Net profit | - | - | - | - | - | 26,540 | 26,540 | 109 | 26,649 |
| *Other comprehensive income* | | | | | | | | | |
| Actuarial gains or losses | - | - | (37) | - | - | - | (37) | - | (37) |
| Income tax on other comprehensive income | - | - | 7 | - | - | - | 7 | - | 7 |
| Currency translation differences | - | - | 1,726 | - | - | - | 1,726 | 34 | 1,760 |
| **Total comprehensive income** | **-** | **-** | **1,696** | **-** | **-** | **26,540** | **28,236** | **143** | **28,379** |
| **Transactions with owners** | | | | | | | | | |
| Transactions with non-controlling interests | - | - | - | - | (6,270) | - | (6,270) | (2,117) | **(8,387)** |
| Payment of dividend | - | - | - | - | - | (14,352) | (14,352) | - | **(14,352)** |
| Issue of shares | 275 | 10,629 | - | (960) | - | - | 9,944 | - | **9,944** |
| Share option scheme | - | - | - | (79) | - | - | (79) | - | **(79)** |
| **Total transactions with owners** | **275** | **10,629** | **-** | **(1,039)** | **(6,270)** | **(14,352)** | **(10,757)** | **(2,117)** | **(12,874)** |
| **As at 31 December 2014** | **7,815** | **35,351** | **1,039** | **294** | **(6,270)** | **98,307** | **136,536** | **-** | **136,536** |

(amounts are expressed in PLN thousand, unless specified otherwise)

## Consolidated cash flow statement

| | Note | 12 months ended 31 December | |
|---|---|---|---|
| | | **2015** | **2014** |
| **Cash flows from operating activities** | | | |
| **Gross profit** | | **31,908** | **33,259** |
| **Adjustments for:** | | | |
| Amortisation and depreciation | | 3,001 | 2,479 |
| Net interest | | 686 | 856 |
| Profit/Loss on investing activities | | (1) | 101 |
| Foreign exchange gains/losses | | 3 | (10) |
| Valuation of share options | | 32 | (79) |
| **Changes in balance sheet items:** | | | |
| Change in trade and other receivables | 14 | 1,755 | (6,899) |
| Change in inventories | 14 | 10,010 | (29,597) |
| Change in provisions | 14 | 28 | 21 |
| Change in trade and other payables | 14 | (12,995) | 469 |
| Change in employee benefit liabilities | 14 | 233 | (249) |
| Income tax paid | | (7,098) | (5,900) |
| **Net cash from operating activities** | | **27,561** | **(5,549)** |
| **Cash flows from investing activities** | | | |
| Sale of property, plant and equipment | | 62 | 37 |
| Purchases of property, plant and equipment and intangible assets | | (5,589) | (2,925) |
| Interest received | | 5 | 10 |
| **Net cash from investing activities** | | **(5,522)** | **(2,878)** |
| **Cash flows from continuing financing activities** | | | |
| Proceeds from loans | | - | 28,476 |
| Repayments of loans | | (25,768) | (3,452) |
| Repayment of liabilities arising from finance leases | | (169) | (54) |
| Interest paid on loans | | (898) | (998) |
| Interests paid on leases | | (28) | (13) |
| Proceeds from shares issues | | 18 | 1,555 |
| Dividends paid | | - | (14,352) |
| **Net cash from financing activities** | | **(26,845)** | **11,162** |
| **Net change in cash** | | **(4,806)** | **2,735** |
| **Cash and cash equivalents at the beginning of the period** | 14 | **7,776** | **5,021** |
| Result on translation of cash and cash equivalents | | 461 | 20 |
| **Cash and cash equivalents at the end of the period** | 14 | **3,431** | **7,776** |

## Accounting policy and other explanatory notes

### 1. General information

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

The Company is a successor of the civil law partnership "TOYA IMPORT-EKSPORT" with its registered office in Wrocław, whose partners, given the scale of the business and its rapid development, resolved to transfer the business in 1999 to a newly established joint stock company TOYA S.A. with its registered office in Wrocław.

The Company was incorporated by virtue of a Notarial Deed of 17 November 1999 drawn up by Notary Public Jolanta Ołpińska in the Notarial Office in Wrocław (Rep. A No 5945/99).Next, 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, 6$^{th}$ Commercial Division, under entry No RHB 9053.By virtue of a decision of 5 December 2001, the District Court for Wrocław-Fabryczna, 6$^{th}$ Commercial Division of the National Court Register, entered the Company into the Register of Entrepreneurs under entry No KRS 0000066712.

As at 31 December 2015, TOYA S.A. operates one branch – in Nadarzyn.

The Company's Statistical Identification Number (REGON) is 932093253, the Nadarzyn Branch has been assigned the Statistical Identification Number (REGON): 932093253-00031.

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 (Romania, Hungary, Czech Republic, Germany, the Balkan States, Russia, Lithuania, Ukraine, Belarus, Moldova). In 2003, a subsidiary, TOYA Romania S.A., was established, whose business includes sales of hand and power tools in Romania. This company offers the same products and brands as those offered by the Company in Poland. In 2013, the company Yato Tools (Shanghai) Co. Ltd., located in China was included in the group of entities subject to full consolidation. The entity deals in the distribution of YATO brand tools and power tools in China and in certain other foreign markets not supported by the Parent Company.

The duration of the Parent Company is unlimited.

As at 31 December 2015, the Management Board of the Parent Company was composed of the following members:

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

As at 31 December 2015, the Supervisory Board of the Parent Company was composed of the following members:

- Piotr Mondalski — President of the Supervisory Board
- Jan Szmidt — Vice-President of the Supervisory Board
- Tomasz Koprowski — Member of the Supervisory Board
- Dariusz Górka — Member of the Supervisory Board
- Grzegorz Maciąg — Member of the Supervisory Board

(amounts are expressed in PLN thousand, unless specified otherwise)

In 2015, there were no changes in the composition of the Management Board and the Supervisory Board.

## 2. Group structure

As at 31 December 2015, the Group comprised the following entities:

| Entity name | Registered office | Business profile | Type of equity link | % of shares and votes held | Date of assuming control | Method of consolidation as at the end of the reporting period |
|---|---|---|---|---|---|---|
| TOYA S.A. | Wrocław, Poland | Distribution of hand and power tools | Parent Company | Not applicable | Not applicable | Full consolidation method |
| Toya Romania S.A. | Bucharest, Romania | Distribution of hand and power tools | Subsidiary | 99.99 | November 2003 | Full consolidation method |
| Yato Tools (Shanghai) Co., Ltd * | Shanghai, China | Distribution of hand and power tools | Subsidiary | * 100.00 | January 2013 | Full consolidation method |

* 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 51% of the shares in the share capital, the remaining 49% was acquired by Saame Tools (Shanghai) Import & Export Co., Ltd China. On 2 January 2013, TOYA S.A. increased the share capital in Yato China Trading Co. Ltd. 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. In April 2013, the name of the company was changed to Yato Tools (Shanghai) Co., Ltd. (hereinafter: Yato Tools). On 16 July 2014 TOYA S.A. acquired stake in the share capital, obtaining a total of 100% share in the entity's equity.

## 3. Summary of significant accounting policies

The most significant accounting principles applied for the drawing up of these consolidated financial statements have been presented below. Those principles were applied in all periods presented in a continuous way, unless stated otherwise.

### 3.1 Basis of preparation and change in accounting policies

These consolidated financial statements of the Group for the financial year ended 31 December 2015 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and interpretations issued by the International Accounting Standards Board, as adopted by the European Union ("EU").

These consolidated financial statements have been prepared in accordance with IFRS and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which were issued and in effect as at the reporting date, i.e. 31 December 2015.

Apart from the above, the policies described below have been consistently applied to all the periods presented, except for changes following from the application of new or amended IFRS to the extent prospective application was required.

These consolidated financial statements have been prepared in accordance with the historical cost convention.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of significant accounting estimates. It also requires the Management Board of the Parent Company to exercise judgement in the process of applying the accounting policies adopted by the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are material from the point of view of the consolidated financial statements are disclosed in note 4.

#### Approval of the financial statements

These financial statements were approved for publication and signed by the Management Board of the Parent Company on 17 March 2016.

#### Going concern

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of approval of these consolidated financial statements, no facts or circumstances are known that would indicate any threat to the Group companies continuing as going concerns.

### 3.2 Effect of new or amended standards and interpretations on the Group's consolidated financial statements

These consolidated financial statements have been prepared on the basis of the EU IFRS issued and effective as at the reporting date, i.e. 31 December 2015.

The EU IFRS comprise all International Accounting Standards, International Financial Reporting Standards and related Interpretations, excluding Standards and Interpretations awaiting endorsement by the European Union.

### a) New standards, interpretations and amendments to existing standards effective in 2015

The following new and revised standards and interpretations, which became effective on 1 January 2015, were applied for the first time in these consolidated financial statements:

- **Annual improvements to IFRS 2011–2013**

In December 2013, the International Accounting Standards Board issued “Annual improvements to IFRS 2011-2013”, which consist of improvements to 4 standards. The improvements include changes in presentation, recognition and measurement, as well as terminology and editorial changes.

Application of the standard had no impact on the consolidated financial statements.

- **IFRIC 21 “Levies”**

The interpretation clarifies the accounting recognition of obligations to pay levies that are not income taxes. Obligating event is an event defined in the law that triggers the payment of the levy. The mere fact that an entity will continue to operate in the next period, or draws up a report in accordance with the going concern principle, does not create an obligation to recognise a liability. The same principles for liability recognition apply to annual and interim reports. The application of the interpretation to liabilities arising from emission rights is optional.

Application of the standard had no impact on the consolidated financial statements.

### b) New standards, interpretations and amendments, which are not yet effective and have not been applied early by the Company

The following new standards, interpretations and amendments have been published and are effective for reporting periods starting on or after 1 January 2016:

- **IFRS 9 “Financial Instruments”**

IFRS 9 replaces IAS 39. The standard is effective for annual periods starting on or after 1 January 2018.

The standard introduces a single classification model under which assets can be measured either at fair value or at amortised cost. The classification is performed as at the initial recognition and depends on the financial instrument management model adopted by the entity, as well as the characteristics of contractual cash flow from those instruments.
IFRS 9 introduces a new model for the determination of revaluation write-downs — the model of expected credit losses.
Most of the IAS 39 requirements with regard to classification and measurement of financial liabilities have been moved to IFRS 9 in an unchanged form. The key change is the requirement imposed on entities – to publish changes of own credit risk from financial liabilities earmarked for fair value measurement by the financial result in other total income.
In the area of hedge accounting, the objective of the amendments is to align hedge accounting to risk management practices better.

The Group will apply IFRS 9 after it is approved by the European Union.

The Group is currently assessing the impact of these amendments on the consolidated financial statements.

- **Defined benefit plans: Employee contributions – amendments to IAS 19**

Amendments to IAS 19 "Employee benefits" were published by the International Accounting Standards Board in November 2013 and are effective for annual periods starting on or after 1 July 2014.
The amendments allow entities to recognise employee contributions as a reduction in the employment costs in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

The Group will apply the amendments to IAS 19 as of 1 January 2016.

Those amendments will have no impact on the consolidated financial statements.

- **Improvements to IFRSs 2010–2012**

In December 2013, the International Accounting Standards Board issued "Improvements to IFRSs 2010–2012" which consist of improvements to 7 standards. Improvements contain changes in the presentation, recognition and valuation, as well as terminological and editing changes. Improvements are effective in the European Union for annual periods starting on or after 1 February 2015.

The Group will apply the above Improvements to IFRSs as of 1 January 2016.

Those amendments will have no material impact on the consolidated financial statements.

- **IFRS 14 "Regulatory deferral accounts"**

IFRS 14 is effective for annual periods starting on or after 1 January 2016. The standard permits first-time adopters of IFRS to continue to recognise amounts related to rate regulation in accordance with their previously binding accounting policies. To enhance comparability with entities that already apply IFRS and do not recognise such amounts, IFRS 14 requires that the effect of rate regulation must be presented separately from other items both in the statements of financial position as well as in the income statements and statements of other comprehensive income.

The Group will apply the above Improvements to IFRSs as of 1 January 2016.

Application of the standard will have no impact on the consolidated financial statements.

- **Amendments to IFRS 11 regarding acquisitions of interests in joint operations**

This amendment to IFRS 11 regulates that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The amendment is effective in the European Union for annual periods starting on 1 January 2016.

The Group will apply the amendment as of 1 January 2016.

Application of the standard will have no impact on the consolidated financial statements.

- **Amendments to IAS 16 and IAS 38 regarding depreciation and amortisation**

The amendment clarifies that a depreciation method that is based on revenue is not appropriate because the revenue generated in the business which uses the asset also reflects factors other than the consumption of the economic benefits of the asset.
The amendment is effective in the European Union for annual periods starting on 1 January 2016.

The Group will apply the amendment as of 1 January 2016.
The amendment will have no impact on the consolidated financial statements.

- **IFRS 15 "Revenue from contracts with customers"**

IFRS 15 "Revenue from Contracts with Customers" was issued by the International Accounting Standards Board on 28 May 2014 and is effective for annual periods starting on or after 1 January 2018.

The rules provided for in IFRS 15 will apply to all contracts resulting in revenue. The fundamental principle of the new standard is to recognise revenue at the time of transfer of goods or services to the client, in the amount of the transaction price. Any goods or services sold in packages that can be distinguished within the package are to be reported separately; moreover, any discounts and rebates on the transaction price should in principle be allocated to the individual elements of the package. In the case where the amount of revenue is variable, in accordance with the new standard, the amount of variables is included in the revenue, if there is a high probability that in the future there will be no reversal of the recognition of revenue as a result of the revaluation. Furthermore, in accordance with IFRS 15 costs incurred to acquire and secure a contract with a customer must be activated and accounted for over the period of consumption of the benefits of this contract.

As at the date of drawing up these consolidated financial statements, IFRS 15 has not yet been approved by the European Union. The Group intends to apply IFRS 15 as of the date of entry into force established by the EU.
The Group is currently assessing the impact of these amendments on the consolidated financial statements.

- **Amendments to IAS 16 and IAS 41 concerning crops**

The amendments require the recognition of certain bearer plants, such as vines, rubber trees or oil palms (i.e. that produce crops for many years and are not intended for sale in the form of planting or harvesting at harvest time) in accordance with IAS 16 "Property, plant and equipment" because their cultivation is analogous to the production. As a result of these amendments, such plants are within the scope of IAS 16 and not IAS 41. Crops from these plants remain in the scope of IAS 41.
The changes are effective in the European Union for annual periods starting on 1 January 2016.

These amendments do not apply to the Group's activities.

- **Amendments to IAS 27 concerning equity method in separate financial statements**

The amendments of IAS 27 establish the possibility of equity method application for investments in subsidiaries, joint ventures and associates in separate financial statements.
The changes are effective in the European Union for annual periods starting on 1 January 2016.

These amendments do not apply to the consolidated financial statements.

- **Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associates or joint ventures**

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28. The accounting approach depends on whether the contribution of non-monetary assets to an associate or a joint venture constitutes a business.
If the non-monetary assets meet the definition of a "business", the investor will show the full gain or loss on the transaction. If a transaction involves assets that do not constitute a business, a partial gain or loss is recognised (excluding the part representing the interests of other investors).
The amendments were published on 11 September 2014. The effective date of the amendment regulations has not yet been set by the International Accounting Standards Board.

As at the date of drawing up these consolidated financial statements, the changes have not yet been approved by the European Union. The Group intends to apply the changes as of the date of entry into force established by the EU.

Those amendments will have no impact on the consolidated financial statements.

- **Improvements to IFRSs 2012–2014**

In September 2014, the International Accounting Standards Board issued "Annual improvements to IFRS 2012-2014", which consist of improvements to 4 standards: IFRS 5, IFRS 7, IAS 19 and IAS 34. The changes are effective in the European Union for annual periods starting on 1 January 2016.

The Group will apply the Annual Improvements to IFRSs as of 1 January 2016.

The Group is currently assessing the impact of these amendments on the consolidated financial statements.

- **Amendments to IAS 1**

In December 2014, as part of works related to the so-called disclosure initiative, the International Accounting Standards Board issued an amendment to IAS 1. The purpose of the amendment is to clarify the concept of materiality and explain that when an entity decides that given information is immaterial, it should not disclose such information even if such disclosure is, in principle, required by other IFRS. The amended IAS 1 clarifies that items presented in the statement of financial position, income statement and statement of other comprehensive income can be aggregated or disaggregated, depending on their materiality. The amendment also provides additional guidelines concerning the presentation of subtotals in these statements. The changes are effective in the European Union for annual periods starting on 1 January 2016.

The Group will apply the above amendment as of 1 January 2016.

Those amendments will have no material impact on the consolidated financial statements.

- **Amendments to IFRS 10, IFRS 12 and IAS 28 concerning exclusion of investment entities from consolidation**

In December 2014, the International Accounting Standards Board issued a so-called narrow-scope amendment. The published amendment to IFRS 10, IFRS 12 and IAS 28 "Investment entities: applying the consolidation exception" specifies in detail the requirements concerning investment entities and introduces certain facilitations.
The standard clarifies that an entity should measure all subsidiaries being investment units at fair value through profit or loss. Moreover, it was clarified that exemption from preparing consolidated financial statements where a parent company prepares publicly available financial statements applies irrespective of the fact whether subsidiaries are consolidated or measured at fair value through profit or loss in accordance with IFRS 10 in the financial statements of the ultimate parent entity or the parent entity. The changes are effective for annual periods starting on 1 January 2016.

As at the date of drawing up these consolidated financial statements, the amendments have not yet been approved by the European Union. The Group intends to apply the changes as of the date of entry into force established by the EU.

These amendments do not apply to the Group's activities.

- **IFRS 16 "Leases"**

IFRS 16 "Leases" was issued by the International Accounting Standards Board on 13 January 2016 and is effective for annual periods starting on or after 1 January 2019.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset and liability due to its payment obligation. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements from IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at the date of drawing up these consolidated financial statements, the amendment has not yet been approved by the European Union. The Company intends to apply the changes as of the date of entry into force established by the EU.

The Group is currently assessing the impact of these amendments on the consolidated financial statements.

- **Amendments to IAS 12 relating to the recognition of deferred tax assets on unrealised losses**

The amendment to IAS 12 clarifies the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will be required to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.
The amendment is effective for annual periods starting on or after 1 January 2017.

As at the date of drawing up these consolidated financial statements, the amendment has not yet been approved by the European Union. The Group intends to apply the changes as of the date of entry into force established by the EU.

Those amendments will have no material impact on the consolidated financial statements.

- **Amendments to IAS 7: Disclosure Initiative**

The amendment to IAS 7 is effective for annual periods starting on or after 1 January 2017. Entities will be required to disclose the reconciliation of changes in liabilities resulting from financing activities.

As at the date of drawing up these consolidated financial statements, the amendment has not yet been approved by the European Union. The Group intends to apply the changes as of the date of entry into force established by the EU.

The Company is currently assessing the impact of these improvements on the consolidated financial statements.

In these consolidated financial statements neither standard nor interpretations was early adopted or adopted before their approval by the EU.

### 3.3 Consolidation

#### Subsidiaries

Subsidiaries comprise all entities with respect to which the Group is authorised to govern the financial and operating policies, which generally accompanies the control of the majority of the overall voting rights in their decision-making bodies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. They are no longer consolidated once the control ceases.

Acquisition of subsidiaries by the Group is accounted for using the acquisition method.

The cost of an acquisition is measured as the fair value of the assets transferred, financial instruments issued and liabilities incurred or assumed at the date of exchange, plus liabilities resulting from a contingent consideration arrangement. Acquisition-related costs are recognised in the consolidated profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each acquisition, the Group recognises non-controlling interests in the acquiree at their fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

(amounts are expressed in PLN thousand, unless specified otherwise)

Any excess of the consideration transferred, the value of non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree as at the acquisition date over the fair value of net identifiable assets acquired is recorded as goodwill. If that amount is lower than the fair value of net assets of the acquiree, the difference is recognised directly in consolidated profit or loss.

Revenue and costs, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Where necessary, the accounting policies of subsidiaries were changed to ensure consistency with the accounting policies applied by the Group.

## 3.4 Segment reporting

Information on operating segments is presented on the same basis as that used for internal reporting to the parent company's Management Board, which is responsible for the allocation of resources and assessment of the segments' results. Amounts presented in the internal reporting process are measured using the same policies as those followed in these consolidated financial statements prepared in accordance with the IFRS.

## 3.5 Valuation of items denominated in foreign currencies

### Functional currency

Items included in the financial statements of individual Group companies are measured in the currency of the primary economic environment in which a given company operates (the "functional currency"). The consolidated financial statements are presented in the Polish złoty, which is the functional currency of the Parent Company and the presentation currency of the Group.

### Transactions and balances

Transactions expressed in foreign currencies are translated into the functional currency according to the exchange rate applicable on the transaction date. Any currency exchange gains or losses arising on settlement of such transactions or on accounting measurement of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Monetary assets and liabilities expressed in foreign currencies are translated as at the reporting period end date using the average market rate effective for the given currency for that date.

Non-monetary assets and liabilities carried at historical cost in a foreign currency are translated using the average market rate effective for the transaction date. Non-monetary items of the statement of financial position expressed in foreign currencies which are carried at fair values are translated using the average market exchange rate effective for the fair value measurement date.

Foreign currency items of the statement of financial position were translated using the following exchange rates:

| Currency | 31 December 2015 | 31 December 2014 |
|---|---|---|
| EUR 1 | 4.2615 | 4.2623 |
| USD 1 | 3.9011 | 3.5072 |
| RON 1 | 0.9421 | 0.951 |
| CNY 1 | 0.6009 | 0.5662 |

(amounts are expressed in PLN thousand, unless specified otherwise)

**Translation of the Group companies' data**

Financial results and items of the statement of financial position of all entities, none of which conducts operations in a hyperinflationary economy, whose functional currencies differ from the currency of presentation, are translated into the presentation currency in the following manner:

- in each presented statement of financial position, assets and liabilities are translated using the average market exchange rate quoted by the National Bank of Poland for the last day in the reporting period;
- revenue and expenses are translated using exchange rate determined as the arithmetic average of the average market exchange rates effective for the last day in each month of the financial year, and
- any currency exchange differences resulting from such translation are recognised in other comprehensive income.

Items of the statement of financial position have been translated from the functional currency into the presentation currency using the following exchange rates:

| Currency | 31 December 2015 | 31 December 2014 |
|---|---|---|
| RON 1 | 0.9421 | 0.9510 |
| CNY 1 | 0.6009 | 0.5662 |

Financial results have been translated using the following exchange rates:

| Currency | 31 December 2015 | 31 December 2014 |
|---|---|---|
| RON 1 | 0.9421 | 0.9440 |
| CNY 1 | 0.6030 | 0.5153 |

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate on the final day of the reporting period.

### 3.6 Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost less accumulated depreciation and potential accumulated impairment.

Acquisition cost comprises the price for which a given asset was purchased (i.e. amount due to the seller, net of any deductible taxes: VAT and excise duty), public charges (in the case of imports) and expenditure directly attributable to the acquisition of the asset and its adaptation for its intended use, including the costs of transport, loading and unloading. Rebates, discounts as well as other similar concessions and recoveries decrease the asset acquisition cost.

Production cost of a tangible fixed asset or a tangible fixed asset under construction includes all the expenses incurred by the Group during its construction, assembly, adaptation or improvement, incurred until the date on which the asset became available for use, including any non-deductible VAT and excise duties.

Any subsequent expenditure on replacement of parts of items of property, plant and equipment is capitalised if it can be measured reliably and it is probable that the Group will derive economic benefits associated with the replaced items. Repair and maintenance costs are charged to profit or loss as incurred.

Except for land and tangible non-current assets under construction, all items of property, plant and equipment are depreciated over their estimated useful lives using the straight-line method, taking into account the residual value, if material. The following groups are depreciated using the following depreciation rates:

| | |
|---|---|
| Buildings and structures | 3% to 6% |
| Plant and equipment | 5% to 50% |
| Vehicles | 8% to 50% |
| Other tangible fixed assets | 10% to 100% |

Correctness of the applied useful lives, depreciation methods and residual values (except where insignificant) is reviewed by the Group on an annual basis. Any changes are presented as changes in accounting estimates and their effect is taken to profit or loss in the period when the estimate changes and in subsequent periods.

Significant components of property, plant and equipment are depreciated based on their estimated useful lives.

Any gains or losses on the disposal or liquidation of items of property, plant and equipment are determined as the difference between the revenue from the sale and the carrying amount of the items, and recognised in profit or loss.

Tangible fixed assets under construction are stated at cost or at the amount of the aggregate expenses directly associated with their production, less impairment. The cost of borrowings contracted to finance tangible fixed assets under construction increases their value.

### 3.7 Leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased asset, are recognised in the consolidated statement of financial position at commencement of the lease term at the lower of the fair value of the asset and the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability, in a way to produce a constant rate of interest on the remaining balance of the liability. The finance charge is recognised in profit or loss.

Tangible fixed assets used under finance lease agreements are depreciated over the shorter of their estimated useful life or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments and subsequent lease instalments are recognised as expenses and charged to profit or loss over the lease term on a straight-line basis.

### 3.8 Intangible assets

Intangible assets are stated at acquisition or production cost less accumulated amortisation and impairment.

Any subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits to be generated by the asset. Other expenditures are taken to profit or loss as incurred.

The period and method of amortisation of intangible assets are reviewed at the end of each financial year. Any changes are recognised as changes in accounting estimates, and their effect is charged to profit or loss in the period in which the amortisation rates are changed and in subsequent periods.

Amortisation is calculated over the estimated useful life of intangible assets, using the straight line method. The amortisation rates applied to intangible assets are as follows:

| | |
|---|---|
| Trademarks | 10% to 20% |
| Licences and software | 5% to 50% |

### 3.9 Goodwill

Goodwill is not amortised, but it is tested for impairment annually or more frequently if there is any indication of impairment.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that will benefit from the synergies of the business combination, not larger than an operating segment. The accounting policies applicable to goodwill impairment testing are presented in note 3.10.

### 3.10 Impairment on non-financial non-current assets

As at the end of each reporting period, the Group assesses whether there is any evidence that any of its non-financial non-current assets may be impaired. If the Group finds that there is such evidence, or if the Group is required to perform annual impairment tests (in the case of goodwill), the Group estimates the recoverable amount of the given asset or cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is equal to the higher of the asset's or cash-generating unit's fair value less costs to sell or its value in use. The recoverable amount is determined for individual assets unless a given asset does not generate separate cash inflows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the asset is impaired and an impairment loss is recognised up to the established recoverable amount. The impairment loss is allocated in the following order: first, the carrying amount of goodwill is reduced, and then the carrying amounts of other assets of the cash-generating unit are reduced pro rata. Impairment losses related to assets are disclosed under the cost categories corresponding to the function of the asset with respect to which impairment has been identified.

As at the end of each reporting period, the Group assesses whether there is evidence that any impairment loss recognised in the previous periods with respect to a given asset (other than goodwill) or cash-generating unit is no longer necessary or should be reduced. If such evidence exists, the Group measures the recoverable amount of the given asset or cash-generating unit.

### 3.11 Borrowing costs

Borrowing costs that are directly attributable to acquisition or production of assets which take a substantial period of time to become available for their intended use, are capitalised (unless immaterial) as part of the cost of tangible non-current assets or intangible assets, as appropriate, until such assets become available for their intended use.

### 3.12 Financial assets

Upon initial recognition, financial assets are measured at fair value of the consideration given plus transaction costs, with the exception of financial assets at fair value through profit or loss in the case of which the transaction costs are charged to profit or loss. Purchases and sales of financial instruments are recognised as at the date of the transaction.

Financial assets are derecognised when the rights to receive cash flows from these assets have expired or have been transferred and substantially all risks and rewards incidental to ownership of such assets have been transferred. If there has been no transfer of substantially all the risks and rewards of the asset, the asset is derecognised when the Company loses control over the asset.

Financial instruments are classified into one of the following four categories and recognised in the following manner:

**Financial assets at fair value through profit or loss**

This category includes two sub-categories:

- financial assets held for trading, and
- financial assets designated as assets at fair value through profit or loss on initial recognition.

An asset is classified in this category if it was acquired primarily for the purpose of selling it in the near future or if it was assigned to this category by the Management Board.

**Financial assets held to maturity**

Financial assets held to maturity are measured at amortised cost using effective interest rate.

**Loans and receivables**

This category primarily includes loans granted and trade receivables.

Loans and receivables are measured at amortised cost determined using effective interest rate (in the case of current receivables, given that the discount effect would be insignificant due to short maturities, the amortised cost is assumed as equal to the initially invoiced amounts).

**Available-for-sale financial assets**

Available-for-sale financial assets are measured at fair value and any unrealised revaluation gains/losses are recognised in other comprehensive income.

The fair value of financial instruments for which an active market exists is determined by reference to the prices quoted on that market as at the end of the reporting period. If no quoted market price is available, the fair value is estimated based on a market price quoted for a similar instrument or based on projected cash flows.

Except for financial assets at fair value through profit or loss, all financial assets are tested for impairment as at the end of the reporting period.

As at 31 December 2015 and 31 December 2014, all financial assets held by the Group were classified as “loans and receivables”.

### 3.13 Impairment of financial assets

An impairment loss on a financial asset is recognised when objective evidence of its impairment is present, which may have an adverse effect on the amount of future cash flows attributable to the asset. Significant objective evidence includes: taking legal action against a debtor, serious financial problems of a debtor, or significant past due payments.

Impairment of financial assets carried at amortised cost is measured as the difference between the carrying amount of an asset and the present value of future cash flows discounted using the initial effective interest rate. Carrying amounts of individual financial assets of material unit value are reviewed as at the end of each reporting period in order to check whether there is any indication of impairment. Other financial assets are assigned to groups of assets with similar credit risk and tested for impairment collectively.

Impairment losses are reversed if a subsequent increase in the recoverable amount can be objectively attributed to an event occurring after the date when impairment was recognised. Impairment losses on doubtful receivables are measured based on an analysis of historical data on collectability of receivables, including the age structures of receivables, as well as information from the legal department concerning receivables with respect to which court proceedings have been instigated (bankruptcies, liquidations, arrangements, claims with respect to which a court payment order is sought). In particular, impairment losses are recognised in respect of the following types of receivables:

- receivables in an enforced debt collection process – 100% of the amount of such receivables, less expected proceeds from insurance if the amount receivable was insured,
- receivables which are past due for more than 180 days – 50% of the amount of such receivables,
- receivables which are past due for more than one year – 100% of the amount of such receivables.

Impairment losses on receivables are charged to other expenses or to financial costs, as appropriate – depending on the type of the receivable in respect of which impairment is recognised. Impairment losses on previously accrued interest are recognised in financial costs.

### 3.14 Inventory

Inventory includes materials and goods for resale (hand and power tools).

Inventory is measured at the costs of acquisition not higher than net realisable value.

Net realisable value is equal to the estimated selling price of an item of inventory less any costs of completion and costs necessary to make the sale.

Inventory decrease is measured based on average prices, i.e. determined as weighted average prices of individual goods for resale.

Inventory impairment is recognised in relation to goods which are in the constant offer of the Group due to the need to obtain reliable historical data in terms of actual data over a longer period of time. The amount of an impairment loss depends on the ratio of inventory level and the amount of goods sold, but it never amounts to 100%.

Impairment losses on inventory are recognised in cost of sales.

### 3.15 Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of financial position include cash at bank and in hand as well as highly liquid current financial assets whose original maturity does not exceed three months and which are readily convertible into specific cash amounts and subject to insignificant risk of fluctuation in fair value.

### 3.16 Equity

Equity is disclosed in the accounting records divided into categories, in accordance with the rules set forth in applicable laws and the provisions of the Company's Articles of Association.

The particular categories of equity are:

- share capital of the Company – stated at its par value as specified in the Company's Articles of Association and entered in the court register,
- share premium is stated in the proceeds from the issue of shares in the amount exceeding the par value of shares, less transactions costs related to public share issue,
- reserve capital is created in relation to the Parent Company's share based benefits for the members of the Parent Company's Supervisory Board and Management Board and key employees of the Parent Company. This capital is stated in fair value of granted share options,
- other comprehensive income includes currency translation differences and actuarial profits and losses arising from the actuarial valuation of provisions for pensions and related benefits,
- retained earnings – comprising profit/(loss) distributions, undistributed profit/(loss), and net profit/(loss) for the reporting period to which given financial statements relate.

Transaction cost related to the public share issue is taken to equity and reduces the share premium account as at the share issue date.

### 3.17 Bank loan liabilities

Bank loans are initially recognised at fair value less transaction cost. Following initial recognition, bank loans are measured at amortised cost, using the effective interest method.

### 3.18 Trade payables

Trade payables are initially recognised at fair value, and subsequently, where the discount effect is material, they are measured at amortised cost using the effective interest method.

### 3.19 Current and deferred income tax

Mandatory decreases of profit include current and deferred income tax.

**Current tax**

Current tax expense is calculated based on the taxable profit for the given reporting period. Tax expense is calculated based on tax rates applicable during the fiscal year in question.

**Deferred tax**

Deferred tax assets and liabilities are determined based on temporary differences between the accounting and tax values of assets and liabilities.

Deferred tax assets are recognised only if it is probable that the Group will have future taxable profits allowing for utilisation of the temporary differences and deduction of the tax losses. Deferred tax assets are determined as the amount of income tax recoverable in the future in respect of deductible temporary differences which will reduce future income tax base and any deductible tax loss, determined in accordance with the prudence principle.

The amount of deferred tax assets and liabilities is determined using income tax rates which will be effective when a deferred tax asset is utilised or a deferred tax liability arises.

Deferred tax assets and liabilities have been offset at the level of individual Group members, as at this level the criteria of IAS 12 “Income taxes” with respect to offsetting deferred tax assets against deferred tax liabilities were met.

A deferred tax liability is recognised for temporary differences associated with investments in subsidiaries and jointly-controlled entities, except where the Group controls the reversal of such temporary differences and it is probable that such differences will not reverse in the foreseeable future.

### 3.20 Liabilities from employee benefits

**Post-employment benefit plan – the defined contribution plan**

The Parent Company participates in the national post-employment benefit plan by paying an appropriate percentage of an employee’s gross pay as a contribution to the Social Insurance Institution (ZUS). This plan is a defined contribution plan. The contributions are expensed as paid.

**Post-employment benefit plan – the defined benefit plan (retirement severance pays) and other benefits**

In accordance with the applicable remuneration systems and rules, employees of the Group companies are entitled to death benefits and retirement severance pays. Death benefits are one-off benefits paid to the family of an employee, following the employee's death. Retirement severance pays are one-off benefits paid when an employee retires. The plan is fully financed by the Group. The amount of a retirement severance pay or death benefit depends on the length of employment and average remuneration of a given employee. The Group accrues for future retirement severance pay and death benefit obligations in order to attribute costs to the periods to which they relate.

The present value of such obligations is determined by an independent actuary using the projected unit credit method. Accrued liabilities are equal to the discounted future payments, taking into account the employee turnover, and relate to the period until the end of the reporting period. Demographic information and information on staff turnover are based on historical information. Actuarial gains and losses are recognised in profit or loss, except for actuarial gains and losses recognised in other comprehensive income.

### 3.21 Provisions

Provisions are created when the Group has a present obligation (legal or constructive) resulting from past events and when it is probable that the discharge of this obligation will result in an outflow of economic benefits, and the obligation can be measured reliably.

A provision is recognised as a reliable estimate of the amount required to settle the existing obligation, made as at the end of the reporting period taking into account the risks and uncertainties associated with the obligation.

In particular, a provision is created for the expected returns and complaints. The Group's historical data and past experience show that returns and complaints are generally made within three months of the date of sale. Therefore, the provision for returns and complaints is created as 0.5% of the revenue for the most recent quarter preceding the end of the given reporting period.

### 3.22 Recognition of revenue

Revenue is recognised at fair value of consideration received or receivable, net of VAT, returns, rebates and discounts. Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of the revenue can be measured reliably.

**Revenues from sales of goods**

Revenue from sales of goods for resale is recognised if the significant risks and rewards of the ownership of goods for resale have been transferred to the buyer, i.e. upon their release from the Group's warehouse.

**Interest income**

Interest income is recognised using the effective interest rate method.

### 3.23 Dividends

The obligation to pay dividends is recognised when the shareholders' right to receive such dividends is approved.

## 4. Material accounting estimates and judgements

Estimates and judgements are verified on an ongoing basis. Estimates and judgements used during the preparation of the consolidated financial statements are based on historical experience as well as analyses and expectations of future events which, to the best knowledge of the Management Board of the Parent Company, are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the actual results. The estimates and assumptions that involve a significant risk of the necessity to make a material adjustment to the carrying amounts of assets and liabilities during the current or following financial year are outlined below.

**Employee options**

The Group measures the benefits due to the members of the Management Board and its key employees participating in the Incentive Scheme launched in 2011, based on share options. Details of the scheme are described in note 16. The total cost of the scheme was determined on the basis of fair value of granted options. The fair value of options does not include the impact of non-market conditions connected with the increase of the consolidated net profit of the TOYA S.A. Capital Group; this condition is, however, included in the assumptions concerning the expected number of options to which the participants are to be entitled. As at 31 December 2015, the Scheme was fully settled and closed.

**Useful lives and depreciation rates for property, plant and equipment**

The Group's Management Board determines estimated useful lives and depreciation rates for property, plant and equipment. The estimates are based on the projected useful lives for individual assets. The estimates may change materially as a result of new technological solutions emerging on the market, plans of the Parent Company's Management Board, or intensity of use. The Management Board increases or decreases a depreciation rate for a given asset if its useful life proves shorter or longer, respectively, than expected, and revalues technologically obsolete assets, and assets which are not of strategic importance and whose use has been discontinued. Property, plant and equipment value and depreciation are described in note 7.

If the actual useful lives of property, plant and equipment had been by 10% shorter than the Management Board's estimates, the carrying amount of property, plant and equipment would have been lower by PLN 293 thousand as at 31 December 2015, and PLN 243 thousand as at 31 December 2014.

**Provisions and impairment write-downs**

As at each end of a reporting period, the Management Board of the Parent Company makes material estimates of provisions and impairment write-downs:

- provisions for guarantees and complaints – estimated level of the ratio used to perform calculations in accordance with the policy described in note 3.21; This ratio was determined on the basis of historical costs and claims and is verified on a regular basis through reference with actually incurred costs; for details on the amount of the provision, see note 24;

- impairment write-downs on inventory – estimated average period during which the product is sold, and beyond which a write-down is created in accordance with the policy described in note 3.14; for details on the amount of the write-down, see note 12;

- impairment write-downs on receivables – estimated amount of the write-down created for individual maturity brackets in accordance with the policy described in note 3.13; the values are determined on the basis of a historic analysis of recoverability of past due receivables; for details on the amount of the write-down, see note 13.

## 5. Financial risk management

### 5.1 Financial risk factors

The Group's business activities expose it to a number of various financial risks, such as market risk (including foreign exchange risk and the risk of fair value or cash flow changes as a result of interest rate movements), credit risk and liquidity risk. The Group's overall risk management programme is designed to mitigate the potential effect of risk on the Group's financial performance. The Group does not use derivatives to hedge against those risks.

The Management Board defines overall risk management rules as well as the policy for specific areas such as credit risk or investing liquidity surpluses.

### 5.2 Market risk

**Foreign exchange risk**

The Group purchases significant amounts of goods from foreign suppliers, located primarily in China, at prices denominated in foreign currencies, particularly in CNY and USD. As at 31 December 2015, trade payables in USD represented 23% of the total trade payables and trade payables in CNY represented 54% of total trade payables (as at 31 December 2014 – payables in USD represented 46% of that balance and payables in CNY represented 43% of that balance).

The Group may use PLN, EUR and USD denominated credit facilities available under executed credit facility agreements. As at 31 December 2015, the Group has no loan liabilities denominated in foreign currencies.

As at 31 December 2015, cash in foreign currencies (USD and EUR) represented 19% of the total cash, cash in CNY represented 26% of total cash and cash in RON represented 53% of total cash (as at 31 December 2014 – cash in USD and EUR represented 52% of the total balance, cash in CNY represented 24% of the total balance and cash in RON represented 23% of the total balance).

29% of the Group's revenue is generated from exports (sales outside markets where the Group has its entities) and 15% of the Group's revenue is generated in local markets in China and Romania, at prices denominated in foreign currencies — in USD, EUR, CNY and RON. As at 31 December 2015, trade receivables in USD represented 9% of the total trade receivables (2% as at 31 December 2014) and trade receivables in EUR represented 10% of the total trade receivables (10% as at 31 December 2014). Moreover, as at 31 December 2015, 7% of trade receivables are denominated in CNY, due to sales on the local market in China (17% as at 31 December 2014) and 9% of trade receivables are denominated in RON due to sales in the local market in Romania (8% as at 31 December 2014).

There is a risk that future fluctuations of exchange rates may have a negative or positive effect on the Group's financial performance. Recent geopolitical and economic turmoil observed in the region, particularly the events in Ukraine, could and still can have negative impact on exchange rates. So far, the Group has not used derivative financial instruments to hedge against the results of future changes in exchange rates.

If, as at 31 December 2015, PLN appreciated/depreciated by 10% against USD (all other conditions remaining unchanged), the profit before income tax for 2015 would drop/rise by approximately PLN 638 thousand due to the measurement of USD denominated trade receivables (rise/drop by approximately PLN 1,256 thousand in 2014 mainly due to the measurement of USD denominated trade receivables).

If, as at 31 December 2015, PLN appreciated/depreciated by 10% against EUR (all other conditions remaining unchanged), the profit before income tax for 2015 would drop/rise by approximately PLN 169 thousand (in 2014 by approximately PLN 275 thousand) due to the measurement of EUR denominated trade receivables.

**Risk of interest rate changes affecting cash flows and fair values**

As at 31 December 2015 and 31 December 2014, the Group held no other interest-bearing assets.

The Group's policy envisages the use of bank loans bearing interest at variable rates. This exposes the Group to the risk of interest rate changes affecting its cash flows. As at 31 December 2015, all liabilities under bank loans bear interest at variable rates (which was also the case as at 31 December 2014).

The Group monitors its exposure to the risk of interest rate changes affecting its cash flows and fair values. The Company runs simulations of various scenarios, taking into consideration refinancing, roll-over of the existing positions, and alternative financing. The Group uses the scenarios to assess the impact of a change in interest rates on its financial performance. Simulations are run for bank deposits and liabilities, which represent the largest items exposed to interest rate risk.

The sensitivity analysis of the Group's cash flows to interest rate risk was prepared for financial instruments based on variable interest rates. The financial instruments held by the Group were linked to WIBOR rates. The impact of interest rate fluctuations on the financial result was calculated as the product of liability balances as at 31 December 2015 and the assumed WIBOR variance.

(amounts are expressed in PLN thousand, unless specified otherwise)

| | +20 basis points | | -20 basis points | |
|---|---|---|---|---|
| | **Effect on profit before income tax** | **Effect on net profit and equity** | **Effect on profit before income tax** | **Effect on net profit and equity** |
| **Financial liabilities** | | | | |
| Variable interest rate loans | (13) | (11) | 13 | 11 |
| **Total for 2015** | **(13)** | **(11)** | **13** | **11** |

| | +20 basis points | | -20 basis points | |
|---|---|---|---|---|
| | **Effect on profit before income tax** | **Effect on net profit and equity** | **Effect on profit before income tax** | **Effect on net profit and equity** |
| **Financial liabilities** | | | | |
| Variable interest rate loans | (65) | (53) | 65 | 53 |
| **Total for 2014** | **(65)** | **(53)** | **65** | **53** |

The Group does not use derivatives to hedge against the risk of interest rate changes affecting its cash flows and fair values.

### 5.3 Credit risk

Credit risk arises mainly from bank deposits, loans granted, bonds purchased and credit exposures to customers, including trade receivables due.

Credit risk relating to bank deposits is considered by the Management Board as low as the Group cooperates with renowned financial institutions which enjoy premium credit ratings (Raiffeisen Bank Polska S.A., Bank Handlowy w Warszawie S.A. and BNP Paribas Bank Polska S.A.).

Credit risk relating to credit exposures to customers is considered by the Management Board as low. The Group sells its products to 2 key customer groups: retail chains and wholesale customers (including wholesalers, distributors and authorised retail stores). The Group sells its products on Polish and foreign markets – mostly in China, Central, Southern and Eastern Europe (Romania, Hungary, the Czech Republic, Germany, Balkan States, Russia, Ukraine, Belarus, Moldova), as well as Arab countries, South Africa, Angola and Thailand.

The table below presents the Group's sales structure by customer group and market:

| | **2015** | **2014** |
|---|---|---|
| Local markets – wholesale market (*) | 49% | 46% |
| Local markets – chains (*) | 21% | 20% |
| Export sales | 29% | 33% |
| Other sales | 1% | 1% |
| **Total** | **100%** | **100%** |

(*) local markets mean sales in countries where the Group has its entities, i.e. in Poland, Romania and China

As regards sales to retail chains, the Group sells its products to the largest chains in Poland. Credit exposures in this customer group are rather evenly distributed, except for 2 key retail chains in Poland which jointly account for approximately 70% of sales made through this particular channel. Credit risk exposure to retail chains is considered by the Company as low as most of them are reliable and financially transparent customers with an established market position and a sound payment history. One exception was the company Nomi S.A. which, in previous years, was one of the most important network customers. In March 2015, the liquidation bankruptcy of this company was announced and, therefore, the entire amount receivable was covered by a write-down.

In the area of wholesale distribution, the Group has established cooperation with a few dozen authorised distributors, a few dozen wholesalers across the country and authorised retail stores, as well as with wholesalers in Romania and China. In 2015, 75% of sales in this group was executed to approx. 56 customers (60 customers in 2014). The Group pursues a policy of reducing credit exposures to wholesale customers with the use of a credit limit mechanism. The limits are set for each customer based on a detailed assessment of its financial performance, market position, payment discipline and the overall situation in the sector. The utilisation of credit limits is monitored on a regular basis. A transaction exceeding the credit limit may only be executed upon authorisation by authorised persons in accordance with an internal credit policy.

The Group mitigates its credit risk by having trade receivables insured in a renowned insurance company. The insurance covers receivables from the customers of the parent company. As at 31 December 2015, 66% of the short-term trade receivables were insured (63% as at 31 December 2014). This applies to customers who have been granted an individual limit and customers covered by the so-called automatic limit, up to the amount specified in the insurance contract. Under the insurance contract, the deductible is typical for such contracts.

The Group also mitigates credit risk through the implementation of an effective risk management system integrated with SAP, supporting the maintenance of proper payment discipline of the company's customers. It should be stressed that sales for the customers who are not in a stable and predictable financial condition is realised based on advance payments.

The maturity structure of receivables and details on past due receivables are presented in note 13.

The credit quality of financial assets not being either past due or impaired can be estimated by reference to external credit ratings or to historical information on the counterparty's defaults. The Parent Company's cash is held in banks with BBB-, BBB and A- ratings (EuroRating agency), and the cash of subsidiaries — in banks with Fitch BBB+ rating (Romania) and AAA rating (China).

With respect to trade receivables, the Group does not have external ratings, but it monitors counterparties' payment delays ongoing basis. Receivables which as at 31 December 2015 were not past due and did not suffer impairment come from customers that settle their receivables to the Group on the due date or with a slight delay.

The maximum credit risk exposure is approximately equal to the book value of trade receivables, net of receivables insured and cash and cash equivalents. As at 31 December 2015, the maximum credit risk exposure is PLN 18,397 thousand (31 December 2014: PLN 24,831 thousand).

### 5.4 Liquidity risk

The Management Board of the Parent Company believes that the Group's liquidity is secured for the foreseeable future. The Group follows a prudent liquidity risk management policy which focuses on maintaining an adequate level of cash and securing the ability to use the credit facilities. The management monitors the level of current liabilities and current assets, as well as current cash flows of the Group.

(amounts are expressed in PLN thousand, unless specified otherwise)

Key items analysed for the purpose of monitoring of the liquidity risk are as follows:

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Current assets | 170,024 | 185,050 |
| Current liabilities | 32,603 | 70,895 |

| | **2015** | **2014** |
|---|---|---|
| Cash flow from operating activities | 27,561 | (5,549) |

The table below presents financial liabilities of the Company by maturities, which are determined based on contractual future payment dates, uniform for each group of liabilities. The figures presented below represent undiscounted contractual cash flows.

| | **Up to 1 year** | **1–3 years** | **3–5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|
| Loans | 6,804 | - | - | - | **6,804** |
| Trade and other payables | 22,425 | - | - | - | **22,425** |
| Liabilities from finance leases | 197 | 524 | - | - | **721** |
| **As at 31 December 2015** | **29,426** | **524** | **-** | **-** | **29,950** |
| Loans | 32,470 | - | - | - | **32,470** |
| Trade and other payables | 32,749 | - | - | - | **32,749** |
| Liabilities from finance leases | 201 | 603 | 134 | - | **938** |
| **As at 31 December 2014** | **65,420** | **603** | **134** | **-** | **66,157** |

## 5.5 Capital management

The Management Board of the Parent Company defines capital as the Group’s equity. The equity held by the Parent Company meets the requirements provided for in the Polish Commercial Companies Code. There are no other capital requirements imposed by external regulations.

The Group’s capital management activities are aimed at protecting the Group’s ability to continue its operations so as to ensure a return on investment for the shareholders and benefits for other interested parties, as well as maintenance of the optimum capital structure to lower the cost of capital. The Group also follows a rule that non-current assets are to be fully financed by equity.

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Non-current assets | 26,404 | 23,288 |
| Equity | 163,085 | 136,536 |

In the period covered by these consolidated financial statements, the Group implemented the above objective.

## 5.6 Fair value measurement

The book value of financial assets and liabilities is similar to their fair value. For disclosure purposes, the fair value of financial assets and liabilities is estimated by discounting future contractual cash flows with market interest rate currently available to the Group for similar financial instruments (level 3).

(amounts are expressed in PLN thousand, unless specified otherwise)

## 6. Financial instruments

| **As at 31 December 2015** | **Financial assets** | **Other financial liabilities** |
|---|---:|---:|
| | **Loans and receivables** | **Liabilities measured at amortised cost** |
| Trade receivables | 48,224 | - |
| Cash | 3,431 | - |
| | | |
| Trade and other payables | - | 22,425 |
| Loans | - | 6,662 |
| Liabilities from finance leases | - | 676 |
| | **51,655** | **29,763** |

| **As at 31 December 2014** | **Financial assets** | **Other financial liabilities** |
|---|---:|---:|
| | **Loans and receivables** | **Liabilities measured at amortised cost** |
| Trade receivables | 48,962 | - |
| Cash | 7,776 | - |
| | | |
| Trade and other payables | - | 32,749 |
| Loans | - | 32,470 |
| Liabilities from finance leases | - | 844 |
| **Total** | **56,738** | **66,063** |

Revenue and expenses relating to financial assets or financial liabilities not measured at fair value through profit or loss:

| **12 months ended 31 December 2015** | **Financial assets** | **Financial liabilities** |
|---|---:|---:|
| Interest income | 207 | - |
| Interest expenses | - | (858) |
| Profits on exchange differences | 1,425 | 1,975 |
| Losses on exchange differences | (1,070) | (3,202) |
| Establishment of impairment write-downs | (1,650) | - |
| Reversal of impairment write-downs | 513 | - |
| Total net profit / (loss) | **(575)** | **(2,085)** |

| **12 months ended 31 December 2014** | **Financial assets** | **Financial liabilities** |
|---|---:|---:|
| Interest income | 196 | - |
| Interest expenses | - | (1,040) |
| Profits on exchange differences | 1,525 | 529 |
| Losses on exchange differences | (350) | (3,756) |
| Establishment of impairment write-downs | (891) | - |
| Reversal of impairment write-downs | 519 | - |
| **Total net profit / (loss) from financial assets and liabilities** | **999** | **(4,267)** |

(amounts are expressed in PLN thousand, unless specified otherwise)

## 7. Acquisitions of subsidiaries

### 7.1 Transactions in 2015

In 2015, there were no changes in shares held in the Group by the Parent Company.

### 7.2 Transactions in 2014

In 2014, the Parent Company did not acquire any entity. There were, however, changes in the ownership interest held in Yato Tools (Shanghai) Co., Ltd., as a result of transaction with a non-controlling shareholder, concluded in July 2014. The transaction is described in note 17. As a result of the transaction, the Parent Entity's ownership interest in this entity increased from 75% to 100%, and the equity attributable to shareholders of the Parent Company decreased by PLN 6,270 thousand, which comprises:

- increase by PLN 2,117 thousand (value of equity attributable to the non-controlling shareholder as at the date of transaction)
- decrease resulting from the interest acquisition price of PLN 8,387 thousand.

Moreover, in December 2014, the Parent Company increased the share capital in this entity by PLN 7,107 thousand, which did not entail a change in the ownership interest.

## 8. Property, plant and equipment

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Land | 2,907 | 2,907 |
| Buildings and structures | 9,677 | 9,898 |
| Plant and equipment | 2,388 | 743 |
| Vehicles | 1,673 | 933 |
| Other | 4,090 | 3,193 |
| **Total** | **20,735** | **17,674** |
| Property, plant and equipment not transferred for use | 536 | 1,080 |
| **Total property, plant and equipment** | **21,271** | **18,754** |

(amounts are expressed in PLN thousand, unless specified otherwise)

## Changes in property, plant and equipment by type

| | Land | Buildings and structures | Technical equipment and machinery | Vehicles | Other | Property, plant and equipment not transferred for use | Total |
|---|---|---|---|---|---|---|---|
| **Initial value** | | | | | | | |
| - | | | | | | | |
| As at 1 January 2015 | 2,907 | 12,748 | 3,478 | 3,369 | 9,131 | 1,080 | **32,713** |
| Increases | - | 243 | 2,187 | 1,183 | 718 | 1,074 | **5,405** |
| Decreases | - | - | (9) | (314) | (78) | (1,618) | **(2,019)** |
| Currency translation differences | - | 37 | 20 | 43 | 110 | - | **210** |
| Reclassification | - | - | - | - | 1,452 | - | **1,452** |
| **As at 31 December 2015** | **2,907** | **13,028** | **5,676** | **4,281** | **11,333** | **536** | **37,761** |
| - | | | | | | | |
| - | | | | | | | |
| As at 1 January 2014 | 2,907 | 12,125 | 3,685 | 3,278 | 7,919 | 285 | **30,199** |
| Increase | - | 567 | 403 | 169 | 1,276 | 2,215 | **4,630** |
| Decrease | - | - | (664) | (213) | (427) | (1,428) | **(2,732)** |
| Currency translation differences | - | 56 | 54 | 135 | 223 | 8 | **476** |
| Reclassification | - | - | - | - | 140 | - | **140** |
| **As at 31 December 2014** | **2,907** | **12,748** | **3,478** | **3,369** | **9,131** | **1,080** | **32,713** |
| **Accumulated depreciation** | | | | | | | |
| As at 1 January 2015 | - | 2,850 | 2,735 | 2,436 | 5,938 | - | **13,959** |
| Increases | - | 496 | 546 | 447 | 1,282 | - | **2,771** |
| Decreases | - | - | (9) | (299) | (31) | - | **(339)** |
| Currency translation differences | - | 5 | 16 | 24 | 54 | - | **99** |
| **As at 31 December 2015** | **-** | **3,351** | **3,288** | **2,608** | **7,243** | **-** | **16,490** |
| As at 1 January 2014 | - | 2,382 | 2,945 | 2,098 | 5,137 | - | **12,562** |
| Depreciation for the financial year | - | 458 | 305 | 442 | 1,046 | - | **2,251** |
| Decrease in depreciation | - | - | (558) | (174) | (358) | - | **(1,090)** |
| Currency translation differences | - | 10 | 43 | 70 | 113 | - | **236** |
| **As at 31 December 2014** | **-** | **2,850** | **2,735** | **2,436** | **5,938** | **-** | **13,959** |
| **Carrying amount** | | | | | | | |
| **As at 31 December 2015** | **2,907** | **9,677** | **2,388** | **1,673** | **4,090** | **536** | **21,271** |
| **As at 31 December 2014** | **2,907** | **9,898** | **743** | **933** | **3,193** | **1,080** | **18,754** |

(amounts are expressed in PLN thousand, unless specified otherwise)

As at 31 December 2015, the Parent Company holds a server under finance lease with a value of PLN 898 thousand.

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Cost — capitalised finance lease | 898 | 898 |
| Accumulated depreciation | (107) | - |
| **Net book value** | **791** | **898** |

Detailed information about lease liabilities — see note 22.

As at 31 December 2015, the Parent Company used a warehouse in Nadarzyn and passenger cars under an operating lease agreement (note 0). Moreover, subsidiaries used warehouses with offices in Shanghai and Bucharest.

Apart from the property, plant and equipment serving as security in respect of working capital facilities (note 18), there are no restrictions on the use of property, plant and equipment held by the Group.

As at 31 December 2015, the Group is not a party to any agreement under which it would be obliged to purchase non-current assets.

In 2015 and 2014, the Group did not capitalise borrowing costs due to the insignificancy of these amounts.

In 2012, a legal defect was revealed in a contribution in kind which Toya Development Sp. z o.o. Spółka Komandytowa (hereinafter: Toya Development) received on 6 April 2011 from the Parent Company, which at the time acted as its general partner. The contribution was an organisationally separated and financially organised part of the TOYA S.A. enterprise – the Branch in Kryniczno, which draws up its separate financial statements under the relevant accounting regulations. In the financial statements prepared as at 31 December 2010 and until 6 April 2011, the branch was presented as a disposal group held for distribution. One of the components of the disposal group held for distribution was the ownership of a property constituting a plot of land with a carrying amount of PLN 4 thousand and expenditure on the fixing of devices worth PLN 2,270 thousand on the said plot.

The legal defect revealed in 2012 stemmed from the fact that as at 6 April 2011 the Parent Company was not the owner of the said property, as by virtue of a decision of the Head of Wisznia Mała Municipality dated 7 May 2007, the plot of land in question became property of Trzebnicki Poviat (hereinafter: "Poviat"). Therefore, there has been no effective transfer of ownership of the property described above or of the expenditure associated therewith.

In connection with the spin-off of the disposal group, the plot along with the expenditure has been removed from the Group's books as at 6 April 2011, as detailed in the consolidated financial statements as at 31 December 2011. However, since there has been no effective transfer of ownership and the Parent Company formally is not the owner of the plot due to expropriation, the Parent Company is entitled to make claims against the Poviat for expropriation of the said property and the expenditure incurred in relation therewith. As a result of the disclosed legal defect of the contribution, the property along with the expenditure is recognised as at 31 December 2015 and 31 December 2014 in the off-balance-sheet records of the Group, as it does not meet the definition of a Group's asset.

By way of compensation for the damage resulting from the property's legal defect, the Parent Company is obliged to pay to Toya Development a compensation equivalent to the amount of compensation obtained from the Trzebnicki Poviat. The right to compensation will arise in the amount of the compensation obtained by Toya S.A., providing that such compensation is obtained. Consequently, as at 31 December 2015 and 31 December 2014, the Company had a contingent receivable from the Trzebnicki Poviat and the matching, equivalent liability towards Toya Development. Court proceedings are pending on this case — for details see Note 32.

On 1 January 2015, Toya Development Sp. z o.o. Spółka Komandytowa was put into liquidation.

(amounts are expressed in PLN thousand, unless specified otherwise)

## 9. Intangible assets

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Licences, concessions and patents, including: | 1,290 | 1,301 |
| – software | 1,290 | 1,301 |
| Other — trademarks and industrial designs | 140 | 135 |
| **Total** | **1,430** | **1,436** |
| Intangible assets under development | 1,210 | 377 |
| **Total intangible assets** | **2,640** | **1,813** |

### Changes in intangible assets

| **Initial value** | **Software** | **Other** | **Intangible assets under development** | **Total** |
|---|---|---|---|---|
| **-** | | | | |
| As at 1 January 2015 | 2,286 | 212 | 377 | **2,875** |
| Increases | 173 | 24 | 833 | **1,030** |
| Decreases | (38) | - | - | **(38)** |
| Currency translation differences | 23 | - | - | **23** |
| **As at 31 December 2015** | **2,444** | **236** | **1,210** | **3,890** |
| **-** | | | | |
| **-** | | | | |
| As at 1 January 2014 | 1,283 | 131 | 961 | **2,375** |
| Increase | 1,036 | 81 | 429 | **1,546** |
| Decrease | (18) | - | (1,013) | **(1,031)** |
| Currency translation differences | (15) | - | - | **(15)** |
| **As at 31 December 2014** | **2,286** | **212** | **377** | **2,875** |
| **Accumulated amortisation** | | | | |
| As at 1 January 2015 | 985 | 77 | - | **1,062** |
| Increases | 211 | 19 | - | **230** |
| Decreases | (40) | - | - | **(40)** |
| Currency translation differences | (2) | - | - | **(2)** |
| **As at 31 December 2015** | **1,154** | **96** | **-** | **1,250** |
| As at 1 January 2014 | 821 | 63 | - | **884** |
| Amortisation for the financial year | 214 | 14 | - | **228** |
| Decrease in amortisation | (35) | - | - | **(35)** |
| Currency translation differences | (15) | - | - | **(15)** |
| **As at 31 December 2014** | **985** | **77** | **-** | **1,062** |
| **Carrying amount** | | | | |
| **As at 31 December 2015** | **1,290** | **140** | **1,210** | **2,640** |
| **As at 31 December 2014** | **1,301** | **135** | **377** | **1,813** |

There are no material intangible assets produced internally by the Group.

Intangible assets under development include works related to the construction and development of the SAP CRM module, Business Object software and mobile software for sales representatives. These assets are planned to be commissioned in 2016.

No security interests in the intangible assets have been created.

(amounts are expressed in PLN thousand, unless specified otherwise)

## 10. Goodwill

Goodwill amounting to PLN 740 thousand includes only the goodwill resulting from the acquisitions of Yato Tools in 2013 – see note 7 for details. Changes in the value of goodwill during 2015 resulted from foreign exchange differences and are presented in the table below:

| | Yato Tools (Shanghai) Co., Ltd. |
|---|---|
| **As at 1 January 2015** | 740 |
| Foreign exchange differences | 46 |
| **As at 31 December 2015** | **786** |

### Impairment test for goodwill

The Management Board reviews the business performance by geographic areas (locations of subsidiaries) and distribution channels. The main geographic areas identified include Poland and European countries (except Romania), Romania (subsidiary in Romania), as well as China and non-European foreign markets (subsidiary in China). In all these areas, the Group conducts activities in various distribution channels. Goodwill is analysed by the Management Board at the geographic areas level. The above goodwill is allocated to the subsidiary in China.

The recoverable amount of the cash-generating unit has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the tool industry in which the cash-generating unit operates.

The key assumptions used for value-in-use calculations in 2015 are as follows:

- compound annual rate of growth of sales revenue – between 6% and 10% depending on the year of the forecast (forecast for the years 2016-2020)
- rate of growth after the forecast period – 2%
- weighted average cost of capital (discount rate) – 6.2%

The annual rate of growth of sales revenue was used as the key assumption. The volume of sales in each period is the main driver for revenue and costs. The compound annual rate of growth of sales revenue is based on past performance. The long term growth rates used were estimated on a very conservative level. The discount rates used are pre-tax and reflect specific risks relating to that market.

The recoverable amount calculated based on value in use, under the above assumptions, exceeded carrying value by approx. PLN 17 million. The following changes in key assumptions would remove this excess (the impact of each assumption was estimated under the assumption that other assumptions remain unchanged):

- decrease in forecast revenue by 5%,
- increase in the discount rate by 1 percentage point.

(amounts are expressed in PLN thousand, unless specified otherwise)

## 11. Trade receivables and other long-term receivables

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Trade receivables from third parties | 4 | 4 |
| Other receivables from third parties | 113 | 125 |
| Accruals and deferred income related to the perpetual usufruct right | 224 | 227 |
| **Total long-term receivables** | **341** | **356** |

The Group purchased the right of perpetual usufruct from other entities. Perpetual usufruct fees included in the financial result amounted to PLN 20 thousand both in 2015 and in 2014.

Total amounts of future minimum lease payments and perpetual usufruct right fees amount to:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| up to 1 year | 20 | 20 |
| 1–3 years | 40 | 40 |
| 3–5 years | 40 | 40 |
| more than 5 years | 1,420 | 1,440 |
| **Total** | **1,520** | **1,540** |

Liabilities due to the perpetual usufruct of land not included in the consolidated statements of financial position of the Group were estimated based on annual rates resulting from administrative decisions and the remaining time of using the land covered by the right.

## 12. Inventory

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Goods | 115,214 | 124,526 |
| Revaluation write-down | (2,754) | (2,097) |
| **Total inventory** | **112,460** | **122,429** |

The table below presents changes in revaluation write-downs on inventory:

| | 2015 | 2014 |
|---|---|---|
| **As at 1 January** | 2,097 | 2,086 |
| Increase | 697 | 620 |
| Reversal/utilisation | - | (620) |
| Currency translation differences | (40) | 11 |
| **As at 31 December** | **2,754** | **2,097** |

Write-downs on inventory made in the financial year as well as utilisation and reversal of write-downs made in previous years were recorded in the financial result and presented as cost of sales. The reversal of write-downs resulted from the decrease in the value of inventory which, in accordance with the Group's policy, should be written down.

For security created over inventory, see note 19.

(amounts are expressed in PLN thousand, unless specified otherwise)

## 13. Trade receivables and other receivables

Trade and other receivables comprise the following items:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Trade receivables from related parties | 1,893 | 1,873 |
| Trade receivables from third parties | 48,698 | 48,393 |
| **Total trade receivables** | **50,591** | **50,266** |
| Tax receivables | 2,154 | 1,960 |
| Other receivables from related parties | 2,250 | 2,250 |
| Other receivables from third parties | 529 | 1,614 |
| Prepayments (including initial lease payment and insurance) | 908 | 450 |
| **Total gross receivables** | **56,434** | **56,540** |
| Impairment write-downs of doubtful receivables | (2,366) | (1,499) |
| Discount | - | (196) |
| **Total net receivables** | **54,068** | **54,845** |

As at 31 December 2015, trade receivables in the amount of PLN 11,903 thousand (31 December 2014: PLN 10,317 thousand) were past due, of which trade receivables of PLN 9,108 thousand were past due but not impaired (31 December 2014: PLN 7,406 thousand).

The table below presents the ageing structure of receivables which are past due but not impaired:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Overdue period:** | | |
| from 1 to 180 days | 9,108 | 7,406 |
| from 181 to 360 days | - | - |
| more than 360 days | - | - |
| **Total** | **9,108** | **7,406** |

The table below presents changes in impairment write-downs of trade receivables:

| | 2015 | 2014 |
|---|---|---|
| **As at 1 January** | **1,499** | **1,144** |
| Increase | 1,650 | 891 |
| Reversal | (513) | (519) |
| Utilisation | (270) | (28) |
| Currency translation differences | - | 11 |
| **As at 31 December** | **2,366** | **1,499** |

Recognition and reversal of impairment write-downs of receivables was recorded in “Selling costs”.

The unwinding of discount was included in the financial result in financial revenue.

As at 31 December 2015, receivables for which impairment write-downs were recorded individually amounted to PLN 1,797 thousand (31 December 2014: PLN 1,725 thousand). Impairment of those receivables is related to taking the receivables to court.

For security created over receivables, see note 19.

(amounts are expressed in PLN thousand, unless specified otherwise)

## 14. Cash and cash equivalents

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Cash in hand and at bank | 3,431 | 7,773 |
| Cash equivalents | - | 3 |
| **Total cash and cash equivalents** | **3,431** | **7,776** |

Apart from cash disclosed in the statement on financial position, the Parent Company has a separate bank account for the funds of the Company Social Benefits Fund (ZFŚS) which are presented under other receivables in their net amount together with liabilities towards the ZFŚS and receivables under loans granted. As at 31 December 2015, these funds amounted to PLN 36 thousand (as at 31 December 2014: PLN 15 thousand). The Parent Company may use these funds only in the manner provided for by the law with regard to the ZFŚS funds.

Apart from the ZFŚS funds, as at 31 December 2015 and 31 December 2014, the Group did not have any cash of limited disposability.

Reconciliation of changes in balance sheet items as shown in the consolidated statements of financial position and in the consolidated statements of cash flows:

| | | Adjustments | | | | |
|---|---|---|---|---|---|---|
| | **Balance sheet change** | **Discount of receivables** | **Measurement of cash in foreign currencies** | **Currency translation differences** | **actuarial gains recognised in comprehensive income** | **Change in statement of cash flows** |
| Change in trade and other receivables | 792 | 196 | - | 764 | - | 1,755 |
| Change in inventories | 9,969 | - | - | 42 | - | 10,010 |
| Change in provisions | 29 | - | - | (1) | - | 28 |
| Change in trade and other payables | (11,987) | - | - | (1,005) | - | (12,995) |
| Change in employee benefit liabilities | 252 | - | - | (43) | 23 | 233 |
| Change in cash | (4,345) | - | (255) | (206) | - | (4,806) |

(amounts are expressed in PLN thousand, unless specified otherwise)

| | | Adjustments | | | | |
|---|---|---|---|---|---|---|
| | Balance sheet change | Discount of receivables | Measurement of cash in foreign currencies | Currency translation differences | Actuarial losses recognised in other comprehensive income | Change in statement of cash flows |
| Change in trade and other receivables | (8,888) | 178 | - | 1,811 | - | (6,899) |
| Change in inventories | (31,285) | - | - | 1,688 | - | (29,597) |
| Change in provisions | 25 | - | - | (4) | - | 21 |
| Change in trade and other payables | 2,320 | - | - | (1,851) | - | 469 |
| Change in employee benefit liabilities | (125) | - | - | (87) | (37) | (249) |
| Change in cash | 2,755 | - | 10 | (30) | - | 2,735 |

## 15. Share capital

As at 31 December 2015, the share capital amounts to PLN 7,833,084.10 and comprises 78,330,841 shares with a par value of PLN 0.1 each.
As at 31 December 2014, the share capital amounted to PLN 7,814,694.40 and comprised 78,146,944 shares with a par value of PLN 0.1 each.
All of the shares are paid up. The table below presents the ownership structure and percentage stakes held in the Company as at 31 December 2015 and as at the date of signing these financial statements:

| Name | Status | Series of shares | Number of shares | Type of shares | Par value per share (PLN) | Par value of the shares (PLN) | Structure (%) |
|---|---|---|---|---|---|---|---|
| Jan Szmidt(*) | natural person | A | 28,170,647 | ordinary bearer | 0.1 | 2,817,064.70 | 35.96% |
| Tomasz Koprowski(*) | natural person | A | 14,771,208 | ordinary bearer | 0.1 | 1,477,120.80 | 18.86% |
| Romuald Szałagan(*) | natural person | A | 11,033,875 | ordinary bearer | 0.1 | 1,103,387.50 | 14.09% |
| Piotr Wojciechowski(*) | natural person | B | 5,033,055 | ordinary bearer | 0.1 | 503,305.50 | 6.43% |
| Generali OFE(**) | legal person | C | 5,001,147 | ordinary bearer | 0.1 | 500,114.70 | 6.38% |
| Other – share below 5% | not applicable | C, D, E, F, G, H | 14,320,909 | ordinary bearer | 0.1 | 1,432,090.90 | 18.28% |
| **TOTAL** | | | **78,330,841** | | | **7,833,084.10** | **100.00%** |

(*) status according to information held by TOYA S.A. in accordance with the notification to the Ordinary General Shareholders' Meeting on 28 May 2015

(**) status according to information held by TOYA S.A. as at the dividend record date for 2013, i.e. 11 July 2014.

In 2015, the share capital was increased by PLN 18,389.70 as a result of the adoption on 28 May 2015 of a resolution by the Supervisory Board of the Company on the granting of options to eligible individuals under the fourth tranche of the Incentive Scheme. Under this resolution, the Supervisory Board granted 15 Eligible Persons options entitling to subscribe for a total of 183,897 registered subscription warrants of series A, with the right to acquire series D shares issued pursuant to Resolution No 3 of the General Meeting of Shareholders on 8 February 2011 on the issue of subscription warrants of series A with the exclusion of the pre-emptive right to acquire shares.

All eligible persons exercised the options granted and subscribed the series A subscription warrants in quantities equal to the options granted, which subsequently were converted into shares (each warrant entitled for acquiring 1 share of the company). On 3 July 2015, the share capital was revised and on 9 November 2015, the increase was registered with the National Court Register.

## 16. Reserve capital

Reserve capital in the Group is created in connection with the remuneration based on shares under IFRS 2.

A management incentive scheme has been introduced in the Parent Company to create incentive mechanisms which ensure long-term growth of the Group'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 on adopting the rules of the incentive scheme for the Parent Company's management staff and key employees, TOYA S.A., the Parent Company, launched an incentive scheme which was implemented over four consecutive financial years: 2011-2014. On 23 May 2011, by virtue of its Resolution No 11, the Annual General Shareholders' Meeting introduced a number of amendments to the aforementioned resolution. The incentive scheme was addressed to members of the Management Board and key employees of the Company, selected annually by the Supervisory Board. Under the scheme, its participants were entitled to acquire in aggregate up to 2,243,430 Series A registered subscription warrants carrying the right to acquire Series D ordinary bearer shares in the Company with a par value of PLN 0.10 per share and an aggregate par value of PLN 224 thousand.

On 8 November 2011, the Supervisory Board approved conditions and Rules for the Incentive Scheme together with the detailed list of Eligible Persons and number of share options available for each person. The eligible persons had the right to acquire no more than: 18% shares for 2011 (the tranche was exercised), 25% shares for 2012 (the tranche was not exercised), 27% shares for 2013 (the tranche was exercised), and 30% shares for 2014 (the tranche was exercised).

At the end of a given year of the scheme, its participants were granted the right to acquire the shares, provided that the Group achieved specific parameters and objectives. They were set forth by the Supervisory Board in its resolution of 24 May 2011 and in the Rules for the Incentive Scheme. These conditions include:

- growth of the Group's consolidated net profit for the financial years 2011–2014 by at least 22% per annum. Upon fulfilment of this condition, eligible persons were 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;
- 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 was accordingly higher or lower by at least one percentage point in favour of the Company's share price. Upon fulfilment of this condition, eligible persons were granted the right to acquire 25% of the shares under the incentive scheme for years 2012–2014.
- failure to fulfil any of the above conditions in a given year did not rule out the possibility to acquire shares if the conditions were met at the end of the term of the scheme.

The scheme has been valued by external actuary using the Monte-Carlo simulation and analytical models. This method is the extension of Black-Scholes-Merton model.

(amounts are expressed in PLN thousand, unless specified otherwise)

The basic assumptions used for the purposes of the valuation were as follows:

| | **1st pool of eligible individuals** | **2nd pool of eligible individuals** |
|---|---|---|
| Date of granting | 1 December 2011 | 1 June 2012 |
| Share price at the grant date (PLN) | 2.85 | 2.1 |
| Option exercise price (PLN) | 0.1 | 0.1 |
| Basis for determining the risk-free interest rate (*) | Yield on government bonds with closing dates in April 2016 and October 2015 (5.04% and 4.89% respectively) | Yield on government bonds with closing dates in April 2016 and October 2015 (4.95% and 4.54% respectively) |
| Share price volatility | 40% | 45% |

(*) the risk-free interest rate was determined based on yield on fixed interest rate government bonds.

The total cost of the scheme was determined on the basis of the fair value of granted options and was estimated at PLN 2,617 thousand for both pools as at the grant date. The weighted average fair value was PLN 2.15 per option for the 1st pool of eligible individuals and PLN 1.52 for the 2nd pool of eligible individuals.

According to the Supervisory Board Resolution dated 8 November 2011, later amended by Resolution of 29 May 2012, there were 22 participants of the scheme who could be granted a total of 1,299,287 options. As at 31 December 2014, 492 thousand options were outstanding of which, in accordance with the Supervisory Board Resolution of 28 May 2015, 184 thousand options could ultimately be exercised by the eligible persons. By 31 December 2015, all options were exercised and the shares were acquired.

The total cost was recognised over the vesting period, i.e. from 1 December 2011 for the first pool of eligible individuals and from 1 June 2012 for the 2nd pool of eligible individuals (dates of signing agreements with participating persons) until 30 June 2015.

In 2015, the amount of PLN 32 thousand was recognised in costs due to the Incentive Scheme, while in 2014 the costs of the Scheme were reduced by PLN 155 thousand (including the reverse cost of the 3rd tranche — not exercised part in the amount of PLN 188 thousand and recognition of cost of the 4th tranche in the amount of PLN 33 thousand). The carrying value of the scheme included in the reserve capital as at 31 December 2014 amounted to PLN 294 thousand and as at 31 December 2015 there are no options outstanding and the settlement of the scheme has been completed.

The table below presents changes in the number of existing share options under the Incentive Scheme (in items). Prices of execution of all options amounted to PLN 0.1/item.

| | **2015** | **2014** |
|---|---|---|
| **As at 1 January** | **492** | **778** |
| Redeemed (*) | (308) | (5) |
| Executed | (184) | (281) |
| **As at 31 December** | **-** | **492** |

(*) redemption in 2015 resulted from the fact that the Supervisory Board offered a lower number of shares than specified in the Supervisory Board resolution of 8 November 2011, and the redemption in 2014 resulted from the departure from the Company of persons participating in the Scheme.

## 17. Transaction with non-controlling shareholder

On 16 July 2014, the Parent Company concluded an agreement with a non-controlling shareholder of YATO TOOLS to acquire shares in YATO TOOLS based on which the Parent Company acquired from the Shareholder of YATO TOOLS the share representing 25% of all rights and obligations in YATO TOOLS. The selling price of the rights has been set in the agreement at PLN 8,387 thousand. As a result of the conclusion of the agreement, the Parent Company acquired 100% of all rights and obligations, and thus — the sole control of YATO TOOLS.

Before the transaction, the equity attributable to the non-controlling shareholder amounted to PLN 2,117 thousand. The difference between purchase price and equity attributable to non-controlling shareholder amounted to PLN 6,270 thousand (negative value) and was presented as at 31 December 2014 as the result on transaction with a non-controlling shareholder.

## 18. Retained earnings and dividend per share

In line with the provisions of the Commercial Companies Code, retained earnings are used to create statutory reserve funds, to which at least 8% of the profit generated in a given financial year is transferred until the statutory reserve funds reach at least one-third of the share capital, i.e. in case of the Parent Company – PLN 2,611 thousand as at 31 December 2014 (and PLN 2,605 thousand as at 31 December 2014). These statutory reserve funds are exempt from distribution among shareholders and may only be used to cover losses. As at 31 December 2015 and 31 December 2014, the statutory reserve funds exempt from distribution amounted to PLN 4,372 thousand.

The remaining portion of the retained earnings, in the amount of PLN 119,330 thousand as at 31 December 2015, represents accumulated profit from previous years, of which PLN 110,247 thousand represent the accumulated profit of the Parent Company and may be allocated to the payment of dividend.

On 28 May 2015, the Company's General Shareholders' Meeting approved the financial statements of Toya S.A. and the consolidated financial statements of the TOYA S.A. Capital Group for 2014, and resolved to allocate the profit earned by TOYA S.A. in 2014 in the amount of PLN 24,393 thousand to the supplementary capital.

Dividend per share:

| | **12 months ended 31 December** | |
|---|---|---|
| | **2015** | **2014** |
| Dividend paid | - | 14,352 |
| Weighted average number of ordinary shares ('000) | 78,255 | 76,341 |
| **Dividend per share (PLN)** | **-** | **0.19** |

## 19. Liabilities under loans and borrowings

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| **Bank loan liabilities, including** | **6,662** | **32,470** |
| – long-term | - | - |
| – short-term | 6,662 | 32,470 |

(amounts are expressed in PLN thousand, unless specified otherwise)

Changes in bank loans are presented in the table below:

| | Loans taken |
|---|---|
| **As at 1 January 2014** | **7,286** |
| Increase in loan due to the acquisition of a subsidiary | 28,476 |
| Interest for the period (note 29) | 1,040 |
| Interest repaid | (998) |
| Repayment of principal | (3,452) |
| Currency translation differences | 118 |
| **As at 31 December 2014** | **32,470** |
| Increase in loans / issue of bonds | - |
| Interest for the period (note 29) | 858 |
| Interest repaid | (898) |
| Repayment of principal | (25,768) |
| Currency translation differences | - |
| **As at 31 December 2015** | **6,662** |

(amounts are expressed in PLN thousand, unless specified otherwise)

### Description of loan agreements:

| Object and value of agreement | Bank / person acquiring the bonds / granting the borrowing | Loan amount as per agreement as at 31 December 2015 | Amount outstanding as at 31 December 2015 | Amount outstanding as at 31 December 2014 | 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 | 25,000 | 1,358 | 10,462 | WIBOR 1M + bank's margin<br>EURIBOR/LIBOR 1M + bank's margin | 7 March 2016 | Extension of the agreement until 7 March 2017 and change of the loan amount – see note 35.3; |
| 2. Overdraft facility agreement No BDK/KR-RB/000054601/0641/10 of 22 December 2010 | Bank Handlowy w Warszawie S.A. | 25,000 | 3,847 | 11,554 | WIBOR 1M + bank's margin | 16 December 2016 | - |
| 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 | 30,000 | 1,457 | 10,454 | WIBOR 3M + bank's margin | 19 September 2016 | - |
| **Total liabilities, of which:** | | **80,000** | **6,662** | **32,470** | | | |
| – short-term portion | | 80,000 | 6,662 | 32,470 | | | |
| – long-term portion | | - | - | - | | | |

(amounts are expressed in PLN thousand, unless specified otherwise)

The bank margins relating to the loans listed above do not exceed 1%.

The table below presents security for repayment of the loans:

| Type of security | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Mortgage | 77,200 | 82,461 |
| Transfer of title to inventory | 50,000 | 50,000 |
| Assignments of claims | 35,754 | 33,607 |
| **Total restricted assets** | **162,954** | **166,068** |

The value of mortgage securities was determined as a sum of securities established for individual banks, in the amounts required by the banks (in the amount resulting from the value of the secured liability or in the amount resulting from the appraisal made by a real estate appraiser for the bank's needs). The book value of mortgaged assets was PLN 11,919 thousand as at 31 December 2015 (PLN 12,285 thousand as at 31 December 2014). The values of other types of security were determined at the carrying amounts of the assets provided as security as at 31 December 2015 and 31 December 2014.

The securities apply throughout the term of loan agreements. The Parent Company has limited abilities to dispose of the mortgaged assets. In the event of securities established over inventory, the Parent Company may freely dispose of the assets, providing that they will be replaced by a security of the same type and in the same quantity, with minimum values defined in individual agreements with banks amounting to PLN 50 million. In the case of assignments of trade receivables, the Parent Company is obliged to refrain from any legal or actual actions resulting in restrictions on the Parent Company's ability to dispose of these receivables. In addition, the Parent Company has undertaken not to provide loans or guarantees to third parties without the prior consent of the bank throughout the term of the loan.

### Effective interest rate for loans

The effective interest rates are close to the nominal interest rates calculated in line with the terms of the agreements described above. As at 31 December 2015, the weighted average cost of loans was 2.12%.

### Defaults under loan agreements

As at 31 December 2015, the Group did not default on its debt repayment obligations or on any other of its obligations under loan agreements in a manner which would result in an acceleration of debt repayment.

Loan agreements require the borrower to maintain its capitalisation ratio at an agreed level throughout the lending period. If this requirement is not met, the bank has the right to terminate the agreements.

The Group has good relationships with banks, and in its activity to date it had no problems with renewal of bank loans. Based on this, the Management Board believes that the risk resulting from short-term financing is not significant.

(amounts are expressed in PLN thousand, unless specified otherwise)

## 20. Trade and other payables

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Trade payables to related parties | 305 | 21 |
| Trade payables to third parties | 20,943 | 31,019 |
| **Total trade payables** | **21,248** | **31,040** |
| Tax liabilities | 368 | 2,031 |
| Accruals (including settlement of lease costs over time) | 274 | 521 |
| Other payables to third parties | 888 | 1,188 |
| Deferred income | 15 | |
| **Total other current payables** | **1,545** | **3,740** |
| **Total** | **22,793** | **34,780** |

## 21. Liabilities from employee benefits

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Provisions for retirement benefits and disability pensions, and for death benefits | 240 | 229 |
| **Liabilities from employee benefits – non-current portion** | **240** | **229** |
| Provisions for retirement benefits and disability pensions, and for death benefits | 7 | 7 |
| Taxes and social security contributions payable | 79 | 66 |
| Payroll liabilities | 1,298 | 1,156 |
| Unused holidays | 722 | 635 |
| **Liabilities from employee benefits – current portion** | **2,106** | **1,864** |

The Parent Company pays retirement benefits, disability pensions and death benefits in accordance with the Labour Code, in the amount of a one month’s remuneration. The amount of provision for retirement benefits, disability pensions and death benefits as at 31 December 2015 and 31 December 2014 was estimated by an actuary. The basic assumptions were as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Discount rate (risk-free rate) | 2.94% | 2.50% |
| Growth rate of remunerations | 2.50% | 2.50% |

Assumptions concerning future mortality are determined based on statistics published by the Central Statistical Office.

(amounts are expressed in PLN thousand, unless specified otherwise)

The statement of actuarial gains and losses is presented below.

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **current value of liability as at 1 January** | **236** | **174** |
| current service cost | 31 | 23 |
| net interest on net liability | 6 | 7 |
| actuarial gains or losses, including resulting from: | (23) | 37 |
| *changes in demographic assumptions* | *(20)* | *(20)* |
| *changes in financial assumptions* | *(17)* | *73* |
| *ex post adjustments of actuarial assumptions* | *14* | *(16)* |
| past service cost | - | - |
| benefits paid | (3) | (5) |
| **current value of liability as at 31 December** | **247** | **236** |

Total expenses recognised in profit or loss in respect of future employee benefits amounted to PLN 34 thousand in 2015 and PLN 25 thousand in 2014 and were recognised in administrative expenses. Actuarial gains incurred in 2015 amounted to PLN 23 thousand (in 2014: losses of PLN 37 thousand) and were recognised in other comprehensive income.

Sensitivity analyses of liability under defined benefits (retirement benefits, disability pensions and death benefits) to changes in main weighted estimates as at 31 December 2015 are as follows:

| Assumption | Changes in the assumption | Increase in the assumption | Decrease in the assumption |
|---|---|---|---|
| technical discount rate | 1% | (33) | 40 |
| salary rise in the Company | 1% | 40 | (33) |
| turnover ratio | 1% | (16) | 18 |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used for preparing the sensitivity analysis did not change compared to the previous period.

The table below contains the profile of the forecast cash flows in the coming years, by relevant benefits. These values take into account the nominal amounts paid out and their probability.

| name of benefit | 1st year | 2nd year | 3rd year | 4th year | 5th year | 6th year (and further) |
|---|---|---|---|---|---|---|
| retirement benefit | - | 10 | - | - | - | 777 |
| disability pension | 3 | 3 | 3 | 3 | 3 | 39 |
| death benefit | 5 | 6 | 6 | 7 | 8 | 350 |
| **total** | **8** | **19** | **9** | **10** | **11** | **1166** |

(amounts are expressed in PLN thousand, unless specified otherwise)

## 22. Finance lease – the Group as a lessee

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Minimum lease payments** | | |
| payable up to 1 year | 197 | 201 |
| payable between 2 and 5 years | 525 | 737 |
| **Total** | **722** | **938** |
| Future interest expenses | (46) | (94) |
| **Finance lease liabilities** | **676** | **844** |
| of which: | | |
| payable up to 1 year | 176 | 166 |
| payable between 2 and 5 years | 500 | 678 |

As at 31 December 2015, the Parent Company leased a server under finance lease, under an agreement dated 30 December 2014. The net amount of the lease liability as at the date of the agreement is PLN 899 thousand. The agreement was concluded for a period of 60 months. Monthly lease payments amount to approx. PLN 17 thousand. The terms and conditions of the agreement were not different from terms and conditions typical to this type of agreements.

## 23. Operating lease – the Group as a lessee

The Group uses a warehouse in Nadarzyn and a car park in Wrocław, and passenger cars, under non-cancellable operating lease agreements. Moreover, the Group uses land in Wrocław, to which it has the right of perpetual usufruct of land (for detailed information see note 11).

The costs incurred in connection with the operating leases amounted to PLN 2,843 thousand in 2015 (PLN 2,861 thousand in 2014). They include:

- rent and service charges concerning the warehouse,
- lease payments, the settlement in time of initial rent, administrative charges and additional services,
- fees for perpetual usufruct,
- costs incurred under car park lease agreements.

Total amounts of future minimum lease payments for the warehouse in Nadarzyn, lease payments for passenger cars and fees for perpetual usufruct amount to:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| up to 1 year | 2,302 | 2,298 |
| 1–3 years | 2,696 | 2,647 |
| 3–5 years | 40 | 40 |
| more than 5 years | 1,420 | 1,440 |
| **Total** | **6,458** | **6,425** |

The warehouse lease agreement was signed in 2007 and is concluded for the period of 10 years.

In October 2012, the Company entered into a general passenger car lease agreement. As at 31 December 2014, a few dozens of passenger cars had been provided for use under the agreement. The agreements were concluded for a period of 48 months. After the end of the lease term, the Company has the option to purchase the cars at the price typical for operating lease agreements.

(amounts are expressed in PLN thousand, unless specified otherwise)

## 24. Provisions

| | Provisions for guarantee repairs and returns | Other provisions | TOTAL |
|---|---|---|---|
| **As at 1 January 2015** | **295** | **10** | **305** |
| Provision created | 325 | - | 325 |
| Provision reversed | (297) | - | (297) |
| Currency translation differences | 1 | - | 1 |
| **As at 31 December 2015** | **324** | **10** | **334** |
| Short-term as at 31 December 2015 | 324 | 10 | 334 |
| | | | |
| **As at 1 January 2014** | **270** | **10** | **280** |
| Provision created | 293 | - | 293 |
| Provision reversed | (270) | - | (270) |
| Currency translation differences | 2 | - | 2 |
| **As at 31 December 2014** | **295** | **10** | **305** |
| Short-term as at 31 December 2014 | 295 | 10 | 305 |

The provision for guarantee repairs is created in accordance with the policy described in note 3.21. The obligation of the Company to incur the costs of guarantee repairs results from general provisions on surety and guarantee granted to certain product groups. It is to be used within less than 12 months, and the amount is estimated on the basis of historical costs of guarantee repairs borne; thus, the uncertainty towards its value should not have a material impact on the Company's future results. Provisions are recognised in the financial result under "costs of goods sold".

## 25. Sales revenue

| | 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| **Sales revenue** | | |
| Sales of services | 785 | 701 |
| Sales of goods | 281,857 | 261,478 |
| **Total sales revenue** | **282,642** | **262,179** |

## 26. Costs by type and cost of goods and materials sold

| | 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Amortisation and depreciation | 3,001 | 2,479 |
| Material and energy consumption | 3,106 | 3,216 |
| Third-party services | 14,787 | 14,085 |
| Taxes and fees | 1,271 | 1,382 |
| Costs of employee benefits | 28,280 | 24,049 |
| Other costs by type | 12,353 | 11,548 |
| Value of goods sold | 186,025 | 168,920 |
| **Total costs by type and value of goods sold** | **248,823** | **225,679** |
| | | |
| Selling costs | 48,185 | 43,801 |
| Administrative expenses | 14,613 | 12,958 |
| Value of goods sold | 186,025 | 168,920 |
| **Total** | **248,823** | **225,679** |

The Group does not conduct important R&D works.

(amounts are expressed in PLN thousand, unless specified otherwise)

## 27. Cost of employee benefits

| | 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Payroll | 23,532 | 19,855 |
| Cost of share options | 32 | (79) |
| Cost of social insurance | 4,209 | 3,786 |
| Cost of provision for unused leaves | 97 | 48 |
| Cost of retirement benefits | 3 | 3 |
| Cost of other employee benefits | 407 | 436 |
| **Total cost of employee benefits** | **28,280** | **24,049** |

Below is the average annual number of employees in terms of one FTE:

| | 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Total employees | 369 | 349 |

## 28. Other operating revenue and expenses

| | 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Gains on sale of property, plant and equipment | 48 | 14 |
| Net currency exchange gains related to operating activities | 365 | 32 |
| Revenues from other sales | 146 | 128 |
| Compensation | 250 | 54 |
| Revenue from settlement of the acquisition of a subsidiary | 13 | - |
| Other operating revenue | 164 | 101 |
| **Total other operating revenue** | **986** | **329** |

| | 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Loss on liquidation of property, plant and equipment | 75 | 115 |
| Surplus of FX losses over FX gains on operating activities | 1,237 | 2,084 |
| Cost of other sales | 114 | 114 |
| Penalties and fines paid | 143 | 47 |
| Court and debt recovery fees | 110 | 141 |
| Interest paid to the state budget and to counterparties | 5 | 1 |
| Donations given | 165 | 89 |
| Write-off of receivables | - | 28 |
| Other | 341 | 71 |
| **Total other operating expenses** | **2,190** | **2,690** |

(amounts are expressed in PLN thousand, unless specified otherwise)

## 29. Financial revenue and expenses

| | 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Interest on cash in bank accounts | 5 | 10 |
| Other interest | 196 | 186 |
| Positive exchange rate differences from financial liabilities valuation | 6 | - |
| **Total financial revenue** | **207** | **196** |

| | 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Interest and commissions on loans | 858 | 1,040 |
| Interest on finance lease liabilities | 28 | 13 |
| Other financial costs | 29 | 23 |
| **Total financial expenses** | **915** | **1,076** |

(amounts are expressed in PLN thousand, unless specified otherwise)

## 30. Income tax

The reporting periods presented in these financial statements cover the following tax periods:

- from 1 January 2015 to 31 December 2015,
- from 1 January 2014 to 31 December 2014.

| | 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Current tax | 6,242 | 6,668 |
| Deferred tax | 270 | (58) |
| Total income tax | **6,512** | **6,610** |

The following corporate income tax rates were applicable in all the presented periods: 19% in the Parent Company, 16% in subsidiary in Romania and 25% in subsidiary in China.

Reconciliation of the theoretical tax on the pre-tax profit and the statutory tax rate with the income tax expense recognised in profit or loss is presented in the table below:

| | 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Profit before tax | 31,906 | 33,259 |
| Tax rate applicable in the period | 19% | 19% |
| **Tax calculated at the applicable tax rate** | **6,062** | **6,319** |
| Tax effect of the following items: | | |
| - measurement for jointly-controlled entities using the equity method – Yato China | - | - |
| - permanent tax differences – revenue | (28) | (18) |
| - permanent tax differences – costs | 552 | 274 |
| - temporary tax differences for which no asset was created | 16 | (4) |
| - adjustment of tax from previous years | 60 | - |
| Technology credit and other tax credits | (78) | - |
| Difference between tax rates applicable in other countries (in Romania: 16%, in China: 25%) | (71) | 37 |
| Other | (1) | 2 |
| **Income tax recognised in profit or loss** | **6,512** | **6,610** |

The provisions on VAT, CIT, PIT or social security contributions frequently change, often resulting in the absence of any established regulations or legal precedents for reference. The regulations in effect tend to be unclear, thus leading to differences in opinions as to legal interpretation of fiscal regulations, both between state authorities themselves and between state authorities and entrepreneurs. Tax declarations and other settlements (e.g. customs or foreign exchange) can be audited by authorities which are authorised to impose high fines, and the additional liabilities arising from such audits have to be paid including high interest. In the light of the above, the tax risk in Poland is higher than usual tax risk in countries with better-developed tax systems. In Poland, no formal procedures are present for the determination of the final amount of tax due. Tax declarations can be audited over a period of five years. Therefore, the amounts disclosed in the financial statements may change at a later date, following final determination of their amount by the competent tax authorities.

(amounts are expressed in PLN thousand, unless specified otherwise)

### Deferred income tax

| | As at 31 December 2015 | | | As at 1 January 2015 | Recognised in profit or loss/equity |
|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Net | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | - | 505 | (505) | (332) | (173) |
| Trade receivables and other receivables | - | 43 | (43) | (43) | - |
| **Current assets** | | | - | - | - |
| Inventory | 926 | - | 926 | 1,032 | (106) |
| Trade receivables and other receivables | 360 | 12 | 348 | 287 | 61 |
| Other financial assets | - | - | - | - | - |
| Cash and cash equivalents | - | - | - | (1) | 1 |
| **Long-term liabilities** | | | - | - | - |
| Trade and other payables | 185 | - | 185 | 233 | (48) |
| Liabilities from employee benefits | 268 | - | 268 | 229 | 39 |
| Liabilities from loans, borrowings and other debt instruments | 2 | - | 2 | 9 | (7) |
| Liabilities from finance leases | 128 | - | 128 | 160 | (32) |
| Provisions | 57 | - | 57 | 51 | 6 |
| **Total assets and liabilities** | **1,926** | **560** | **1,366** | **1,625** | **(259)** |
| **Total deferred income tax, of which** | **1,926** | **560** | **1,366** | **1,625** | **(259)** |
| – recognised in profit or loss | | | | | (270) |
| – recognised in equity (*) | | | | | 11 |

| | As at 31 December 2014 | | | As at 1 January 2014 | Recognised in profit or loss/equity |
|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Net | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | - | 332 | (332) | (53) | (279) |
| Trade receivables and other receivables | - | 43 | (43) | 29 | (72) |
| **Current assets** | | | | | |
| Inventory | 1,032 | - | 1,032 | 588 | 444 |
| Trade receivables and other receivables | 287 | - | 287 | 366 | (79) |
| Cash and cash equivalents | - | 1 | (1) | 1 | (2) |
| **Long-term liabilities** | | | | | |
| Trade and other payables | 233 | - | 233 | 265 | (32) |
| Liabilities from employee benefits | 229 | - | 229 | 292 | (63) |
| Liabilities from loans | 9 | - | 9 | 1 | 8 |
| Liabilities from finance leases | 160 | - | 160 | - | 160 |
| Provisions | 51 | - | 51 | 41 | 10 |
| **Total deferred income tax, of which** | **2,001** | **376** | **1,625** | **1,530** | **95** |
| – recognised in profit or loss | | | | | 58 |
| – recognised in equity (*) | | | | | 37 |

(*) applies to deferred tax from actuarial losses recognised in other comprehensive income and exchange differences from translation of deferred tax assets

Of the above-reported value of deferred tax assets, the amount of PLN 221 thousand, as at 31 December 2015, concerns items that the Parent Company expects to realise over a period exceeding 12 months (as at 31 December 2014: PLN 323 thousand). There are no temporary differences related to investments in subsidiaries for which a deferred tax provision should be created.

## 31. Earnings per share

| | 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Net profit | 25,395 | 26,649 |
| Weighted average number of ordinary shares ('000) | 78,255 | 76,341 |
| **Basic earnings per share from continuing operations (PLN)** | **0.32** | **0.35** |
| Diluted net profit | 25,395 | 26,649 |
| Adjusted weighted average number of ordinary shares used for calculating diluted earnings per share ('000) | 78,255 | 76,341 |
| Dilution impact: | | |
| *Share options* | 56 | 180 |
| Adjusted weighted average number of ordinary shares used for calculating diluted earnings per share ('000) | 78,311 | 76,521 |
| **Diluted earnings per share from continuing operations (PLN)** | **0.32** | **0.35** |

Basic earnings per share were calculated by dividing the net profit by the weighted average number of ordinary shares during the period.

During the year, the Group had one potential dilutive instrument: share options granted to Supervisory Board members, Management Board members and key employees, described in note 16. In 2015 and 2014, share options did not have material impact on the diluted earnings per share.

## 32. Guarantees granted, contingent assets and liabilities

As at 31 December 2015, the Company had the following guarantees:

| No | Counterparty | Type of guarantee | Subject matter and value | Date of expiry |
|---|---|---|---|---|
| 1 | Bank Handlowy w Warszawie S.A. | Guarantee of payment for the lease of warehouses in Nadarzyn | Bank guarantee of EUR 231,163 | 28 February 2016 (*) |

(*) after the end of the financial year, the guarantee was extended until 28 February 2017, for the amount of EUR 225,413.

On 29 November 2012, the Parent Company and TOYA Development Sp. z o.o. Spółka Komandytowa in liquidation concluded an agreement concerning a legal defect of the real property which was contributed in kind on 6 April 2011 pursuant to Resolution No 1 of the Extraordinary General Shareholders' Meeting of TOYA Development by TOYA S.A., which at that time was the company's general partner. The real property in question comprises land with the expenditure incurred thereon. The contributed real property had a legal defect, i.e. on 6 April 2011 TOYA S.A. was not its owner since, pursuant to a decision of the Head of Wisznia Mała Municipality of 7 May 2007, this plot of land became the property of Trzebnicki Poviat on 8 June 2007. TOYA S.A. is entitled to pursue claims against Trzebnicki Poviat due to expropriation of the abovementioned real property and the expenditure incurred thereon. Had the legal defect of the in-kind contribution not existed and had the transfer of ownership of the real property been effective, TOYA Development 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. has undertaken to pay TOYA Development compensation equal to the compensation obtained from the Trzebnicki Poviat. The right to compensation will arise provided that TOYA S.A. receives compensation from the Trzebnicki Poviat and in the amount obtained from the Trzebnicki Poviat. As at 31 December 2014, the contingent liability includes compensation due to the incurred expenditure, whose revaluated value is estimated at net PLN 2.5 million. At the same time, as at 31 December 2014 the Parent Company has contingent assets due to compensation for the incurred expenditure from the Trzebnicki Poviat in the same amount, i.e. approx. net of PLN 2.5 million.

On 24 January 2014, TOYA S.A. filed a lawsuit in the Regional Court in Wrocław against the Trzebnicki Poviat for the repayment of the disputed amount. In July 2015, the lawsuit was dismissed by the Court and in September 2015, the Company appealed against this decision. The appeal hearing was scheduled to 26 February 2016 — see events after the end of the financial year, note 35.2.

## 33. Transactions with related entities

In 2015 and 2014, the Group effected transactions with the following related parties:

- Toya Development Sp. z o.o. S.K. in liquidation – entity related through key management personnel of the Parent Company (as at 31 December 2014: entity jointly controlled by the shareholders controlling the Parent Company),
- Golf Telecom Sp. z o.o. SKA – entity related through key management personnel of the Parent Company (as at 31 December 2014: entity jointly controlled by the shareholders controlling the Parent Company),
- Grzegorz Pinkosz – President of the Management Board of the Parent Company – key management personnel,
- Dariusz Hajek – Vice-President of the Management Board of the Parent Company – key management personnel,
- Maciej Lubnauer – Vice-President of the Management Board of the Parent Company from 26 June 2014 – key management personnel,
- Piotr Mondalski – President of the Supervisory Board – key management personnel,
- Jan Szmidt – Vice-President of the Supervisory Board – key management personnel,
- Tomasz Koprowski – Member of the Supervisory Board – key management personnel,
- Grzegorz Maciąg – Member of the Supervisory Board – key management personnel,
- Dariusz Górka – Member of the Supervisory Board – key management personnel,
- Romuald Szałagan – until 26 June 2014 member of the Supervisory Board, key management personnel.

(amounts are expressed in PLN thousand, unless specified otherwise)

| | Trade and other receivables | Loans advanced and bonds acquired | Trade and other payables | Revenues from sales of goods | Purchase of goods and services | Remuneration for work | Financial revenue – interest | Dividend paid | Exercised options (*) |
|---|---|---|---|---|---|---|---|---|---|
| | 31.12.2015 | | | 1.01.2015 – 31.12.2015 | | | | | |
| Entities related through key management personnel | 4,120 | - | 279 | 18 | 916 | - | 196 | - | - |
| Key management personnel | - | - | - | - | - | 1,100 | - | - | 207 |
| **Total** | **4,120** | **-** | **279** | **18** | **916** | **1,100** | **196** | **-** | **207** |
| | 31.12.2014 | | | 1.01.2014 – 31.12.2014 | | | | | |
| Jointly-controlling shareholders (**) | - | - | - | - | - | - | - | 2,078 | - |
| Entities jointly controlled by controlling shareholders | 4,123 | - | 5 | 22 | 719 | - | 187 | - | - |
| Key management personnel | - | - | - | - | - | 1,072 | - | 8,224 | 768 |
| **Total** | **4,123** | **-** | **5** | **22** | **719** | **1,072** | **187** | **10,302** | **768** |

* Value of exercised options in 2015 includes the value of options for the members of the Management Board totalling PLN 207 thousand according to the valuation of the actuary, and in 2014 this value includes options for members of the Supervisory Board totalling PLN 440 thousand according to the valuation of the actuary (including one eligible member of the Supervisory Board exercising in both periods their right to designate another entity to acquire the shares), and the value of options granted to and exercised by the members of the Management Board participating in the Incentive Scheme described in note 16 of the consolidated financial statements, totalling PLN 328 thousand.

(**) this category includes jointly-controlling shareholders who, as at 31 December 2014, were not members of key management personnel. Transactions with jointly-controlling shareholders who were members of the Supervisory Board as at 31 December 2014 are presented in the line "Key management personnel".

Related party transactions are entered into on arm's length terms in the course of the Group's day-to-day operations.

(amounts are expressed in PLN thousand, unless specified otherwise)

In the years ended 31 December 2015 and 31 December 2014, no receivables from related parties were written down.

Receivables from an entity jointly-controlled by the shareholders controlling the Company (for details see note 11) were subject to an agreement under which the repayment was deferred until 31 December 2015. These receivables have been valued at amortised cost. In 2015 a revenue of PLN 196 thousand was recognised due to the expansion of discount, while in 2014: PLN 187 thousand. After the balance sheet date, this amount receivable was subject to an assignment — see note 35 for details.

Balances due to transactions with related entities are not insured.

**Information on remuneration and benefits of key management personnel, and on transactions executed with such personnel**

The Management Board and the Supervisory Board of the Parent Company comprise the key management personnel of the Group.

The remuneration and benefits paid or payable to the Company's key management personnel are as follows:

| | 2015 | 2014 |
|---|---|---|
| Remunerations and benefits under employment contracts and appointment contracts — Management Board | 680 | 640 |
| Costs due to defined contribution plans (ZUS costs borne by the Company) | 15 | 61 |
| Remunerations for posts held – Supervisory Board | 420 | 432 |
| Costs due to share options – Supervisory Board | - | 75 |
| Costs due to share options – Management Board (*) | 30 | 163 |

(*) Costs recognised in profit or loss in 2015 and 2014, respectively, resulting from the valuation of options according to the assumptions described in note 16.

Apart from the transactions mentioned above and in the table on the previous page, the Group did not execute any transactions with the key management personnel.

## 34. Operating segments

### Identification of operating and reporting segments

The Management Board of the Parent Company makes decisions related to the Company's operations from the perspective of distribution channels and geographical coverage.

The Group specifies four operating and reporting segments for its activities:
trading area – sales on local markets (Poland, Romania and China) to retail networks,
trading area – sales on local markets (Poland, Romania and China) – wholesale market,
trading area – exports,
trading area – other sales.

As part of the retail networks segment, the Group cooperates with large retail networks throughout Poland and Romania. Wholesale on all markets where the Group holds its entities is conducted through a network of wholesalers, authorised retail stores and sales representatives. Foreign markets are supported using sales department of the Parent Company and subsidiary, Yato Tools (Shanghai) Co., Ltd. The segment of other sales comprises mainly sales through a stationary store and online store. As at 31 December 2015, this segment did not meet separate reporting criteria. As a result, it is presented as other trading activities.

Data analysed by the Management Board of the parent company for segment description is consistent with the data disclosed in the statement of comprehensive income.

The Group did not record revenue from sale to a single external customer exceeding 10% of total sales revenue.

As at 31 December 2015, the Group's assets amounted to PLN 196,428 thousand, and the Group's liabilities amounted to PLN 33,343 thousand and were related only to trading activities. The Management Board of the Parent Company does not examine the assets of the Group for each segment separately.

The Parent Company has no non-current assets located abroad, although such assets are held by the subsidiaries. The net value of property, plant and equipment located in Romania as at 31 December 2015 is PLN 1,579 thousand and located in China is PLN 3,300 thousand.

(amounts are expressed in PLN thousand, unless specified otherwise)

| **12 months ended 31 December 2015** | ***Trading – EXPORTS*** | ***Trading – WHOLESALE MARKET*** | ***Trading – RETAIL NETWORKS*** | ***Trading – OTHER*** | **Total** |
|---|---|---|---|---|---|
| **Sales revenue** | | | | | |
| Sales to external customers | 81,025 | 139,499 | 58,298 | 3,820 | 282,642 |
| **Total segment revenue** | **81,025** | **139,499** | **58,298** | **3,820** | **282,642** |
| **Cost of goods sold** | | | | | |
| Sales to external customers | (52,556) | (87,942) | (43,579) | (1,948) | (186,025) |
| **Total costs of goods sold** | **(52,556)** | **(87,942)** | **(43,579)** | **(1,948)** | **(186,025)** |
| **Gross profit** | **28,469** | **51,557** | **14,719** | **1,872** | **96,617** |
| **Gross margin** | **35%** | **37%** | **25%** | **49%** | **34%** |
| **Gross profit – all operating segments** | | | | | **96,617** |
| Selling costs | | | | | (48,185) |
| Administrative expenses | | | | | (14,613) |
| Other operating revenue | | | | | 986 |
| Other operating expenses | | | | | (2,190) |
| **Operating profit** | | | | | **32,615** |
| Financial revenue | | | | | 207 |
| Financial expenses | | | | | (915) |
| **Profit before tax** | | | | | **31,907** |
| Income tax | | | | | (6,512) |
| **Net profit** | | | | | **25,395** |

| **12 months ended 31 December 2014** | ***Trading – EXPORTS*** | ***Trading – WHOLESALE MARKET*** | ***Trading – RETAIL NETWORKS*** | ***Trading – OTHER*** | **Total** |
|---|---|---|---|---|---|
| **Sales revenue** | | | | | |
| Sales to external customers | 84,877 | 127,394 | 47,892 | 2,016 | 262,179 |
| **Total segment revenue** | **84,877** | **127,394** | **47,892** | **2,016** | **262,179** |
| **Cost of goods sold** | | | | | |
| Sales to external customers | (54,297) | (78,996) | (34,307) | (1,320) | (168,920) |
| **Total costs of goods sold** | **(54,297)** | **(78,996)** | **(34,307)** | **(1,320)** | **(168,920)** |
| **Gross profit** | **30,580** | **48,398** | **13,585** | **696** | **93,259** |
| **Gross margin** | **36%** | **38%** | **28%** | **35%** | **36%** |
| **Gross profit – all operating segments** | | | | | **93,259** |
| Selling costs | | | | | (43,801) |
| Administrative expenses | | | | | (12,958) |
| Other operating revenue | | | | | 329 |
| Other operating expenses | | | | | (2,690) |
| **Operating profit** | | | | | **34,139** |
| Financial revenue | | | | | 196 |
| Financial expenses | | | | | (1,076) |
| **Profit before tax** | | | | | **33,259** |
| Income tax | | | | | (6,610) |
| **Net profit** | | | | | **26,649** |

(amounts are expressed in PLN thousand, unless specified otherwise)

The most important geographic export directions of the Group are:

| | 12 months ended 31 December 2015 | | 12 months ended 31 December 2014 | |
|---|---|---|---|---|
| | **Sales revenue** | **Share in export sales** | **Sales revenue** | **Share in export sales** |
| Baltic countries | 12,496 | 15% | 11,492 | 14% |
| Russia | 10,165 | 13% | 14,120 | 17% |
| Germany | 6,852 | 8% | 7,416 | 9% |
| Ukraine | 3,301 | 4% | 6,958 | 8% |

Sales on local markets, reported under the wholesale segment, retail networks segment and other segment was, respectively, as follows:

| | 12 months ended | |
|---|---|---|
| | **2015** | **2014** |
| Poland (segment: wholesale, retail networks and other) | 160,529 | 145,393 |
| Romania (segment: wholesale and retail networks) | 25,854 | 19,026 |
| China (wholesale segment) | 15,234 | 12,883 |
| | **201,617** | **177,302** |

## 35. Material events subsequent to the end of reporting period

### *35.1* Assignment of receivables

On 23 December 2015, the Parent Company conducted a conditional assignment of an amount receivable from TOYA Development Sp. z o.o. s.k. in liquidation, amounting to PLN 4,119 thousand. As a result of materialisation of the condition related to the default of the original debtor by 31 December 2015, on 1 January 2016 this amount receivable was assigned to the related person, a member of the key management personnel of the Company at the nominal value of the amount receivable. The amount of PLN 2,119 thousand was repaid on 15 January 2016, and the repayment date of the remaining part of the amount receivable, i.e. PLN 2,000 thousand, is 30 June 2017.

(amounts are expressed in PLN thousand, unless specified otherwise)

### *35.2* Disputes

On 26 February 2016, a hearing was held before the Court of Appeal in Wrocław, as a result of an appeal lodged against the decision of the Regional Court in Wrocław. The hearing concerned the lawsuit brought by TOYA S.A. against the Trzebnicki Poviat, as described in Note 19. At the hearing, the Court of Second Instance did not make a substantive decision on the said case and resolved to hear the case in chambers, without stating the date.

### *35.3* Annex to a significant agreement

On 3 March 2016, TOYA S.A. and Raiffeisen Bank Polska S.A. with its registered office in Warsaw concluded Annex to the Debt Limit Facility Agreement No CRD/L/11381/02 of 2 October 2002.

Under the annex, the credit limit was extended to 7 March 2017 and set to the amount of PLN 5,000 thousand, subject to the condition that under the instruction of Toya S.A. submitted no later than on 10 August 2016, the Bank will provide Toya S.A. with an annex increasing the available limit to PLN 25,000 thousand, on the present terms and conditions.

The remaining terms and conditions of the Agreement remained unchanged and do not differ from terms and conditions commonly applied in this type of agreements.

| | | |
|---|---|---|
| Grzegorz Pinkosz<br>President of the<br>Management Board | Dariusz Hajek<br>Vice-President of the<br>Management Board | Maciej Lubnauer<br>Vice-President of the<br>Management Board |

Iwona Banik
Person responsible for keeping accounting records

Wrocław, 17 March 2016

DIRECTORS' REPORT ON THE OPERATIONS OF

**TOYA S.A. GROUP**

IN 2015

# Contents

# 1. PROFILE OF THE PARENT COMPANY

## 1.1 General Information – the Parent Company

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

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

The duration of the Parent Company is unlimited.

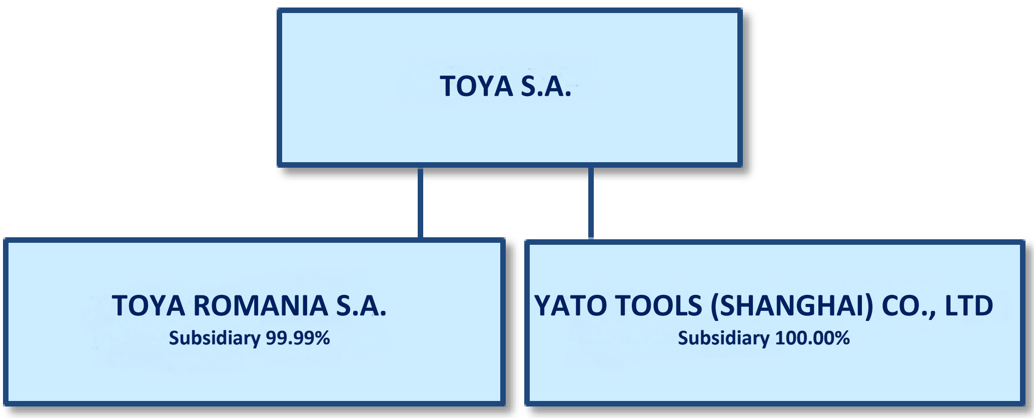
As at the date of submission of the annual report, the Parent Company has 1 branch located outside the registered office, in Nadarzyn.

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

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

## 1.2 Organisation of TOYA S.A. Capital Group

As at 31 December 2015, the Group comprised the following entities:



Particulars of entities comprising the Capital Group (as at 31 December 2015 and as at the date of publication of the report on operations of the Capital Group):

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

(*) In June 2008, the Parent Company and Saame Tools (Shanghai) Import & Export Co., Ltd China established a joint venture under the name Yato China Trading Co., Ltd. The Parent Company acquired 51% of the shares in the share capital, the remaining 49% was acquired by Saame Tools (Shanghai) Import & Export Co., Ltd China. On 2 January 2013, TOYA S.A. increased the share capital in Yato China Trading Co., Ltd. As a result of this transaction, the Parent 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. In April 2013, the name of the company was changed to Yato Tools (Shanghai) Co., Ltd. On 16 July 2014, TOYA S.A. acquired stake in the share capital, obtaining a total of 100% share in the entity's equity.

### 1.3 The Parent Company's Management Board and Supervisory Board

In 2015, the Management Board consisted of the following members:

- Grzegorz Pinkosz President of the Management Board
- Dariusz Hajek Vice-President of the Management Board
- Maciej Lubnauer Vice-President of the Management Board

As at 31 December 2015 and as at the date of publication of this report, the Management Board was composed of the above persons.

In 2015, the Supervisory Board consisted of the following members:

- Piotr Mondalski President of the Supervisory Board
- Jan Szmidt Vice-President of the Supervisory Board
- Tomasz Koprowski Member of the Supervisory Board
- Dariusz Górka Member of the Supervisory Board
- Grzegorz Maciąg Member of the Supervisory Board

As at 31 December 2015 and as at the date of publication of this report, the Supervisory Board was composed of the above persons.

### 1.4 Share capital

As at 31 December 2015, the share capital amounted to **PLN 7,833,084.10** and comprises 78,330,841 shares with a par value of PLN 0.1 each.

In 2015, the share capital was increased by **PLN 18,389.70** through the issue of 183,897 ordinary shares as a result of the adoption on 28 May 2015 of a resolution by the Supervisory Board of the Company on the granting of options to eligible individuals under the fourth tranche of the Incentive Scheme. Under this resolution, the Supervisory Board granted 15 Eligible Persons options entitling to subscribe for a total of 183,897 registered subscription warrants of series A, with the right to acquire series D shares issued pursuant to Resolution No 3 of the General Meeting of Shareholders on 8 February 2011 on the issue of subscription warrants of series A with the exclusion of the pre-emptive right to acquire shares.

All eligible persons exercised the options granted and subscribed the series A subscription warrants in quantities equal to the options granted, which subsequently were converted into shares (each warrant entitled for acquiring 1 share of the company). On 3 July 2015, the share capital was revised and on **9 November 2015**, the increase was registered with the National Court Register.

### 1.5 Own shares

In 2015, the Parent Company did not acquire its own shares.

### 1.6 Shareholders

| Name | Status | Series of shares | Number of shares | Type of shares | Par value per share (PLN) | Par value of the shares (PLN) | Structure (%) |
|---|---|---|---|---|---|---|---|
| Jan Szmidt(*) | natural person | A | 28,170,647 | ordinary bearer | 0.1 | 2,817,064.70 | 35.96% |
| Tomasz Koprowski(*) | natural person | A | 14,771,208 | ordinary bearer | 0.1 | 1,477,120.80 | 18.86% |
| Romuald Szałagan(*) | natural person | A | 11,033,875 | ordinary bearer | 0.1 | 1,103,387.50 | 14.09% |
| Piotr Wojciechowski(*) | natural person | B | 5,033,055 | ordinary bearer | 0.1 | 503,305.50 | 6.43% |
| Generali OFE(**) | legal person | C | 5,001,147 | ordinary bearer | 0.1 | 500,114.70 | 6.38% |
| Other – share below 5% | not applicable | C, D, E, F, G, H | 14,320,909 | ordinary bearer | 0.1 | 1,432,090.90 | 18.28% |
| **TOTAL** | | | **78,330,841** | | | **7,833,084.10** | **100.00%** |

(*) status according to information held by TOYA S.A. in accordance with the notification to the Ordinary General Shareholders' Meeting on 28 May 2015
(**) status according to information held by TOYA S.A. as at the dividend record date for 2013, i.e. 11 July 2014.

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 | 35.96% | 28,170,647 | 35.96% |
| Tomasz Koprowski (*) | 14,771,208 | 18.86% | 14,771,208 | 18.86% |
| Romuald Szałagan (*) | 11,033,875 | 14.09% | 11,033,875 | 14.09% |
| Piotr Wojciechowski (*) | 5,033,055 | 6.43% | 5,033,055 | 6.43% |
| Generali OFE (**) | 5,001,147 | 6.38% | 5,001,147 | 6.38% |

(*) status according to information held by TOYA S.A. in accordance with the notification to the Ordinary General Shareholders' Meeting on 28 May 2015
(**) status according to information held by TOYA S.A. as at the dividend record date for 2013, i.e. 11 July 2014.

Since the submission of the last quarterly report (i.e. 5 November 2014), TOYA S.A. has not received notification from the shareholders about any changes in the ownership structure of significant blocks of shares.

## 1.7 Shares held by managers and supervisors

### 1.7.1 Shares held by members of the Parent Company's 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 | 158,222 | 15,822 | 158,222 | 0.20% |
| Dariusz Hajek | 150,562 | 15,056 | 150,562 | 0.19% |
| Maciej Lubnauer | 66,644 | 6,664 | 66,644 | 0.09% |
| **TOTAL members of the Management Board** | **375,428** | **37,543** | **375,428** | **0.48%** |

Members of the Management Board participated in the Incentive Scheme described in note 14 of the financial statements and in item 1.7.3 below. As a part of this Scheme, Members of the Management Board were 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. In 2015, the following volumes of options were granted under the Scheme (all options were executed):

- Grzegorz Pinkosz 39,861
- Dariusz Hajek 39,861
- Maciej Lubnauer 39,861

As at 31 December 2015, the Scheme was closed.

### 1.7.2 Shares held by members of the Parent Company's 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 | 2,817,064.70 | 28,170,647 | 35.96% |
| Tomasz Koprowski | 14,771,208 | 1,477,120.80 | 14,771,208 | 18.86% |
| Grzegorz Maciąg | 5,275 | 527.50 | 5,275 | 0.01% |
| **TOTAL Members of the Supervisory Board** | **42,947,130** | **4,294,713** | **42,947,130** | **54.83%** |

### 1.7.3 Information about the employee share ownership plan control system

A management incentive scheme has been introduced at the Parent Company to create incentive mechanisms which ensure long-term growth of the Company's value and a steady increase of net profit, as well as contribute to stable 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 was implemented over four financial years: 2011–2014. On 8 November 2011, the Supervisory Board approved conditions and Rules for the Incentive Scheme together with the detailed list of Eligible Persons and number of share options available for each person. The total number of shares issued as part of the incentive scheme did not exceed 2,243,430. The eligible persons had 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 were granted the right to acquire the shares, provided that the Company achieved specific parameters and objectives. The objectives and parameters which the Company was 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. These conditions include:

a) growth of the Group's consolidated net profit for the financial years 2011–2014 by at least 22% per annum. Upon fulfilment of this condition, eligible persons were 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 fulfilment of this condition, eligible persons were granted the right to acquire 25% of the shares under the incentive scheme for years 2012–2014.

c) Failure to fulfil any of the above conditions in a given year did not rule out the possibility to acquire shares
if the conditions were met at the end of the term of the scheme.

As at 31 December 2015, the Scheme was settled and closed. Detailed information concerning valuation and recognition in the consolidated financial statements is presented in note 16 of the consolidated financial statements.

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

The Parent Company has no knowledge of any agreements that may lead to future changes in the structure of shares held by the current shareholders.

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

Remuneration of the Management Board:

| Name and surname | Position | Gross remuneration for position held under the employment agreement (PLN '000) | Cost of share options recognised in the financial result (PLN '000) (*) | Dividend paid from profit (PLN '000) | TOTAL in PLN '000 |
|---|---|---|---|---|---|
| **2015** | | | | | |
| Grzegorz Pinkosz | President of the Management Board | 227 | 11 | - | 238 |
| Dariusz Hajek | Vice-President of the Management Board | 228 | 11 | - | 239 |
| Maciej Lubnauer | Vice-President of the Management Board | 225 | 9 | - | 234 |
| **2014** | | | | | |
| Grzegorz Pinkosz | President of the Management Board | 234 | 66 | 10 | 310 |
| Dariusz Hajek | Vice-President of the Management Board | 271 | 66 | 9 | 346 |
| Maciej Lubnauer | Vice-President of the Management Board from 27 June 2014 (**) | 135 | 30 | - | 165 |

(**) cost of remuneration presented in the table includes the period from appointment to the Management Board

Remuneration of the Supervisory Board:

| Name and surname | Position | Gross remuneration for position held (PLN '000) | Cost of share options recognised in the financial result (PLN '000) (*) | Dividend paid from profit (PLN '000) | TOTAL in PLN '000 |
|---|---|---|---|---|---|
| **2015** | | | | | |
| Piotr Mondalski | President of the Supervisory Board | 180 | - | - | 180 |
| Jan Szmidt | Vice-President of the Supervisory Board | 180 | - | - | 180 |
| Tomasz Koprowski | Member of the Supervisory Board | 120 | - | - | 120 |
| Dariusz Górka | Member of the Supervisory Board | 120 | - | - | 120 |
| Grzegorz Maciąg | Member of the Supervisory Board | 120 | - | - | 120 |
| **2014** | | | | | |
| Piotr Mondalski | President of the Supervisory Board | 113 | 39 | 46 | 198 |
| Jan Szmidt | Vice-President of the Supervisory Board | 92 | - | 5,352 | 5,444 |
| Tomasz Koprowski | Member of the Supervisory Board | 62 | - | 2,782 | 2,844 |
| Romuald Szałagan | Member of the Supervisory Board to 27 June 2014 (***) | - | - | 2,078 | 2,078 |
| Dariusz Górka | Member of the Supervisory Board | 83 | 18 | - | 101 |

| | | | | | |
|---|---|---|---|---|---|
| Grzegorz Maciąg | Member of the Supervisory Board | 83 | 18 | 25 | 126 |

(*) The cost of share options, reflected in the tables above, relates to the cost recognised in the financial result for 2015 and 2014, resulting from the valuation of the share option scheme for the members of the Supervisory Board and the Management Board (for details see note 1.7.3).
(***) the dividend was paid out after the change in the composition of the Supervisory Board

In 2015, in relation with exercised options, Members of the Management Board received the following numbers of shares:

| Name and surname | Position | 2015<br>Number of acquired shares | 2015<br>Par value of acquired shares in PLN '000 | 2015<br>Value of acquired shares according to valuation as at the date of becoming eligible in PLN '000 |
|---|---|---|---|---|
| Grzegorz Pinkosz | President of the Management Board | 39,861 | 4 | 76 |
| Dariusz Hajek | Vice-President of the Management Board | 39,861 | 4 | 76 |
| Maciej Lubnauer | Vice-President of the Management Board | 39,861 | 4 | 56 |

As at 31 December 2015, no agreements have been concluded between the Parent 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.

### 1.10 Changes in the basic Group management methods

There were no significant changes in the methods of managing the Group in 2015.

## 2. THE MOST SIGNIFICANT EVENTS OF 2015

### 2.1 Resolution on granting of options and increase of the share capital

On 28 May 2015, the Parent Company's Supervisory Board adopted a resolution concerning the granting of Options to Eligible Individuals as a part of the fourth tranche of the Incentive Scheme.
The Supervisory Board granted to 15 Eligible Individuals options entitling to subscribe for a total of 183,897 registered subscription warrants of series A, with the right to acquire series D shares issued pursuant to Resolution No 3 of the General Meeting of Shareholders on 8 February 2011 on the issue of subscription warrants of series A with the exclusion of the pre-emptive right to acquire shares.
In June 2015, all Eligible Persons indicated in the Resolution of the Supervisory Board submitted declarations on the acceptance of the received offers to subscribe for registered subscription warrants. Revision of the share capital was performed on 3 July and the capital increase was registered in the National Court Register on 9 September 2015.

## 3. ORGANISATIONAL AND EQUITY LINKS WITH OTHER ENTITIES

### 3.1 Equity links

The organisational structure of the Capital Group was described in item 1.2 Apart from that, there are no other equity links between companies from Toya S.A. Group and other entities.

### 3.2 Other significant links

As at the date of publication of the report on operations, the Parent Company had personal links with the following entities (this summary includes entities with whom the Parent Company has concluded transactions in 2015):

- Toya Development Sp. z o.o. S.K. in liquidation – entity related through key management personnel of the Company,
- Toya Development Sp. z o.o. – entity related through key management personnel of the Company,
- Golf Telecom Sp. z o.o. SKA – entity related through key management personnel of the Company,

## 4. MAJOR R&D ACHIEVEMENTS

In 2015, the Parent Company continued works related with the development and improvement of products. As in previous years — the main purpose of R&D works was to design and implement technological innovations in the scope of products offered by the Parent Company and their commercialisation.

R&D works were and are still conducted within the organisationally separated Product Development Centre and are still financed from the Group's own funds.

## 5. FACTORS AND EVENTS AFFECTING FINANCIAL RESULTS

### 5.1 Basic economic and financial values; factors and events affecting the Group's operations in 2015.

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

| | For 12 months ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Sales revenue | 282,642 | 262,179 |
| Gross sales profit | 96,617 | 93,259 |
| Operating profit | 32,615 | 34,139 |
| Profit before tax | 31,907 | 33,259 |
| Net profit from continuing operations | 25,395 | 26,649 |

In 2015, sales revenue amounted to PLN 282,642 thousand and exceeded the level of revenue achieved in 2014 by PLN 20,463 thousand, i.e. by 7.8%. An increase in gross profit on sales by PLN 3,358 thousand in 2015 as compared to 2014 resulted mainly from higher sales.

Net profit in 2015 amounted to PLN 25,395 thousand and was by PLN 1,254 thousand, i.e. 4.7%, lower than in 2014. The operating profit in 2015 in the amount of PLN 32,615 thousand was lower than that achieved in 2014 by 4.5%. This resulted mainly from the announcement of the liquidation bankruptcy of Nomi S.A. in March 2015 and establishment of revaluation write-downs on receivables from this company in the amount of PLN 1,081 thousand, as well as from depreciation of PLN against USD.

In order to raise the necessary working capital, the Group uses mainly short-term bank loans. Given the significant impact of financial costs associated with these loans on the financial result, the Group negotiates the terms of loan agreements on a yearly basis, so as to maximally reduce the corresponding costs.

### Profitability ratios

| | For the period ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Sales profit margin | 34.2% | 35.6% |
| Operating profit margin | 11.5% | 13.0% |
| Pre-tax profit margin | 11.3% | 12.7% |
| Net profit margin | 9.0% | 10.2% |

Key:

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

Net profit margin reached a very good level of 9.0% in 2015.

For TOYA S.A. Group, the sales profit margin is the key indicator of the Group’s market competitiveness, which has decisive impact on its financial position. Analysis of this ratio for 2015 shows that the sales profit in this period decreased by 1.4 percentage points as compared to 2014.

Profit margins at the level of the operating profit, pre-tax profit and net profit slightly decreased in 2015 as compared to the previous year. This is mainly related to the higher cost of purchase of goods.

### Cash flows of the Group (PLN ‘000)

| | For 12 months ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Cash flows from operating activities | 27,561 | (5,549) |
| Cash flows from investment activities | (5,522) | (2,878) |
| Cash flows from financial activities | (26,845) | 11,162 |
| **Net change in cash — continuing operations** | **(4,806)** | **2,735** |
| Cash and cash equivalents at the beginning of the period | 7,776 | 5,021 |
| Cash and cash equivalents at the end of the period | 3,431 | 7,776 |

In 2015, the Group disclosed positive operating cash flows which amounted to PLN 27.6 million. Due to the optimisation of the order and purchase process and with a simultaneous rise in sales, the Group reduced its inventories by PLN 10 million. Trade and other receivables declined by PLN 777 thousand, despite increased sales.

In 2015, the Group did not undertake any significant investment activities. Cash outflows during that period were mainly connected with the purchase of exhibition shelves, investments in IT systems and equipment.

In 2015, the Group generated negative cash flows from financial activity, primarily due to the decrease of its credit exposure in the amount of PLN 25.8 million in comparison with 2014.

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

**Liquidity ratios**

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Current ratio | 5.21 | 2.61 |
| Quick ratio | 1.77 | 0.88 |

Key:

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

The value of the current ratio increased to 5.21 as at 31 December 2015 in relation to 2.61 as at 31 December 2014. A higher level of the current ratio indicates a lower growth rate of liabilities in relation to the growth rate of the working capital. The value of the quick ratio increased to 1.76 as at 31 December 2015 in relation to 0.88 as at 31 December 2014. It is notable that this ratio reached a very good level.

### 5.2 The structure of assets and liabilities

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Non-current assets | 26,404 | 23,288 |
| Intangible assets | 2,640 | 1,813 |
| Property, plant and equipment | 21,271 | 18,754 |
| | | |
| Current assets | 170,024 | 185,050 |
| Inventory | 112,460 | 122,429 |
| Trade and other receivables | 54,068 | 54,845 |

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Non-current assets / Assets | 13% | 11% |
| Intangible assets / Assets | 1% | 1% |
| Property, plant and equipment / Assets | 11% | 9% |
| | | |
| Current assets / Assets | 87% | 89% |
| Inventory / Assets | 57% | 59% |
| Trade and other receivables / Assets | 28% | 26% |

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Equity per shareholders of the parent company | 163,085 | 136,536 |
| Trade and other payables | 22,793 | 34,780 |
| Short-term liabilities | 32,603 | 70,895 |
| Long-term liabilities | 740 | 907 |

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Equity per shareholders of the parent company / Equity and liabilities | 83% | 66% |
| Short-term liabilities / Equity and liabilities | 17% | 34% |
| Long-term liabilities / Equity and liabilities | 0% | 0% |
| | | |
| Short-term liabilities / Liabilities | 98% | 99% |
| Long-term liabilities / Liabilities | 2% | 1% |

**Ratios of return on equity, assets and current assets**

| | For 12 months ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Return on assets (ROA) | 13% | 13% |
| Return on equity (ROE) | 16% | 20% |
| Return on current assets | 15% | 14% |

Key:

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

As at 31 December 2015, the Group's property, plant and equipment constitute 11% of total assets used in the Group's operations. Property, plant and equipment comprise primarily land, buildings and structures necessary for the Parent Company's commercial activity.

The structure of current assets used in the operations of TOYA S.A. Capital Group, which as at 31 December 2015 constitute 87% of total assets, includes primarily inventories and trade and other receivables, which is typical to the business activity conducted by TOYA S.A. and its Capital Group. Both these items constitute in total 98% of current assets as at 31 December 2015.

TOYA S.A. Capital Group conducts efficient warehouse management by adjusting the stock levels to the customers' demand. In 2015, the Group decreased its inventories by 8.2% as compared to the end of 2014, as a result of optimisation of the ordering process.

**Equity structure and debt ratios**

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Total debt ratio | 17% | 35% |
| Equity debt ratio | 20% | 54% |
| Long-term debt ratio | 0% | 0% |
| Short-term debt ratio | 17% | 35% |
| The ratio of coverage of non-current assets with equity and long-term liabilities | 620% | 591% |

Key:

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

As at 31 December 2015, the main item in the Group's equity was retained earnings totalling PLN 123,702 thousand. The Group's share capital as at 31 December 2015 was increased compared to 31 December 2014 by PLN 18 thousand as a result of issue of 183,897 series F shares and amounted to PLN 7,833 thousand.

The main sources of financing operating activities, in particular current assets, include equity and short-term financing – primarily from bank loans. As at 31 December 2015, the Group financed 83% of its operations from equity. As at this date, the Group's short-term liabilities due to loans, borrowings and other debt instruments amounted to PLN 6,662 thousand. The long-term debt ratio as at 31 December 2015 amounted to 0%.

**Group management effectiveness ratios.**

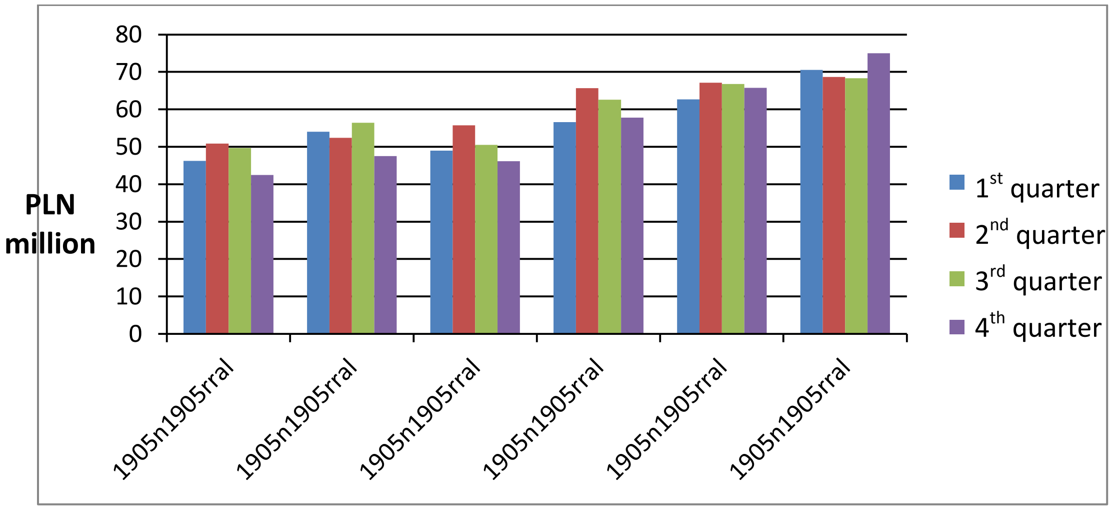
| | For 12 months ended 31 December 2015 | 2014 |
|---|---|---|
| Inventories turnover period (days) | 143 | 168 |
| Receivables inflow period (days) | 69 | 75 |
| Liabilities repayment period (days) | 29 | 48 |

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 short-term 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 2015, the liabilities repayment period was shorter than the receivables inflow period. This means that the credit terms the Group extended to its customers were longer than those received from its suppliers. It implies higher demand for financing of working capital, which is typical of the industry in which the Group conducts its commercial activity. In 2015, the inventories turnover period decreased to 143 days. Importantly, the Group 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 main reasons for seasonality in sales are climate factors (lower demand in Europe for the Group's goods in winter), lower likelihood for European 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. The Capital Group counters seasonality mainly by expanding its product range. The increasing share of sales generated by the Chinese company contributes significantly to the reduction of seasonality in the Group. A lower level of sales and net profit was recorded usually in the fourth quarter of the year, as compared with the remaining quarters, but in 2015, as a result of measures taken by the Management Board of the Parent Company, sales in the fourth quarter reached the highest level, while in the remaining quarters it remained at a very equal level.



### 5.3 External and internal factors crucial for the Group's development and analysis of the Group's development perspectives in 2015, taking into account the Group's market strategy components

**Macroeconomic situation**
The Group is present in the markets in different parts of the world, although most of its customers operate in Poland. Because of the link between the Polish economy with the world system and because of the extensive activities carried out outside the local market, the global economic situation has an impact on the volume of sales to the Group's customers. The destabilisation of the political situation in some of the local regions may temporarily reduce the Group's expansion in foreign markets and force it to look for new customers.

Eastern markets constitute one of the largest areas of the TOYA Group operations. Geopolitical events of the recent years, economic sanctions and weak economic situation on the global raw material market strongly destabilised this region and had a significant adverse effect on local economies. This resulted in a reduced purchasing power of those societies, which was additionally deepened by the devaluation of local currencies in relation to the most important global currencies. Further significant depreciation of local currencies, as well as further weakening of the consumers' purchasing power resulting from the unstable economic situation, will have an adverse impact on the Group's operating activities in this region and on the Group's financial standing. However, this impact is difficult to anticipate, as future economic and regulatory situation may differ from the Management Board's expectations. The Group's management is carefully monitoring the developments and adjusts its strategic assumptions to minimise the threats.

The situation on the Asian market associated with the current GDP growth of local countries also affects the financial standing of the entire Group due to the fact that the Group buys goods mainly from manufacturers operating in this region. This is related to the prices of purchased goods, terms of trade, the terms of order, as well as the logistics system between Asia and Europe.

The Group's Parent Company is a Polish entity, and most of its business activities are conducted in Poland. Therefore, the government's economic policies, the Polish tax system, unemployment rate and the decisions taken by the National Bank of Poland and the Monetary Policy Council are additional factors affecting the development of the entire Capital Group.

**Competition**
The Polish market for distribution of industrial goods, which is the Group's main field of operation, is relatively highly dispersed in spite of the presence of several market leaders. Entities currently competing with the Group continue to take actions to intensify their development through aggressive pricing policy aimed at current, target or potential customers. Such actions may have a negative impact on the Group's financial standing, because further expansion of the market may be slowed down, become difficult or even impossible. The Group shall be monitoring the market and its environment, taking various measures in order to maintain and develop competitive advantage.

**Changes in FX markets**
The Group's strict link with foreign suppliers and settlements made primarily in USD make the Group's financial results sensitive to changes in FX rates. The Group carefully monitors the currency situation in global markets and the trends occurring therein, and updates the prices of its goods on a periodical basis. Therefore, the margins can be subject to periodical fluctuations.
It should, however, be stressed that due to the fact that a substantial part of the Group's sales revenue is earned through the export channel based on prices set in foreign currencies – USD and EUR – the Group is, to a certain extent, secured against sudden movements in exchange rates. However, due to the fact that the main currency used in trade with foreign customers is EUR, this security is not complete and not sufficient, as a result of which FX fluctuations may have negative impact on the Company's financial performance.

**Interest rate movements**
The Group makes use of external capital funding. An increase in interest rates on the financial market could have negative influence on the servicing costs of funding and could decrease the Group's profitability since the Parent Company enters into loan agreements with floating interest rates in PLN.

To minimise this risk, the Parent Company runs simulations of various scenarios in order to choose the optimal funding sources, taking into consideration refinancing, roll-over of the existing positions, alternative financing and mid-term tendencies on the debt market.

**Interpretation and application of legal regulations**

Changes in legislation and diverse interpretations of the law impede the Group's operations. Changes in legislation, in particular in tax, customs, labour and social insurance law and introduction of new burdens, may have negative consequences for the Company's activity. Frequent changes in the interpretation of the tax law and lack of uniform practices of fiscal authorities and courts in the application of tax legislation, are particularly burdensome. This may involve the risk of third-party claims and proceedings of various state authorities. Moreover, because of their complexity and inconsistent taxation practices, interpretations are often the subject of disputes with tax authorities. The Parent 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 Parent Company adopt different interpretations of tax regulations and different tax qualification of events and transactions in which the Parent Company participated, may have adverse impact on the Group's financial performance.
However, it should be noted that the Group takes measures to mitigate the effects of changes in law. The Parent Company uses external services of renowned law and tax firms, which facilitate its current operations.

**The Group's development prospects for 2016**

For a long time, the Group has been performing development activities aimed in different directions. They aim at strengthening the market position, searching for new attractive possibilities for expansion in the broadly understood sector of industrial goods. The most important actions are as follows:

- Developing the export channel
  The Group recognises a large growth potential in the export channel. Due to the unresolved conflict between Russia and Ukraine and the lack of improvement of macroeconomic situation in that region, the Group will seek to expand and strengthen its position in other markets. These actions will be supported by a new common pricing policy for export customers, pursued by the Parent Company and the subsidiary, Yato Tools. These actions will be focused on acquiring new customers and expanding the product range.

- Expanding the product offer
  For several years, the Group has been pursuing the policy of constantly expanding the product range, which is one of the most important elements of strengthening the market position and distinguishes the Group's offer from the competitors' offers. This process, requiring a broad knowledge of the product, customs and expectations of customers, as well as of developments in sales trends, is carried out by the team of the Parent Company's Product Managers, owing to which the offer is tailored to the changing needs of the customers. This will have a positive impact on the financial performance.

- Developing the capital group
  Yato Tools, a dynamically growing subsidiary, proves that the policy adopted by the Parent Company to support the development of this company brings very good results. The optimisation of the existing infrastructure, introduced in 2015, will enable, in the coming months, the delivery of any product included in the Group's offer both from the Parent Company, and from Yato Tools. For the subsidiary, this will be a significant impulse for the sales growth, in particular in the export market. Due to the fact that Yato Tools plays also a very important role for the Group in the entire supply chain, as it completes deliveries from local Asian producers, further enhancement of cooperation with suppliers will still be necessary.
  These actions are significant elements in the implementation of the strategy for transforming Yato Tools into a major export and logistics centre for the entire Group. Due to a complex macroeconomic

and political situation in different regions of the world and the increasing importance of the Chinese economy in global trade, it is another factor that contributes to the Group's competitive advantage.
The second subsidiary, Toya Romania, is becoming more and more important component of the Capital Group. In 2015, it achieved very good financial performance owing to the acquisition of new customers, and the results of this should also be observed in the coming months.

- Capital investments
  The Group is still monitoring the market in search for an attractive acquisition target, and if a project which gives the Group added value appears, the Group will pursue it.

- Supporting IT systems
  Customer service is one of the most important components of the competitive advantage. The Parent Company has completed the implementation of SAP CRM which is currently one of the most modern solutions in the market and provides the entire sales chain of the Parent Company with the ability to manage the relationships with customers in a modern and very flexible manner.
  An important element increasing the customer's satisfaction with the Group's offer is the constant enhancement of post-sale services. The Parent Company has completed the implementation of the "SAP Complaints" module and integration of the transport settlement module with relevant IT modules of transport companies, and expects that these actions will result in an increased interest in the Group's offer and increase the number of customers.
  The Parent Company is intensively expanding the on-line store, Toya24.pl. Owing to the IT support in the process of accounting and logistics settlements, the management of the store is easier and enables the preparation of a better offer. The B2B platform was expanded in order to enhance sales in other distribution channels.
  The subsidiary, Yato Tools, considers the installation of the SAP system. The implementation of this system will enable a full integration of the Group's IT systems and ensure a uniform standard of customer service in the entire Group. Design works and studies on this project are currently being conducted.
  A joint purchasing platform for the Capital Group companies will be prepared in the coming months.

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

The Parent Company's Management Board did not publish forecasts of the Group's performance for 2015.

## 7. MAIN RISKS AND HAZARDS

### 7.1 Financial risks

The main financial risks include:

- FX risk,
- interest rate risk,
- liquidity risk.

The aforementioned 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 legislation 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 risks

The purchase prices of goods sold by the Group fluctuate, in particular due to changing manufacturing costs of purchased goods (incl. prices of raw materials) borne by their manufacturers (the Group's suppliers). Moreover, the purchase price of goods depends on the exchange rate of USD – the main settlements currency. The above factors affect the level of applied margins. To minimise the negative impact that fluctuations in goods purchase prices have on the financial result, the Group negotiates contracts with relatively high values and chooses manufacturers offering competitive prices and trade conditions. The Group does not use financial instruments to hedge against the risk of changes in goods purchase prices as a result of FX rate fluctuations.

The customer credit risk is not material due to high dispersion of customers. The highest turnover volume is carried out with commercial chains with an established market position. Additionally, to reduce the risk of overdue receivables from customers, the Group periodically examines their creditworthiness and systematically monitors (internally and externally) due balances. Credit limits for individual counterparties are set by the Management Board. Customers systematically exceeding payment dates are subject to an appropriate debt collection procedure and have a limited possibility of purchasing goods from the Group. To minimise the risk, the Parent Company also concludes agreements to insure its receivables with one of the leading financial institutions.

Due to the specific nature of its operations, the Group requires working capital to secure settlements with suppliers before receiving payments from customers of goods in exchange for advantageous purchase conditions. The necessary capital is provided, among others, by concluding short-term loan agreements for the financing of current assets. In order to diversify its lenders, the Parent Company uses services of several banks which have high credibility ratings. Interest rate on loans is based on WIBOR rate. The Group does not employ instruments to hedge against the risk of movements in interest rates.

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

In the view of the Parent Company's Management Board, the Group's liquidity is secured for the foreseeable future. The Group follows 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 Parent Company monitors the level of short-term liabilities and current assets, as well as current cash flows of the Company and the Group.

### 8.2 Objectives and methods of financial risk management

Due to strict link with foreign suppliers and settlements made primarily in USD, the Group 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 Group's sales revenue comes from export activity based on prices set in foreign currencies, mainly EUR, as a result of which the Group is partly subject to natural hedging. There is a risk, however, that future FX fluctuations may have a temporary negative effect on the Group's financial performance.

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

17% of the Group's activity is financed from external capital. Loan agreements require the Parent Company to maintain its capitalisation ratios at an agreed level throughout the lending period. If this requirement is not met, the bank has the right to terminate the agreements.

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

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

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

In the opinion of the Parent Company's Management Board, there are no threats to implementation of investment objectives. The activities planned for 2016 have been described in item 5.3. Apart from funds generated by operations, the Group has secured its external funding in the form of credit limits, pursuant to the agreements discussed in item 16.

## 11. MAIN COMMODITY GROUPS

### 11.1 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 GIFTS (advertising products) – sales under this brand were extinguished in 2015.

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

YATO

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. In 2015, the YATO brand was expanded with the line of power tools that combines excellent technical parameters with product quality. The products were selected taking into account their use in modern construction and automotive industry, as well as market trends in the supported sales channels. The broad selection of products includes tools dedicated to installers from the electrical, hydraulic and HVAC industries, as well as professional car workshops that are traditionally related to the YATO brand.

YATO products are made from high-quality steel alloys, using modern technologies of thermal and chemical treatment. YATO products combine innovative designs with 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 in terms of quality and offered prices.

**Revenue from sales of YATO branded products accounted for 60% of the Group's revenue in 2015 (59% in 2014).**

VOREL

**VOREL is the brand which used to have the highest share in the 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.

**Revenue from sales of VOREL branded products accounted for 27% of the Group's revenue in 2015 (26% in 2014).**

FLO

**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.

**Revenue from sales of FLO branded products accounted for 5% of the Group's revenue in 2015 (5% in 2014).**

POWER UP

**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, jigsaws, circular saws, planers, decoration tools, soldering guns, mortar mixers, stationary power tools, water pumps and electric pressure washers.

**Revenue from sales of POWER UP branded products accounted for 2% of the Group's revenue in 2015 (1% in 2014).**

FALA

Under **FALA** brand, the Group 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.

**Revenue from sales of FALA branded products accounted for 1% of the Group's revenue in 2015 (1% in 2014).**

STHOR

**Under the brand STHOR**, the Group sells modern common use power tools. The brand's product range is addressed to DIY enthusiasts and households which do not use tools professionally. The tools offered include:

impact drills, cordless tools, rotary hammers, grinders, jigsaws, circular saws, planers, soldering guns and decoration tools.

**Revenue from sales of STHOR branded products accounted for 2% of the Group's revenue in 2015 (3% in 2014).**

**LUND** is a brand established in mid-2010, under which the Group sells power tools. 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, jigsaws, circular saws, cutters, hot air guns and submersible pumps.

**Revenue from sales of LUND branded products accounted for 1% of the Group's revenue in 2015 and 2014.**

The latest brand, established in **2012**, under which the Group sold promotional and advertising items, is **TOYA GIFTS**. Sales under this brand were extinguished in 2015 and currently the advertising products are sold under other brands.

**GAV is an Italian brand. TOYA S.A. is not its owner but the 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.

**Revenue from sales of GAV branded products accounted for 1% of the Group's revenue in 2015 and 2014**

### 11.2 Sales according to product groups

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

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

**The structure and volume of sales revenue from core (trading) operations of the Capital Group, broken down by brand**

| Sales revenue in PLN '000 | for 12 months ended 31 December | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| YATO | 169,261 | 60% | 154,653 | 59% |
| VOREL | 74,966 | 27% | 68,983 | 26% |
| FLO | 13,417 | 5% | 12,104 | 5% |
| STHOR | 6,501 | 2% | 6,672 | 3% |
| POWER UP | 5,196 | 2% | 5,628 | 2% |
| FALA | 2,006 | 1% | 2,856 | 1% |
| LUND | 3,902 | 1% | 2,524 | 1% |
| other | 7,393 | 2% | 8,759 | 3% |
| **TOTAL** | **282,642** | | **262,179** | |

**The profitability of sales in core (trading) operations of the Capital Group, broken down by brand**

| Sales profitability [%] | for 12 months ended 31 December 2015 | 2014 |
|---|---|---|
| YATO | 36% | 37% |
| VOREL | 32% | 34% |
| FLO | 31% | 31% |
| STHOR | 29% | 31% |
| POWER UP | 27% | 44% |
| FALA | 34% | 39% |
| LUND | 22% | 23% |
| other | 29% | 28% |
| **Average** | **34%** | **36%** |

## 12. MAIN SELLING MARKETS

### 12.1 Sales structure

The main distribution channels of TOYA S.A. Capital Group include:
a) local markets (Poland, Romania and China):

- wholesale market, i.e. distributors, wholesalers and stores
- retail networks and
- the on-line store,

b) export.

The largest portion of sales is generated by TOYA S.A. Capital Group through the wholesale distribution channel in Poland, Romania and China (49% share of the segment "Trading activity – the wholesale market" in sales revenue for 2015, profitability in 2015 amounted to 37%). The Group's distribution channel with the second highest share in sales is the segment "Trading activity – export". In 2015, its share in sales amounted to 29% with 35% profitability. Distribution through retail chains on local markets (Poland and Romania) has the lowest share in sales revenue, which in 2015 reached the level of 21% with 25% profitability.

Outside Poland, the goods are launched through the subsidiaries Toya Romania S.A., and YATO Tools, as well as authorised distributors and representatives. Such diversified sales network provides access to a broad market, professional service as well as optimised availability of the entire range of products sold by the Group.

Revenues of the Capital Group, broken down by distribution channels and their profitability, are shown in the tables below.

**The structure and volume of sales revenue of the Capital Group, broken down by segments which are distribution channels**

| Group's sales revenue | for 12 months ended 31 December 2015 | | 2014 | |
|---|---|---|---|---|
| | PLN '000 | % | PLN '000 | % |
| Trading activity – the wholesale market (*) | 139,499 | 49% | 127,394 | 49% |
| Trading activity – export | 81,025 | 29% | 84,877 | 32% |
| Trading activity – retail networks (*) | 58,298 | 21% | 47,892 | 18% |
| Trading activity – other (*) | 3,820 | 1% | 2,016 | 1% |
| **Total** | **282,642** | | **262,179** | |

(*) sales on local markets in Poland, Romania and China

Taking into account the Capital Group's main operations only, almost a half of sales revenue generated in 2015 was attributable to the wholesale segment.

**Sales profitability of segments which are the Capital Group's distribution channels**

| Sales profitability | for 12 months ended 31 December | |
|---|---|---|
| [%] | 2015 | 2014 |
| Trading activity – the wholesale market | 37% | 38% |
| Trading activity – export | 35% | 36% |
| Trading activity – retail networks | 25% | 28% |
| Trading activity – other | 49% | 35% |
| **Weighted average** | **34%** | **36%** |

### 12.1.1 Wholesale market – sales in Poland

TOYA S.A. has been present in Poland for more than 25 years. 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 2015, TOYA S.A. cooperated with around a dozen authorised distributors, and this network will be constantly developed. The Group also cooperates with a few dozen wholesale customers in all regions, meeting the rising demand for its products, in order to increase its margins and to promote its own brands. The Group employs several dozen sales representatives – assistants of partners on the wholesale market – and is planning further development of this distribution channel.

**The structure and volume of the Company's sales revenue on wholesale market in Poland**

| Sales revenue | for 12 months ended 31 December | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | PLN '000 | % | PLN '000 | % |
| Authorised distributors | 78,941 | 78% | 73,646 | 77% |
| Wholesalers and stores | 21,861 | 22% | 22,291 | 23% |
| **Total** | **100,802** | | **95,937** | |

### 12.1.2 Retail networks – sales in Poland

Domestic sale to retail networks constitutes approx. 21% of the Group's sales revenue. TOYA S.A. cooperates with 8 large networks in Poland. The Parent 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 this channel, the Company cooperates with customers with established market positions that are reliable and financially transparent and have a sound payment history. One exception was the company Nomi S.A. which, in previous years, was one of the most important network customers. In March 2015, the liquidation bankruptcy of this company was announced and, therefore, the entire amount receivable was covered by a write-down.

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

**Export sales – TOYA S.A.**

For many years, the Parent Company has operated in international markets, focusing primarily on Central, Southern and Eastern Europe – Romanian, Hungarian, Czech, German, Balkan and Russian, Ukrainian, Belarusian and Lithuanian markets.

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

| Sales revenue | for 12 months ended 31 December | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | PLN '000 | % | PLN '000 | % |
| Russia | 10,165 | 17% | 14,120 | 21% |
| Baltic countries | 12,496 | 20% | 11,492 | 17% |
| the Balkans | 3,006 | 5% | 3,078 | 5% |
| Ukraine | 3,301 | 6% | 6,958 | 10% |
| Hungary | 5,918 | 10% | 5,391 | 8% |
| Czech Republic | 7,602 | 12% | 6,006 | 9% |
| Germany | 6,852 | 11% | 7,416 | 11% |
| Belarus | 4,718 | 8% | 6,340 | 9% |
| Italy | 802 | 1% | 572 | 1% |
| Spain | 857 | 1% | 1,055 | 2% |
| Moldova | 815 | 1% | 1,429 | 2% |
| Other | 5,057 | 8% | 3,953 | 5% |
| **Total** | **61,589** | | **67,810** | |

**Toya Romania S.A.**

Apart from the export sales described above, direct sales in Romania are carried out by the subsidiary established in 2003 – Toya Romania S.A. – whose business includes sales of hand and power tools in Romania. The product range, offered brands and distribution channels (other than export) are identical to those of the Polish company.

The development concept of Toya Romania S.A. assumes, among other things, further use of the synergy effect within the Group, in particular optimisation of goods purchase costs, based on common supply sources and logistics centres. Moreover, the Romanian company plans to strengthen its position on the local market through further expansion of the network of on-site representatives. Their task is to win customers on the traditional market from among specialist retail stores and institutional customers. Marketing activities focus on increasing the share of the high-margin YATO brand in the revenue structure, which will considerably increase the company's profitability when using the shortened distribution channel.

**The structure and volume of sales revenue of Toya Romania S.A., broken down by distribution channels**

| Sales revenue | for 12 months ended 31 December | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | PLN '000 | % | PLN '000 | % |
| Wholesalers and stores | 23,464 | 91% | 18,573 | 98% |
| Retail networks | 2,390 | 9% | 452 | 2% |
| **Total** | **25,854** | | **19,025** | |

**Yato Tools (Shanghai) Co., Ltd.**

Yato Tools, with its registered office and logistics centre in Shanghai, has been operating from the second half of 2008 as a jointly-controlled entity, and since 2 January 2013 as a subsidiary under full consolidation method. During this time, the company's operations focused on development of the distribution network in individual provinces of the PRC, finding and training sales staff as well as preparing for expansion onto global markets. Recent years allowed for completion of the initial stage and development of a distribution network in the main provinces of the PRC as well as of a structure which enables consolidation and export of YATO products directly to customers/distributors in Southern and Eastern Asia, Africa, Australia and the Middle East. Yato Tools is also one of the main suppliers of goods for TOYA S.A. and TOYA Romania S.A.

So far, the distribution network in the Chinese market covers 32 out of 33 autonomic administrative units (22 provinces, 5 autonomic regions, 4 separated cities and 2 special regions), handled by one or more distributors depending on the local conditions, the population density and traditional forms of trade.

At present, the retail network of Yato Tools covers an area with total population of 945 million out of the total of 1.4 billion of the country's population. This means a considerable development potential for the retail network on the local market – not only through the already existent representatives, but also through new markets in other areas of China.

Export activity of Yato Tools commenced in the second quarter of 2010 as the next step in the company's development. During this period, exclusive agreements were signed with distributors in the following countries: South Africa, Malaysia, Singapore, United Arab Emirates (due to the specific nature of this region, the agreement covers most countries in Central and Eastern Asia), the Caribbean Islands, Mauritius.

**The structure and volume of sales revenue of Yato Tools, broken down by distribution channels (*)**

| Sales revenue | for 12 months ended 31 December | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | PLN '000 | % | PLN '000 | % |
| Distributors/ Wholesalers | 15,234 | 44% | 12,921 | 43% |
| Export (excl. TOYA S.A. Polska) | 19,436 | 56% | 17,111 | 57% |
| **Total** | **34,670** | | **30,032** | |

(*) the table does not include intra-group sales (from Yato Tools to the Parent Company and Toya Romania S.A.) which amounted to PLN 41,725 thousand in 2015 (in 2014: PLN 38,437 thousand)

**The structure and volume of revenue from the Yato Tools' export sales**

| Sales revenue | for 12 months ended 31 December | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | PLN '000 | % | PLN '000 | % |
| Arab countries | 2,681 | 14% | 2,457 | 14% |
| Angola | 2,531 | 13% | 1,447 | 9% |
| Iraq | 1,657 | 9% | 1,515 | 9% |
| Thailand | 1,258 | 6% | 935 | 5% |
| South Africa | 916 | 5% | 1,594 | 9% |
| Azerbaijan | 825 | 4% | 636 | 4% |
| Singapore/Malaysia | 734 | 4% | 867 | 5% |
| Chile | 699 | 4% | 658 | 4% |
| Algeria | 648 | 3% | 1,514 | 9% |
| Israel | 603 | 3% | 857 | 5% |
| Bangladesh | 463 | 2% | 544 | 3% |
| Australia | 412 | 2% | 594 | 3% |
| Other | 6,009 | 31% | 3,493 | 21% |
| | **19,436** | | **17,111** | |

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

The year 2015 marked a dynamic growth of the on-line store www.toya24.pl, whose share in total sales reached 1% with the profitability of 49%.
The Group is planning dynamic development of this distribution channel in the upcoming period.

### 12.2 Suppliers

The network of suppliers the Group cooperates with is highly diversified. For many years, the Group has cooperated with more than 100 foreign and more than 70 domestic suppliers, which allowed it to establish durable business contacts. Such a broad range of suppliers ensures high independence and even enables strengthening of the Group's negotiating position. This position is additionally improved by the presence of the subsidiary Yato Tools, both thanks to higher confidence of Asian manufacturers in a local partner as well as larger volumes of orders. The Parent Company usually signs short-term agreements on delivery of specific products or places one-off orders for products, which ensures flexibility in negotiations and allows the Company to match the product offer to the changing customer expectations better.

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

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

According to this criterion, in 2015 the Company only concluded annexes to agreements with banks which were presented in item 16.

The table below includes insurance policies of the Parent Company.

| No | Insurance period | Insurer | Object of insurance | Total sum insured |
|---|---|---|---|---|
| 1. | 1 July 2015 – 30 June 2016 | 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 / current assets | PLN 122 million |
| 2. | 18 August 2014 – 17 August 2017 | ERGO HESTIA S.A. with its registered office in Sopot | Motor insurance of the vehicle fleet | The market value of the vehicles (according to Info Export) |
| 3. | 1 July 2015 – 30 June 2016 | 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 |
| 4. | 20 September 2015 – 19 September 2016 | TUiR Allianz S.A. with its registered office in Warsaw | Civil liability insurance of members of companies' bodies | PLN 20 million |
| 5. | 1 July 2015 – 30 June 2016 | TU Euler Hermes S.A. with its registered office in Warsaw | Insurance of the trade credit risk on certain agreements | a maximum of 50 times the contribution paid for a given insurance year |
| 6. | 1 March 2015 – 29 February 2016 | 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 350,000 (road and air transport) USD 3,000,000 (maritime transport) |
| 7. | 1 January 2015 – 31 December 2015 | ERGO HESTIA S.A. with its registered office in Sopot | Guarantee for the payment of customs fees | PLN 550 thousand |

## 14. 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 Warsaw.
The agreement on audit and review was concluded on 15 June 2015, and it covers semi-annual review and annual review of the individual and consolidated financial statements for 2015.

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

| | 2015 | 2014 |
|---|---|---|
| Audit of annual financial statements (individual and consolidated) | 105 | 110 |
| Review of semi-annual financial statements | 50 | 50 |
| **TOTAL** | **155** | **160** |

## 15. RELATED PARTY TRANSACTIONS

Related party transactions are entered into on the arm's length basis in the course of the Group's day-to-day operations. These transactions have been presented in note 33 to the consolidated financial statements.

On 23 December 2015, the Parent Company concluded, on arm's-length terms, an assignment agreement whose effect applies to 2016 (see item 19.1 for details).

Apart from the above agreement, in 2015 the Parent Company did not conclude any transactions with related entities which were atypical or divergent from the 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. EXTENDED LOANS AND BORROWINGS

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

| Object and value of agreement | Bank name | Loan amount as per agreement as at 31 December 2015 (PLN '000) | Amount outstanding as at 31 December 2015 (PLN '000) | Amount outstanding as at 31 December 2014 (PLN '000) | 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 | 25,000 | 1,358 | 10,462 | WIBOR 1M + bank's margin<br>EURIBOR/LIBOR 1M + bank's margin | 7 March 2016 | Extension of the agreement until 7 March 2017 and change of the loan amount – see item 19.3 |
| 2. Overdraft facility agreement No BDK/KR-RB/000054601/0641/10 of 22 December 2010 | Bank Handlowy w Warszawie S.A. | 25,000 | 3,847 | 11,554 | WIBOR 1M + bank's margin | 16 December 2016 | - |
| 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 | 30,000 | 1,457 | 10,454 | WIBOR 3M + bank's margin | 19 September 2016 | - |
| **Total liabilities, of which:** | | **80,000** | **6,662** | **32,470** | | | |
| – short-term portion | | 80,000 | 6,662 | 32,470 | | | |
| – long-term portion | | - | - | - | | | |

## 17. EXTENDED LOANS AND BORROWINGS

In 2015, the Group did not extend any borrowings or loans.

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

As at 31 December 2015, the Group had the following guarantees:

| No | Counterparty | Type of guarantee | Subject matter and value | Date of expiry |
|---|---|---|---|---|
| 1 | Bank Handlowy w Warszawie S.A. | Guarantee of payment for the lease of warehouses in Nadarzyn | Bank guarantee of EUR 231,163 | 28 February 2016 (*) |

(*) after the end of the financial year, the guarantee was extended until 28 February 2017, for the amount of EUR 225,413.

On 29 November 2012, the Parent Company and TOYA Development Sp. z o.o. Spółka Komandytowa in liquidation (hereinafter: Toya Development) concluded an agreement concerning a legal defect of the real property which was contributed in kind on 6 April 2011 pursuant to Resolution No 1 of the Extraordinary General Shareholders' Meeting of TOYA Development by TOYA S.A., which at that time was the company's general partner. The real property in question comprises land with the expenditure incurred thereon. The contributed real property had a legal defect, i.e. on 6 April 2011, TOYA S.A. was not its owner since, pursuant to a decision of the Head of Wisznia Mała Municipality of 7 May 2007, this plot of land became the property of Trzebnicki Poviat on 8 June 2007. TOYA S.A. is entitled to pursue claims against Trzebnicki Poviat due to expropriation of the abovementioned real property and the expenditure incurred thereon. Had the legal defect of the in-kind contribution not existed and had the transfer of ownership of the real property been effective, TOYA Development 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. has undertaken to pay TOYA Development compensation equal to the compensation obtained from the Trzebnicki Poviat. The right to compensation will arise provided that TOYA S.A. receives compensation from the Trzebnicki Poviat and in the amount obtained from the Trzebnicki Poviat. As at 31 December 2015, the contingent liability includes compensation due to the incurred expenditure, whose revaluated value is estimated at net PLN 2.5 million. At the same time, as at 31 December 2015, the Group has a contingent asset due to compensation for the incurred expenditure from the Trzebnicki Poviat in the same amount, i.e. approx. net of PLN 2.5 million. On 24 January 2014, TOYA S.A. filed a lawsuit in the Regional Court in Wrocław against the Trzebnicki Poviat for the repayment of the disputed amount. In July 2015, the lawsuit was dismissed by the Court and in September 2015, the Company appealed against this decision. The appeal hearing was scheduled to 26 February 2016 — see events after the end of the financial year.

## 19. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

### 19.1 Assignment of receivables

On 23 December 2015, the Parent Company conducted a conditional assignment of an amount receivable from TOYA Development Sp. z o.o. s.k. in liquidation, amounting to PLN 4,119 thousand. As a result of materialisation of the condition, on 1 January 2016 this amount receivable was assigned to the related person, a member of the key management personnel of the Company, at the nominal value of the amount receivable. The amount of PLN 2,119 thousand was repaid on 15 January 2016, and the repayment date of the remaining part of the amount receivable, i.e. PLN 2,000 thousand, is 30 June 2017.

### 19.2 Disputes

On 26 February 2016, a hearing was held before the Court of Appeal in Wrocław, as a result of an appeal lodged against the decision of the Regional Court in Wrocław. The hearing concerned the lawsuit brought by TOYA S.A. against the Trzebnicki Poviat, as described in item 18. At the hearing, the Court of Second Instance did not make a substantive decision on the said case and resolved to hear the case in chambers, without stating the date.

### 19.3 Annex to a significant agreement

On 3 March 2016, TOYA S.A. and Raiffeisen Bank Polska S.A. with its registered office in Warsaw concluded Annex to the Debt Limit Facility Agreement No CRD/L/11381/02 of 2 October 2002.

Under the annex, the credit limit was extended to 7 March 2017 and set to the amount of PLN 5,000 thousand, subject to the condition that under the instruction of Toya S.A. submitted no later than on 10 August 2016, the Bank will provide Toya S.A. with an annex increasing the available limit to PLN 25,000 thousand,
on the present terms and conditions.

The remaining terms and conditions of the Agreement remained unchanged and do not differ from terms and conditions commonly applied in this type of agreements.

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

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

This statement concerning application of the principles of corporate governance included in the Annual Report for the financial year 2015 refers to the principles of corporate governance applicable from 1 January 2013.

### 20.2 The scope in which the Parent 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 2015, the Parent 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 Shareholders' Meetings over the Internet, record General Shareholders' Meetings and publish the recordings on the company website.

- **In 2015, the Parent Company did not broadcast General Shareholders' Meetings over the Internet.** In the opinion of the Management Board, the introduction of this principle requires the Company to implement a number of operating procedures. Due to the shareholding structure, this solution would result in costs disproportionate to the effects.

- The Parent Company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular define the form, structure and level of remuneration of members of supervisory and management bodies. In determining the remuneration policy for members of supervisory and management bodies, the European Commission Recommendation of 14 December 2004 should apply, fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), supplemented by the European Commission Recommendation of 30 April 2009 (2009/385/EC).

- The Parent Company has not adopted a remuneration policy. According to the Articles of Association, remuneration of Management Board Members is determined by the Supervisory Board. In the report on operations, the Parent Company presented the information on the total value of remuneration, rewards and benefits paid or due to managers and supervisors.

- 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 competencies for the applied position.

- According to the Best Practices II item 2a, the Parent Company publishes information about the proportion of women and men in the Management Board and the Supervisory Board in separate years on its website.

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

- The Parent Company operates a corporate website and, apart from information required by law, places on it:
  9a) the record of the proceedings of the general meeting, in the form of audio or video,

- Taking into account the shareholding structure, at present the Parent Company does not see any need to record the proceedings of the general meeting in the form of an audio or video recording. The costs of implementing the technology, recording the proceedings and publishing these recordings, as well as organisational burdens related to the above activities do not justify the introduction of such procedures in the Parent Company. The Parent Company will consider introducing the said principle in the future.

- The Parent 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, also its English version – in the scope indicated in part II item 1.

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

- The Parent 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) two-way 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 Parent Company did not implement these principles in 2015. According to the Company, the shareholding structure of TOYA S.A. does not justify the application of this principle. The introduction of this principle requires the Company to implement a number of operating procedures. The costs of implementing the technology, recording the proceedings and publishing these recordings, as well as organisational burdens related to the above activities provide an additional justification for the decision not to implement such procedures in the Parent Company. In the event of a substantial change in the shareholding structure, the Parent Company will consider introducing the said principle.

### 20.3 Description of basic features of internal control and risk management systems applied in the Parent 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 Parent Company and its effectiveness in the process of preparing consolidated financial statements and periodical reports 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 as equivalent the information required under the provisions of the law of a Non-Member State (Journal of Laws No 33, item 259). The Parent 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 Parent 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 consolidated financial statements are audited by authorised entities selected by way of resolution of the Supervisory Board. The statements are published in accordance with the applicable provisions of the law.

The books of account are kept by the Company and its subsidiaries in the SAP R3 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.

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

Organising work related to 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, the financial statements are verified by the Company's Management Board and Supervisory Board.

## 20.4 Shareholders who hold, directly or indirectly, major blocks of shares, the number of shares held by such 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 table below presents the ownership structure and percentage stakes held in the Company as at 31 December 2015:

| Name | Status | Series of shares | Number of shares | Type of shares | Par value per share (PLN) | Par value of the shares (PLN) | Structure (%) |
|---|---|---|---|---|---|---|---|
| Jan Szmidt | natural person | A | 28,170,647 | ordinary bearer | 0.1 | 2,817,064.70 | 35.96% |
| Tomasz Koprowski | natural person | A | 14,771,208 | ordinary bearer | 0.1 | 1,477,120.80 | 18.86% |
| Romuald Szałagan | natural person | A | 11,033,875 | ordinary bearer | 0.1 | 1,103,387.50 | 14.09% |
| Generali OFE | legal person | C | 5,001,147 | ordinary bearer | 0.1 | 500,114.70 | 6.38% |
| Piotr Wojciechowski | natural person | B | 5,033,055 | ordinary bearer | 0.1 | 503,305.50 | 6.43% |
| Other share below 5% | not applicable | C, D, E, F, G, H | 14,320,909 | ordinary bearer | 0.1 | 1,432,090.90 | 18.28% |
| **TOTAL:** | | | **78,330,841** | | | **7,833,084.10** | **100%** |

## 20.5 Holders of any securities which provide special control rights

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

## 20.6 Restrictions regarding the exercise of voting rights

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

## 20.7 Limitations in transferring the ownership right to the issuer's securities

In 2015, there were no such limitations.

### 20.8 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 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 Shareholders' 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 competencies relate to all matters of the Company not restricted to the competencies of the General Shareholders' 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 before 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 in the Investor Relations — Corporate Documents tab.

- Articles of Association of TOYA S.A.,
- Regulations of the Management Board,
- Regulations of the Supervisory Board,
- Regulations of the General Shareholders' Meeting.

### 20.9 Principles of introducing amendments to the articles of association

Amendments to the Articles of Association of the Company are introduced in accordance with the provisions of the Commercial Companies Code. The resolutions amending the Articles of Association on the increase of the shareholders' benefits or limiting the rights granted to individual shareholders require the consent of all affected shareholders.

### 20.10 The functioning of the General Shareholders' Meeting, its basic entitlements, the rights of shareholders and the manner of exercising these rights and entitlements

The General Shareholders' Meetings of TOYA S.A. (the Parent Company) take 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 law. The General Shareholders' Meetings may be ordinary or extraordinary. Ordinary General Shareholders' Meeting is convened by the Company's Management Board and should take place within 6 months of the end of each financial year. Extraordinary General Shareholders' Meeting is convened by the Management Board on its own initiative or at a written request of the Supervisory Board or at the request of shareholders representing at least 1/20 of the share capital submitted to the Management Board in writing or in electronic form. The request for convening the Meeting should determine issues to be discussed or it should include a draft of resolution concerning proposed agenda. Convening the Extraordinary General Shareholders' Meeting at the request of the Supervisory Board should take place within two weeks from the date of submission of the request.

The Supervisory Board convenes the General Shareholders' Meeting:

a) if the Company's Management Board failed to convene the Ordinary General Shareholders' Meeting within the prescribed period,

b) if, despite the submission of a request by the Supervisory Board, the Company's Management Board failed to convene the General Shareholders' Meeting in time, or

c) whenever it deems such meeting necessary.

An Extraordinary General Shareholders' Meeting may be convened by shareholders representing at least half of the Parent Company's share capital or at least half of the total number of votes in the Company. If this is the case, the shareholders appoint the chairman of the Meeting. The Management Board is required to immediately announce the convening of the General Meeting in the manner provided for by the provisions of law. Shareholders can participate in the General Shareholders' Meeting and exercise the voting right in person or through a proxy. Shareholders may participate in the General Shareholders' Meeting using electronic means of communication, on conditions specified in detail by the Management Board.

The General Meeting may adopt resolutions regardless of the number of shareholders present at the meeting or the represented shares, unless otherwise provided in the provisions of law.

Resolutions of the General Shareholders' Meeting are adopted by an absolute majority of votes, unless the provisions of law or these Articles of Association provide otherwise. Resolutions of the General Shareholders' Meeting are adopted by the majority of ¾ votes cast with respect to the following issues:

a) amendments to the Articles of Association, including issue of new shares,

b) issue of convertible bonds or bonds with pre-emptive rights to acquire shares,

c) merger of the Company with another company,
d) decrease of the share capital,
e) redemption of shares,
f) disposal of the Company's enterprise or its organised part,
g) dissolution of the Company.
The resolutions amending the Articles of Association on the increase of the shareholders' benefits or limiting the rights granted to individual shareholders require the consent of all affected shareholders.
Resolutions of the General Shareholders' Meeting are binding upon all bodies of the Company, as well as all shareholders, including shareholders who are not present on the General Shareholders' Meeting.

The competences of the General Meeting of Shareholders include adopting resolutions concerning the following issues:
a) considering and approving the Management Board and Supervisory Board's report and the financial statements,
b) adopting a resolution on the division of profits or covering of losses,
c) discharging members of the Company's governing bodies from liability in the performance of their duties,
d) taking all decisions concerning claims for the remedy of damage caused in incorporating the Company or in carrying out management or supervision,
e) disposing of or leasing the Company's business or an organised part thereof and establishing a limited right in rem thereon,
f) acquisition of own shares,
g) issue of convertible bonds or bonds with pre-emptive rights to acquire shares,
h) amendment to the Company's Articles of Association, including concerning a share capital increase or decrease,
i) merger of the Company or transformation of the Company,
j) dissolution and liquidation of the Company,
k) determination of remuneration of the Supervisory Board members,

l) appointment and dismissal of the Supervisory Board members,
m) creation and liquidation of special funds,
n) approval of the regulations of the Supervisory Board,
o) redemption of shares.

Acquisition and disposal of real property, right of perpetual usufruct or share in a real property by the Company does not require a consent of the General Shareholders' Meeting.

The General Shareholders' Meeting is opened 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. After that, the Chairperson of the General Shareholders' Meeting is elected from among the persons entitled to vote. The General Shareholders' Meeting adopts its regulations.

Subject to cases specified in the Commercial Companies Code, if the General Shareholders' Meeting was convened correctly, it is valid and capable of adopting resolutions regardless of the number of shareholders or number of shares represented at the meeting, unless otherwise provided in the provisions of law. The General Shareholders' 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 Shareholders' Meeting. The announcement about the General Shareholders' Meeting of the Company should include at least:

1) the date, time and place of the General Shareholders' 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 in the agenda,
   b) the shareholder's right to submit draft resolutions regarding issues on the General Shareholders' Meeting's agenda or issues which are to be included in the agenda before the date of the General Shareholders' Meeting,
   c) the shareholder's right to submit draft resolutions regarding issues on the General Shareholders' Meeting's agenda during the General Shareholders' 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 Shareholders' Meeting using electronic means of communication,
   f) the manner of voicing opinions during the General Shareholders' 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 Shareholders' Meeting,
4) information on the right to participate in the General Shareholders' Meeting only applying to persons who are shareholders of the Company on the date of registering their participation in the General Shareholders' Meeting,
5) information on where and how the person entitled to participate in the General Shareholders' Meeting can obtain the full text of documentation to be presented to the General Shareholders' Meeting as well as draft resolutions,
6) address of the website on which information concerning the General Shareholders' Meeting will be made available.

The right to participate in the General Shareholders' Meeting of the Company applies exclusively to persons who are shareholders of the Company sixteen days before the date of the General Shareholders' Meeting (the date of registering participation in the General Shareholders' Meeting). The shareholder or their proxy are hereinafter also referred to as the Participants of the General Shareholders' 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 Parent 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 Parent Company not later than a week before the date of the General Meeting.

Shareholders can participate in the General Shareholders' 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 Shareholders' Meeting, each shareholder on the list of shareholders entitled to participate in the General Shareholders' 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) issuing 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 Shareholders' 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 Shareholders' 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 Shareholders' 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 that is disadvantageous to a certain person, such a person can appeal to the General Shareholders' Meeting, which resolves the issue by voting. If a Participant leaves the room during the General Meeting, the Chairperson will correct 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 doing calculations, the Chairperson declares whether the General Meeting has the quorum required 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 Shareholders' Meeting is late, he/she 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 Shareholders' 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 Shareholders' Meeting in composition which allows them to provide factual answers to questions asked during the General Shareholders' 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 Shareholders' Meeting, in particular if the agenda includes an item of the Company's financial matters. The General Shareholders' Meeting can be transmitted via the Internet. Information about public transmission of the meeting will be published on the Company's website right before the General Shareholders' Meeting.

The General Shareholders' Meeting is opened 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 the persons entitled to vote. Until the abovementioned elections, the person opening the General Shareholders' Meeting has the Chairperson's rights.

Every Participant of the General Shareholders' 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 Shareholders' 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 Shareholders' Meeting or who interrupt the meeting from the room,
6) ordering breaks in meetings, subject to the provisions of Regulations of the General Shareholders' Meeting,
7) resolving doubts concerning regulations, if needed after obtaining the opinions of persons listed in the Regulations of the General Shareholders' Meeting,
8) concluding the General Shareholders' 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 abovementioned persons at the General Shareholders' Meeting.

Every Participant of the General Shareholders' 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 Shareholders' 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 Shareholders' Meeting,
4) the Management Board and the Supervisory Board to assume their positions,
5) handling other cases which require such breaks, in particular if the General Shareholders' Meeting lasts longer than 2 hours.

The ordered breaks cannot be aimed at impeding users in exercising their rights. Should a break in the meeting cause postponement of the General Shareholders' Meeting at least until the following day, the General

Shareholders' 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 Shareholders' 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 amendments 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 Shareholders' Meeting if the number of Participants who intend to take part in the discussion is so large that the lack of time limits for their speeches could, taking into account the agenda, make it impossible to conduct the General Shareholders' 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 Shareholders' 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 Parent 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 Shareholders' Meeting can adopt, at any time, a resolution on convening an Extraordinary General Shareholders' 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 Shareholders' 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 improvements.

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 between five and 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 Shareholders' Meeting.

The principles below apply to appointment of members of the Supervisory Board by the General Shareholders' 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 Shareholders' 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 consent to 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 Shareholders' 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 Shareholders' Meeting covers changes in the composition of the Supervisory Board.

A special voting procedure is ordered by the Chairperson of the General Shareholders' 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 Shareholders' 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 Shareholders' 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 Shareholders' 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 Shareholders' Meeting. The Chairperson of the General Shareholders' Meeting announces the composition of the Supervisory Board after collecting all results of group ballots.

Resolutions of the General Shareholders' 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 Shareholders' Meeting. The minutes declare that the General Shareholders' 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 Shareholders' Meeting.

On its website, the Parent 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 Shareholders' Meeting.

General Shareholders' 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 Shareholders' Meeting.

### 20.11 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 is the competence of the Company's General Shareholders' Meeting.

In cases concerning amendments to the Articles of Association, including the issue of new shares, resolutions of the General Shareholders' Meeting are adopted by the majority of ¾ votes cast (except for amendments for which the Commercial Companies Code provides otherwise).

### 20.12 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 December 2015 was as follows:

- Grzegorz Pinkosz – President of the Management Board;
- Dariusz Hajek – Vice-President of the Management Board;
- Maciej Lubnauer – 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. Led by the President of the Management Board, it manages the Company and represents it before 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 to 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, in the Investor Relations — Corporate Documents tab.

**<u>SUPERVISORY BOARD</u>**

As at 31 December 2015, the composition of the Supervisory Board was as follows:

- Piotr Mondalski – President of the Supervisory Board;
- Jan Szmidt – Vice-President of the Supervisory Board;
- Dariusz Górka;
- Grzegorz Maciąg;
- Tomasz Koprowski.

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 the Audit Committee from among its members.

As of 31 December 2015, the composition of the Audit Committee was as follows:

- Dariusz Górka;
- Grzegorz Maciąg;
- Jan Szmidt.

Dariusz Górka is 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 on registered auditors and their council, entities entitled to provide an audit of the financial statements and public supervision.

<u>Tasks of the Audit Committee include:</u>

- monitoring the Company's financial reporting process and performing financial revision tasks, among other things 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 others 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.

| | | |
|---|---|---|
| Grzegorz Pinkosz<br>President of the<br>Management Board | Dariusz Hajek<br>Vice-President of the<br>Management Board | Maciej Lubnauer<br>Vice-President of the<br>Management Board |

Wrocław, 17 March 2016

**Report on the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2015 to the General Shareholders' Meeting and the Supervisory Board of TOYA Spółka Akcyjna**

This report contains 11 consecutively numbered pages and consists of:



*Translation note:*
*This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

## I. General information about the Group

a. The parent company of the TOYA S.A. Capital Group ("Group") is TOYA Spółka Akcyjna ("Parent Company"), with its registered office in Wrocław, ul. Sołtysowicka 13/15.

b. The articles of incorporation of the Parent Company were drawn up in the form of a notarial deed in the Notary's Office of the notary public Jolanta Ołpińska in Wrocław on 17 November 1999 and recorded in Repertory A No 5945/99.
On 5 December 2001, the District Court for Wrocław-Fabryczna, 6th Commercial Division of the National Court Register, entered the Parent Company in the Register of Entrepreneurs under number KRS 0000066712.

c. For the purpose of making tax settlements, on 22 December 1999, the Parent Company was assigned a Tax Identification Number (NIP) 895-16-86-107. For statistical purposes, the Parent Company was assigned a Statistical Identification Number (REGON) 932093253 on 3 December 1999.

d. As at 31 December 2015, the Parent Company's share capital amounted to PLN 7,833,084.10 and consisted of 78,330,841 shares with the par value of PLN 0.10 each.

e. As at 31 December 2015 and the date of this Report, the Parent Company's shareholders were:

| Shareholder's name | Number of shares held | Par value of shares held (PLN) | Type of shares held | Votes (%) |
|---|---|---|---|---|
| Jan Szmidt (*) | 28,170,647 | 2,817,064.70 | ordinary | 35.9 |
| Tomasz Koprowski (*) | 14,771,208 | 1,477,120.80 | ordinary | 18.9 |
| Romuald Szałagan (*) | 11,033,875 | 1,103,387.50 | ordinary | 14.1 |
| Generali OFE (**) | 5,001,147 | 500,114.70 | ordinary | 6.4 |
| Piotr Wojciechowski (*) | 5,033,055 | 503,305.50 | ordinary | 6.4 |
| Other – share below 5% | 14,320,909 | 1,432,090.90 | ordinary | 18.3 |
| | **78,330,841** | **7,833,084.10** | | **100.0** |

(*) status according to information held by TOYA S.A. in accordance with the notification to the Ordinary General Shareholders' Meeting on 28 May 2015

(*) status according to information held by TOYA S.A. as at the dividend record date for 2013, i.e. 11 July 2014

In 2015, the share capital was increased by PLN 18,389.70 as a result of the adoption on 28 May 2015 of a resolution by the Supervisory Board of the Company on the granting of options to eligible individuals under the fourth tranche of the Incentive Scheme. Under this resolution, the Supervisory Board granted 15 eligible persons options entitling to subscribe for a total of 183,897 registered subscription warrants of series A, with the right to acquire series D shares issued pursuant to Resolution No 3 of the General Meeting of Shareholders on 8 February 2011 on the issue of subscription warrants of series A with the exclusion of the pre-emptive right to acquire shares.

# I. General information about the Group (continued)

As at 31 December 2014, the Parent Company's shareholders were:

| Shareholder's name | Number of shares held | Par value of shares held (PLN) | Type of shares held | Votes (%) |
|---|---|---|---|---|
| Jan Szmidt | 28,170,647 | 2,817,064.70 | ordinary | 36.0 |
| Tomasz Koprowski | 14,771,208 | 1,477,120.80 | ordinary | 18.9 |
| Romuald Szałagan | 10,938,874 | 1,093,887.40 | ordinary | 14.0 |
| Generali OFE (*) | 5,001,147 | 500,114.70 | ordinary | 6.4 |
| Piotr Wojciechowski | 5,044,878 | 504,487.80 | ordinary | 6.5 |
| Other – share below 5% | 14,220,190 | 1,422,019.00 | ordinary | 18.2 |
| | **78,146,944** | **7,814,694.40** | | **100.0** |

(*) status according to information held by TOYA S.A. as at the dividend record date for 2013, i.e. 11 July 2014

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

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

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

## I. General information about the Group (continued)

h. As at 31 December 2015, the TOYA S.A. Capital Group consisted of the following entities:

| **Entity name** | **Type of equity link (% of ownership)** | **Consolidation method** | **Entity auditing the financial statements** | **Type of opinion** | **Balance sheet date of the financial statements** |
|---|---|---|---|---|---|
| TOYA S.A. | Parent | Not applicable | PricewaterhouseCoopers Sp. z o.o. | unqualified | 31 December 2015 |
| Toya Romania S.A. | Subsidiary (99.99%) | Full | Not subject to audit for consolidation purposes | not applicable | 31 December 2015 |
| Yato Tools (Shanghai) Co., Ltd* | Subsidiary (100%)* | Full | Not subject to audit for consolidation purposes | not applicable | 31 December 2015 |

* 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 51% of the shares in the share capital, the remaining 49% was acquired by Saame Tools (Shanghai) Import & Export Co., Ltd China. On 2 January 2013, TOYA S.A. increased the share capital in Yato China Co., Ltd. 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. In April 2013, the name of the company was changed to Yato Tools (Shanghai) Co., Ltd.
On 16 July 2014 TOYA S.A. acquired stake in the share capital, obtaining a total of 100% share in the entity's equity.

## I. General information about the Group (continued)

i. The Parent Company is an issuer of securities admitted to trading on the Warsaw Stock Exchange and pursuant to the requirements of the Accounting Act it prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

   The Group has been applying IFRS since 2010. A decision to prepare Group's financial statements in accordance with those standards was made by the General Shareholders' Meeting by Resolution No 5 of 30 September 2010.

## II. Information about the audit

a. The audit of the consolidated financial statements for the financial year from 1 January to 31 December 2015 was conducted by PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, Al. Armii Ludowej 14, registered audit company No 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor, the Group's registered auditor Anna Antoszewska (No 12807).

b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No 5 of the Supervisory Board of TOYA S.A. dated 28 May 2015.

c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the companies comprising the Group within the meaning of Article 56, paragraphs 2-4 of the Act on registered auditors and their council, entities entitled to provide an audit of the financial statements and public supervision of 7 May 2009 (Journal of Laws of 2015, item 1011).

d. The audit was conducted under an agreement signed on 15 June 2015, and conducted in the following periods:

- interim audit from 19 to 23 October 2015;
- final audit from 15 February to 17 March 2016.

*Translation note:*
*This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

## III. The Group's results, financial position and material items of the consolidated financial statements

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION as at 31 December 2015 (selected items)

| | 31.12.2015 PLN '000 | 31.12.2014 PLN '000 | Change PLN '000 | Change (%) | Structure 31.12.2015 (%) | Structure 31.12.2014 (%) |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Non-current assets | 26,404 | 23,288 | 3,116 | 13.4 | 13.4 | 11.2 |
| Current assets | 170,024 | 185,050 | (15,026) | (8.1) | 86.6 | 88.8 |
| **Total assets** | **196,428** | **208,338** | **(11,910)** | **(5.7)** | **100.0** | **100.0** |
| **EQUITY AND LIABILITIES** | | | | | | |
| Equity per shareholders of the parent company | 163,085 | 136,536 | 26,549 | 19.4 | 83.0 | 65.5 |
| Total liabilities | 33,343 | 71,802 | (38,459) | (53.6) | 17.0 | 34.5 |
| **Total equity and liabilities** | **196,428** | **208,338** | **(11,910)** | **(5.7)** | **100.0** | **100.0** |

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the financial year from 1 January to 31 December 2015 (selected items)

| | 2015 PLN '000 | 2014 PLN '000 | Change PLN '000 | Change (%) | Share in revenue 2015 (%) | Share in revenue 2014 (%) |
|---|---|---|---|---|---|---|
| Sales revenue | 282,642 | 262,179 | 20,463 | 7.8 | 100.0 | 100.0 |
| Cost of goods sold | (186,025) | (168,920) | (17,105) | 10.1 | (65.8) | (64.4) |
| **Gross profit on sales** | **96,617** | **93,259** | **3,358** | **3.6** | **34.2** | **35.6** |
| **Net profit** | **25,395** | **26,649** | **(1,254)** | **(4.7)** | **9.0** | **10.2** |
| Other net comprehensive income | 1,104 | 1,730 | (626) | (36.2) | 0.4 | 0.7 |
| **Net comprehensive income for the financial year** | **26,499** | **28,379** | **(1,880)** | **(6.6)** | **9.4** | **10.8** |

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

### Presentation of financial ratios summarising the Group's financial position and results

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Activity ratios | | | |
| - receivables turnover | 51 days | 54 days | 46 days |
| - inventory turnover | 227 days | 228 days | 209 days |
| Profitability ratios | | | |
| - net profit margin | 9% | 10% | 11% |
| - gross margin | 12% | 14% | 13% |
| - return on capital employed | 17% | 21% | 23% |
| Liability ratios | | | |
| - gearing | 17% | 34% | 26% |
| - payables turnover | 41 days | 56 days | 44 days |

| | 31.12.2015 | 31.12.2014 | 31.12.2013 |
|---|---|---|---|
| Liquidity ratios | | | |
| - current ratio | 5.2 | 2.6 | 3.2 |
| - quick ratio | 1.8 | 0.9 | 1.1 |

The ratios presented above were calculated on the basis of the consolidated financial statements.

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

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

The consolidated financial statements do not take into account the effects of deflation. The overall consumer price index (December to December) in the audited year amounted to -0.5% (2014: -1.0%).

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

During the audited period, the events described below had a significant impact on the financial results and the asset and financial position of the Group:

- At the end of the financial year, the Group's total assets amounted to PLN 196,428 thousand. During the year, total assets increased by PLN 11,910 thousand, i.e. by 5.7%. The decrease in total assets resulted mainly from a decrease in inventories by PLN 9,969 thousand and in cash by PLN 4,345 thousand, with the simultaneous increase in property, plant and equipment by PLN 2,517 thousand.

- As at 31 December 2015, the equity amounted to PLN 163,085 thousand. The increase in equity by PLN 26,549 thousand, i.e. by 19.4%, resulted from the net profit of PLN 25,395 thousand, generated by the Group.

- Liability ratios and the structure of Group's liabilities changed. The debt ratio decreased from 34% as at the end of the previous year to 17% as at the end of the current year. The payables turnover ratio decreased from 56 days to 41 days, respectively. These changes resulted mainly from decreased utilisation of credit lines by the Parent Company.

- Total sales amounted to PLN 282,642 thousand, which constituted an increase by PLN 20,463 thousand, i.e. 7.7%, compared with the previous year. The Group's core activities in the current financial year consisted of sales industrial goods, in particular hand and power tools for DIY use. On these activities, the Company recorded an increase by PLN 20,231 thousand, i.e. 7.7% as compared with the previous financial period. The increase in sales results mainly from increased turnover of the Group in all distribution channels.

- The cost of goods sold was the largest item of operating expenses and amounted to PLN 186,025 thousand in the audited year, which constituted 74.8% of operating expenses. The value of goods sold increased by PLN 17,105 thousand, i.e. 10.1% as compared with the previous year, primarily as a result of an increase in the scale of the Group's business.

- The Group's liquidity changed. In the audited year, the current and quick liquidity ratios amounted to, respectively, 5.2 (in 2014: 2.6) and 1.8 (2014: 0.9).

## IV. Statements of the independent registered auditor

a. The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the consolidation documentation and the disclosure of all contingent liabilities and post-balance-sheet events which occurred up to the date on which that letter was signed.

b. The scope of the audit was not limited.

c. The calculation of goodwill arising in the audited period and its recognition in the consolidated financial statements complied in all material respects with the IFRS as adopted by the European Union.

d. In all material respects, the consolidation of capital and determination of minority interests were performed properly.

e. Eliminations of mutual settlements (assets and liabilities) and internal turnover (revenues and costs) of consolidated entities were performed in all material respects in accordance with IFRS as adopted by the European Union.

f. Eliminations of results unrealised by the consolidated entities, included in the asset value and in respect of dividends were performed in all material respects in accordance with IFRS as adopted by the European Union.

g. The results of the sales of all or certain shares in subordinated entities were recognised in all material respects in accordance with the IFRS approved by the European Union.

h. The consolidation documentation was complete and correct, and the manner of its storage provides adequate protection.

i. The consolidated financial statements of the Group for the financial year from 1 January to 31 December 2014 were approved by Resolution No 6 passed by the General Shareholders' Meeting of the parent company on 28 May 2015 and filed with the National Court Register in Wrocław on 12 June 2015.

j. Notes to the financial statements present all material information required by the IFRS as adopted by the European Union.

k. The information included in the Directors' Report for the financial year from 1 January to 31 December 2015 takes into account the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a Member State (Journal of Laws of 2014, item 133) and is consistent with the information presented in the consolidated financial statements.

## V. Final information and comments

This report was prepared in connection with the audit of the consolidated financial statements of the TOYA Spółka Akcyjna Capital Group in which the parent company is TOYA Spółka Akcyjna with its registered office in Wrocław at ul. Sołtysowicka 13/15. The consolidated financial statements were signed by the Parent Company's Management Board and the person entrusted with maintaining the books of account on 17 March 2016.

The report should be read in conjunction with an unqualified opinion of the independent auditor to the General Shareholders' Meeting and the Supervisory Board of TOYA Spółka Akcyjna of 17 March 2016 concerning the above described consolidated financial statements. The opinion on the consolidated financial statements expresses a general conclusion drawn from the audit. This conclusion does not sum up the assessments of the results of auditing particular items of the consolidated statements or issues, but assigns respective weight (significance) to individual findings, in consideration of the impact of the determined facts on the fairness and correctness of the consolidated financial statements.

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

Anna Antoszewska

Group's Registered Auditor,
Key Registered Auditor
No 12807

Wrocław, 17 March 2016



*Translation note:*
*This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*