TOYA S.A.

Annual report for the year ended 31 December 2017

SELECTED FINANCIAL DATA

Selected financial data relating to the financial statement of Toya S.A. in Wrocław

	PLN thousands		EUR thousands	
	period from 1.01.2017 to 31.12.2017	period from 1.01.2016 to 31.12.2016	period from 1.01.2017 to 31.12.2017	period from 1.01.2016 to 31.12.2016
I. Revenue	287 783	259 756	67 798	59 363
II. Operating profit	44 524	37 162	10 489	8 493
III. Profit before income tax	44 080	36 742	10 385	8 397
IV. Net profit	35 378	29 597	8 335	6 764
V. Total comprehensive income	35 346	29 644	8 327	6 775
VI. Weighted average number of shares	77 466	78 331	77 466	78 331
VII. Earnings per share (PLN/EUR)	0,46	0,38	0,11	0,09
VIII. Net cash from operating activities	34 750	6 299	8 187	1 440
IX. Net cash from investing activities	(1 608)	(1 630)	(379)	(373)
X. Net cash from financing activities	(32 566)	(4 755)	(7 672)	(1 087)
XI. Total net cash	576	(86)	136	(20)

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
XII. Non-current assets	43 454	42 551	10 418	9 618
XIII. Current assets	182 729	166 828	43 810	37 710
XV. Total assets	226 183	209 379	54 229	47 328
XVI. Non-current liabilities	1 419	554	340	125
XVII. Current liabilities	59 432	49 267	14 249	11 136
XVII. Total equity	165 332	159 558	39 640	36 067

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 2017 to 31 December 2017 the rate of **4,2447PLN / EUR (*)**
- for the calculation of comprehensive income and cash flow for the period from 1 January 2016 to 31 December 2016 the rate of **4,3757 PLN / EUR (*)**
- for the calculation of assets, liabilities and equity at 31 December 2017 at the rate of **4,1709 PLN / EUR**
- for the calculation of assets, liabilities and equity at 31 December 2016 at the rate of **4,4240 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 2017 and 2016.

TRANSLATORS' EXPLANATORY NOTE

The English content of this report is a free translation of the registered auditor's report of the below-mentioned Polish Company. In Poland statutory accounts as well as the auditor's report should be prepared and presented in Polish and in accordance with Polish legislation and the accounting principles and practices generally adopted in Poland.

The accompanying translation has not been reclassified or adjusted in any way to conform to the accounting principles generally accepted in countries other than Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancies in interpreting the terminology, the Polish language version is binding.

Independent Registered Auditor's Report

To the General Shareholders' Meeting and the Supervisory Board of TOYA Spółka Akcyjna

Report on the audit of financial statements

Our opinion

In our opinion, the attached annual financial statements of TOYA Spółka Akcyjna ("the Company"):

- give a true and fair view of the financial position of the Company as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the adopted accounting policies;
- comply in terms of form and content with the laws applicable to the Company and the Company's Articles of Association;
- have been prepared on the basis of properly maintained books of account in accordance with the provisions of Chapter 2 of the Accounting Act of 29 September 1994 ("the Accounting Act" – Consolidated text: Journal of Laws of 2018, item 395, as amended).

Our opinion is consistent with our additional report to the Audit Committee issued on the date of this report.

What we have audited

We have audited the annual financial statements of TOYA S.A., which comprise:

- the statement of financial position as at 31 December 2017;

and the following prepared for the financial year from 1 January to 31 December 2017:

- the statement of profit or loss and other comprehensive income;
- the statement of changes in equity;
- the cash flows statement, and
- the notes comprising a description of the adopted accounting policies and other explanations.

Basis for opinion

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing as adopted as National Standards on Auditing by Resolution no. 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015; International Standards on Auditing issued by IAASB (together "Auditing Standards") and pursuant to the Act of 11 May 2017 on Registered Auditors, Registered Audit Companies and Public Oversight ("the Act on Registered Auditors" – Journal of Laws of 2017, item 1089), and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities ("the EU Regulation" – Journal of Laws EU L158). Our responsibilities under those Auditing Standards are further described in the *Auditor's* *responsibilities for the audit of the financial statements* section of our report.

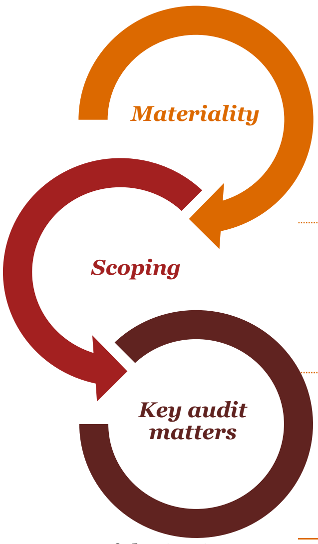
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and ethics

We are independent of the Company in accordance with the International Federation of Accountants' *Code of Ethics for Professional Accountants* ("the IFAC Code") as adopted by resolutions of the National Council of Statutory Auditors and other ethical requirements that are relevant to our audit of the financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC's Code. During the audit, the key registered auditor and the registered audit firm remained independent of the Company in accordance with the independence requirements set out in the Act on Registered Auditors and in the EU Regulation.

Our audit approach

Overview



- The overall materiality threshold adopted for the purposes of our audit was set at PLN 2.2 million, which represents 5% of the profit before tax.

- We have audited the annual financial statement of the Company.

- Key audit maters included valuation of goods for resale.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Company's Management Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by the adopted materiality level. Our audit was designed to obtain reasonable assurance that the financial statements as a whole are free from material misstatement. Misstatements may arise due to fraud or error.

The scope of our audit was influenced by the adopted materiality level. Our audit was designed to obtain reasonable assurance that the financial statements as a whole are free from material misstatement. Misstatements may arise due to fraud or error.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These thresholds, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

The concept of materiality is used by the registered auditor both in planning and conducting an audit, as well as in assessing the effect of the misstatements identified during the audit and the unadjusted misstatements (if any), on the financial statements, and also when forming the registered auditor's report. Therefore, all opinions, assertions and statements contained in the registered auditor's report have been made taking into consideration the quantitative and qualitative materiality levels determined in accordance with the audit standards and the registered auditor's professional judgement.

Overall materiality	PLN 2.2 million (for 2017) and PLN 1.5 million (for 2016)
Basis for determination	5% of profit before tax
Rationale for the materiality benchmark applied	We have adopted profit before tax as the basis for determining materiality because, in our opinion, it is an indicator commonly used by the users of financial statements to evaluate the Company's operations and is a generally adopted benchmark. We adopted the materiality threshold at 5% because based on our professional judgement it is within the acceptable quantitative materiality thresholds.

We agreed with the Company's Audit Committee that we would report to them of misstatements identified during our audit of the financial statements above PLN 0.2 million, as well as any misstatements below that amount, that in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We summarized our response to these risks and, when deemed appropriate, presented the most important observations relating to these risks. We do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of goods for resale Balance of goods for resale in the financial statements of the Company as at 31 December 2017 amounted to PLN 137.4 million, which represents approx. 61% of the Company's total assets. Inventory write-off as of 31 December 2017 has not changed as compared to prior year. Note 2.13 and note 11 included in the financial statements of the Company provide detailed information on inventories, including information regarding inventory write-off. Calculation of inventory write-off requires the Management Board of the Company to make a number of assumptions (i.e. regarding market and macroeconomic conditions) and judgements, in particular in relation to expected future Company's commercial offer. In view of the above and taking into consideration significance of the inventories balance in the financial statements of the Company, we considered the valuation of	Our audit procedures performed in relation to goods for resale, included among others: • understanding and evaluation of inventory valuation procedures, including assessment of how the Management Board of the Company identifies situations in which cost of purchase of inventory item exceeds its net sale price and assessment of inventory write-off calculation and verification method; • understanding and critical assessment of significant judgements and assumptions made by the Management Board in estimation of inventory write-offs, in particular analysis of the stock rotation reports for inventory items included in the Company's commercial offer; • observation of inventory stock counts in selected locations, including assessment of inventory count procedures and procedures for identification of damaged and obsolete goods for resale; • verification of mathematical accuracy of the inventory write-off calculation; • assessment of adequacy and completeness of inventories related disclosures in the financial

inventories to represent key audit matter.	statements. We have not identified material misstatements as a result of our work.

Responsibility of the Management and Supervisory Board for the financial statements

The Management Board of the Company is responsible for the preparation of annual financial statements that give a true and fair view of the Company's financial position and results of operations, in accordance with the International Financial Reporting Standards as adopted by the European Union, the adopted accounting policies, the applicable laws and the Company's Articles of Association, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Company's Management Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Company's Management Board and members of its Supervisory Board are obliged to ensure that the financial statements comply with the requirements specified in the Accounting Act. Members of the Supervisory Board are responsible for overseeing the financial reporting process.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the NSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these financial statements.

The scope of the audit does not cover an assurance on the Company's future profitability or the efficiency and effectiveness of the Company's Management Board conducting its affairs, now or in future.

As part of an audit in accordance with the NSA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management Board;
- conclude on the appropriateness of the Company's Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or

conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Report on the operations

Other information

Other information comprises a Report on the Company's operations for the financial year ended 31 December 2017 ("the Report on the operations") and the corporate governance statement, which is a separate part of the Report on the operations.

Responsibility of the Management and Supervisory Board

The Management Board of the Company is responsible for preparing the Report on the operations in accordance with the law.

The Company's Management Board and the members of the Supervisory Board are obliged to ensure that the Report on the Company's operations including its separate parts complies with the requirements of the Accounting Act.

Registered auditor's responsibility

Our opinion on the audit of the financial statements does not cover the Report on the operations.

In connection with our audit of the financial statements, our responsibility is to read the Report on the operations and, in doing so, consider whether it is materially consistent with the information in the financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated. If, based on the work performed, we identified a material misstatement in the Report on the operations, we are obliged to inform about it in our audit report. In accordance with the requirements of the Act on the Registered Auditors, we are also obliged to issue an opinion on whether the Report on the operations has been prepared in accordance with the law and is consistent with information included in annual financial statements.

Moreover, we are obliged to issue an opinion on whether the Company provided the required information in its corporate governance statement.

Opinion on the Report on the operations

Based on the work we carried out during the audit, in our opinion, the Report on the Company's operations:

- has been prepared in accordance with the requirements of Article 49 of the Accounting Act and para 91 of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State ("Regulation on current information" – Journal of Laws 2014, item 133, as amended);

- is consistent with the information in the financial statements.

Moreover, based on the knowledge of the Company and its environment obtained during our audit, we have not identified any material misstatements in the Report on the Company's operations.

Opinion on the corporate governance statement

In our opinion, in its corporate governance statement, the Company included information set out in paragraph 91(5)(4) (a), (b), (g), (j), (k) and (l) of the Regulation on current information. In addition, in our opinion, information specified in paragraph 91(5)(4)(c)–(f), (h) and (i) of the said Regulation included in the corporate governance statement are consistent with the applicable provisions of the law and with information included in the financial statements.

Report on other legal and regulatory requirements

Statement on the provision of non-audit services

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Company and its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services prohibited under Article 5(1) of the EU regulation and Article 136 of the Act on Registered Auditors.

The non-audit services which we have provided to the Company and its subsidiaries in the audited period are disclosed in note 14 of the Report on the Company's operations.

Appointment

We have been appointed for the first time to audit the annual financial statements of the Company by resolution of the Supervisory Board dated 27 August 2010 and re-appointed by resolution dated 28 April 2017. We have been auditing the Company's financial statements without interruption since the financial year ended 31 December 2010, i.e. for 8 consecutive years.

The Key Registered Auditor responsible for the audit on behalf of PricewaterhouseCoopers Sp. z o.o., a company entered on the list of Registered Audit Companies with the number 144, is Anna Antoszewska.

[signature]

Anna Antoszewska

Key Registered Auditor

No. 12807

Wroclaw, 15 March 2018

TOYA S.A.

Financial statements for the financial year ended 31 December 2017

Contents

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

Statement of financial position

	Note	31 December 2017	31 December 2016
ASSETS	**Note**		
Non-current assets			
Property, plant and equipment	7	17,242	16,150
Intangible assets	8	2,291	2,511
Investments in subsidiaries	9	22,631	22,631
Trade and other long-term receivables	10	218	221
Deferred income tax assets	28	1,072	1,038
		43,454	42,551
Current assets			
Inventory	11	137,447	120,091
Trade and other receivables	12	44,496	46,524
Cash and cash equivalents	13	786	213
		182,729	166,828
Total assets		**226,183**	**209,379**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	7,833	7,833
Share premium		35,677	35,677
Own shares	15	(29,433)	-
Reserve capital	15	26	-
Other comprehensive income		(1)	31
Retained earnings	16	151,230	116,017
		165,332	159,558
Long-term liabilities			
Liabilities from finance leases	20	1,114	318
Liabilities from employee benefits	19	305	236
		1,419	554
Short-term liabilities			
Trade and other payables	18	22,432	12,083
Liabilities from employee benefits	19	4,275	3,676
Liabilities from loans	17	28,489	30,759
Liabilities from finance leases	20	425	182
Liabilities from current income tax		3,445	2,239
Provisions	22	366	328
		59,432	49,267
Total liabilities		60,851	49,821
Total equity and liabilities		**226,183**	**209,379**

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

Statement of profit or loss and other comprehensive income

	Note	12 months ended 31 December	
		2017	**2016**
Revenue from sales of goods	23, 33	287,783	259,756
Cost of goods sold	24, 33	(195,637)	(178,689)
Gross profit		**92,146**	**81,067**
Selling costs	24	(35,803)	(32,323)
Administrative expenses	24	(13,121)	(13,306)
Other operating revenue	26	2,076	2,091
Other operating expenses	26	(774)	(367)
Operating profit		**44,524**	**37,162**
Financial revenue	27	23	57
Financial expenses	27	(467)	(477)
Profit before tax		**44,080**	**36,742**
Income tax	28	(8,702)	(7,145)
Net profit		**35,378**	**29,597**
Other comprehensive income			
Items that cannot be transferred to profit or loss			
Actuarial gains or losses		(39)	58
Income tax on other comprehensive income		7	(11)
Other net comprehensive income		**(32)**	**47**
Net comprehensive income for the financial year		**35,346**	**29,644**
Net profit for the period attributable to shareholders of the Company		**35,378**	**29,597**
Comprehensive income for the period attributable to shareholders of the Company		**35,346**	**29,644**
Basic/diluted earnings per share (PLN)	29	**0.46**	**0.38**

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

Statement of changes in equity

	Share capital	Share premium	Own shares	Reserve capital	Other comprehensive income	Retained earnings	Total equity
As at 1 January 2017	**7,833**	**35,677**	**-**	**-**	**31**	**116,017**	**159,558**
Comprehensive income							
Profit	-	-	-	-	-	35,378	35,378
Other comprehensive income							
Actuarial gains or losses	-	-	-	-	(39)	-	(39)
Income tax on other comprehensive income	-	-	-	-	7	-	7
Total other comprehensive income	**-**	**-**	**-**	**-**	**(32)**	**-**	**(32)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(32)**	**35,378**	**35,346**
Transactions with owners							
Creation of the reserve capital for the buyback of own shares	-	-	-	29,598	-	(29,598)	-
Buyback of own shares	-	-	(29,433)	(29,433)	-	29,433	(29,433)
Transaction costs related to buyback of own shares	-	-	-	(139)	-	-	(139)
Total transactions with owners	**-**	**-**	**(29,433)**	**26**	**-**	**(165)**	**(29,572)**
As at 31 December 2017	**7,833**	**35,677**	**(29,433)**	**26**	**(1)**	**151,230**	**165,332**
As at 1 January 2016	**7,833**	**35,677**	**-**	**-**	**(16)**	**114,619**	**158,113**
Comprehensive income	-	-	-	-	-	-	-
Profit or loss	-	-	-	-	-	29,597	29,597
Other comprehensive income							
Actuarial gains or losses	-	-	-	-	58	-	58
Income tax on other comprehensive income		-	-	-	(11)	-	(11)
Total other comprehensive income	-	-	-	-	47	-	47
Total comprehensive income	**-**	**-**	**-**	**-**	**47**	**29,597**	**29,644**
Transactions with owners							
Payment of dividend	-	-	-	-	-	(28,199)	**(28,199)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(28,199)**	**(28,199)**
As at 31 December 2016	**7,833**	**35,677**	**-**	**-**	**31**	**116,017**	**159,558**

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

Cash flow statement

	Note	12 months ended 31 December 2017	2016
Cash flows from operating activities			
Profit before tax		**44,080**	**36,742**
Adjustments for:			
Amortisation and depreciation		2,096	1,897
Net interest		444	420
Profit/Loss on investing activities		3	(25)
Foreign exchange gains/losses		3	-
Changes in balance sheet items:			
Change in trade and other receivables		1,987	(5,356)
Change in inventories		(17,356)	(26,859)
Change in provisions		38	29
Change in trade and other payables		10,349	2,724
Change in employee benefit liabilities		629	2,523
Income tax paid		(7,523)	(5,796)
Net cash from operating activities		**34,750**	**6,299**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		14	12
Purchase of property, plant and equipment and intangible assets		(1,689)	(1,654)
Interest received		67	12
Net cash from investing activities		**(1,608)**	**(1,630)**
Cash flows from financing activities			
Proceeds from loans		14,869	24,051
Repayments of loans		(17,100)	-
Repayment of liabilities arising from finance leases		(257)	(176)
Interest paid on loans		(476)	(410)
Interests paid on leases		(30)	(21)
Buyback of own shares		(29,572)	-
Dividends paid		-	(28,199)
Net cash from financing activities		**(32,566)**	**(4,755)**
Change in net cash		**576**	**(86)**
Cash and cash equivalents at the beginning of the period	13	**213**	**299**
Exchange gains/(losses) on measurement of cash and cash equivalents		(3)	-
Cash and cash equivalents at the end of the period	13	**786**	**213**

Accounting policy and other explanatory notes

1. General information

TOYA S.A. (hereinafter referred to as the “Company”) is a joint-stock company, established on the basis of the Commercial Companies Code. The Company has its 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, 6th Commercial Division, under entry No RHB 9053.By virtue of a decision of 5 December 2001, the District Court for Wrocław-Fabryczna, 6th Commercial Division of the National Court Register, entered the Company into the Register of Entrepreneurs under entry No. KRS 0000066712.

As at 31 December 2017, 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). Moreover, 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 2008, the company Yato Tools (Shanghai) Co. Ltd., located in China, was established. The entity deals in the distribution of YATO brand tools and power tools in China and in certain other foreign markets not supported by TOYA S.A.

Duration of the Company is unlimited.

Toya S.A. is the parent company of the TOYA S.A. Capital Group.

In the period from 1 January 2017 to 31 December 2017 and as of the date of approval of these financial statements for publication, the Management Board of the Company composed of the following members:

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

In the period from 1 January 2017 to 29 June 2017, the Supervisory Board 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.

From 29 June 2017 and as of the day of approval of these financial statements for publication, the Supervisory Board of the Company was composed of the following members:

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation and change in accounting policies

These financial statements of the Company for the financial year ended 31 December 2017 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 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 2017.

The policies described below have been consistently applied to all the periods presented.

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

The preparation of financial statements in conformity with IFRS requires use of significant accounting estimates. It also requires the Management Board to exercise judgement in the process of applying the accounting policies adopted by the Company. 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 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 on 15 March 2018.

These separate financial statements are related to the consolidated financial statements of the TOYA S.A. Group which were approved by the Management Board and published on 15 March 2018.

Going concern

These financial statements have been drawn up on the assumption that the Company will continue its business operations in the foreseeable future. As at the date of approval of these financial statements, no circumstances are found indicating a threat to the continued operation by the Company.

2.2 Effect of new standards and interpretations on the Company's financial statements

These financial statements have been prepared on the basis of the EU's IFRS issued and effective as at the reporting date, i.e. 31 December 2017.

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 2017

The following new and revised standards and interpretations, effective from or after 1 January 2017, were applied for the first time in these financial statements:

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

  The amendment to IAS 7 is effective for annual periods starting on 1 January 2017 and introduces requirement for entities to disclose the reconciliation of changes in liabilities resulting from financing activities.

  The Company presented required disclosures in notes 17 and 20.

- **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 is 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 amendments had no impact on the financial statements.

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

In these financial statements, the Company decided not to apply in advance the published standards, interpretations and amendments listed below, before their effective date:

- **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 Company will apply IFRS 9 in the annual period starting on 1 January 2018.

  The Company expects that applying the standard from 1 January 2018 will result in increase of allowance for doubtful accounts receivable by approx. PLN 35 thousand. The standard will not have material impact on any other assets or financial liabilities.

- **Amendments to IFRS 9: Prepayment Features with Negative Compensation**

Amendments to IFRS 9 are effective for annual periods starting on or after 1 January 2019,early adoption is permitted. Amendments to IFRS 9 will enable companies to measure some prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income, if certain conditions are met. Previously such assets have been measured at fair value through profit or loss (FVTPL).

As at the date of drawing up these 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.

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

IFRS 15 "Revenue from Contracts with Customers" 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.

The Company intends to apply IFRS 15 in the annual period starting on 1 January 2018.

New standard will not have material impact on the financial statements, because based on the analysis of the Company's operations, the Company has not identified any goods or services sold in packages, which could be distinguished within the package and which would have to be reported separately.

- **Clarifications to IFRS 15 „Revenue from Contracts with Customers"**

Clarifications to IFRS 15 „Revenue from Contracts with Customers" were published on 12 April 2016 and is effective for annual periods starting on or after 1 January 2018. The clarifications provide additional information and explanations regarding the base principles of IFRS15, including: determination whether a company is an agent or the provider of a good or service (principal); and revenue recognition principles for revenue from granting of licenses. In addition to the clarifications, the amendments include additional reliefs and simplifications for a company when it first applies the new standard.

The Company intends to apply Clarifications to IFRS 15 in the annual period starting on 1 January 2018.

Applying these clarifications will not have material impact on the financial statements, because based on the analysis of the Company's operations, the Company has not identified any goods or services sold in packages, which could be distinguished within the package and which would have to be reported separately.

- **IFRS 16 "Leases"**

IFRS 16 "Leases" 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.

The Company intends to apply IFRS 16 in the annual period starting on 1 January 2019.

As a result of application of the standard, the Company will recognize in the books, in correspondence with lease liabilities, certain asset that are currently classified as operating leases. These assets include rights to use warehouses and office premises in Nadarzyn as well as the right to use few dozen of passenger cars. The quantification of the impact of application of the standard on the financial statements of the Company will be disclosed in the financial statements for 2018.

- **IFRS 17 „Insurance contracts"**

IFRS 17 "Insurance contracts" was issued by the International Accounting Standards Board on 18 May 2017 and is effective from annual reporting periods beginning on or after 1 January 2021.

New IFRS 17 "Insurance contracts" will replace IFRS 4, which allows diversified approach in terms of accounting for insurance contracts. IFRS 17 will have significant impact on accounting for the companies, which have insurance and investment contracts in their portfolios.

The Company intends to apply IFRS17 as of the date of entry into force established by the EU.

IFRS 17 do not apply to the Company's activities.

- **Amendments to IFRS 2: Classification and measurement of Shared-based Payment Transactions**

Amendments to IFRS 2 are effective from annual reporting periods beginning on or after 1 January 2018. The amendments set out the principles for: measurement of the fair value of the liability incurred in a cash-settled share-based payment, accounting for a modification of a share-based payment from cash-settled to equity-settled and recognition of employee's tax obligation associated with the equity-settled transactions

As at the date of drawing up these 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 amendments will not have impact on the financial statements as currently the Company does not carry out share-based transactions.

- **Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

Amendments to IFRS 4 „Insurance contracts" address the concerns about adoption of the new IFRS 9 "Financial instruments". The amendments to IFRS 4 supplement the optional solutions already provided in the standards and aim to alleviate the volatility of results of the insurance companies that may arise when applying IFRS 9.

The Company intends to apply these amendments in the annual period starting on 1 January 2018.

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

- **Annual Improvements to IFRSs 2014-2016**

In December 2016, the International Accounting Standards Board issued "Annual improvements to IFRS 2014-2016", which consist of improvements to 3 standards: IFRS 12 "Disclosure of Interests in Other Entities", IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures".

The improvements include changes in presentation, recognition and measurement, as well as terminology and editorial changes.

The Company intends to apply the changes in accordance with recommendations of the European Union (in relation to improvements to IFRS 12) / from 1 January 2018 (in relation to amendments to IFRS 1 and IAS 28).

Annual improvements 2014-2016 will not have a significant impact on the financial statements

As at the date of drawing up these financial statements, the amendments have not yet been approved by the European Union.

- **Amendments to IAS 40: Transfer of Investment Property**

The amendments to IAS 40 clarify the requirements related to transfer of property to or from investment property. Amendments to IAS 40 are effective from annual reporting periods beginning on or after 1 January 2018.

The amendments will have no impact on the financial statements.

As at the date of drawing up these 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.

- **Amendments to IAS 28 „Investments in Associates and Joint Ventures"**

The amendments are effective for annual periods beginning on or after 1 January 2019. The amendments to IAS 28 "Investments in Associates and Joint Ventures" clarify that a reporting entity applies IFRS 9 to long-term investments in Associates and Joint Ventures to which the equity method is not applied. The amendments are accompanied by an example, published by the Board, which illustrates how an entity accounts for long-term interests in associates or joint ventures.

The amendments will not have material impact on the financial statements as the Company does not have any investments in associates or joint ventures.

As at the date of drawing up these financial statements, these changes have 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.

- **IFRIC 22: Foreign currency Transactions and Advance Considerations**

IFRIC 22 clarifies the accounting for transactions that include the receipt of payment of advance consideration in foreign currency. The interpretation is effective from annual reporting periods beginning on or after 1 January 2018.

IFRIC 22 will not have material impact on the financial statements.

As at the date of drawing up these financial statements, IFRIC 22 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.

- **IFRIC 23: Uncertainty over Income Tax Treatments**

IFRIC 23 clarifies the rules for recognition and measurements under IAS 12, when there is uncertainty over income tax treatments. IFRIC is effective for annual periods beginning on or after January 1, 2019.

IFRIC 23 will not have material impact on the financial statements.

As at the date of drawing up these financial statements, IFRIC 23 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.

- **Annual Improvements to IFRSs 2015-2017**

International Accounting Standards Board issued in December 2017 the "Annual improvements to IFRSs 2015-2017" cycle changing four standards: IFRS 3 "Business combinations", IFRS 11 "Joint arrangements", IAS 12 "Income taxes" and IAS 23 "Borrowing costs".

Amendments contain clarifications and specification relating to recognition and valuation.

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

As at the date of drawing up these financial statements, these improvements have 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.

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

The standard permits first-time adopters of IFRS (preparing financial statements for annual periods starting on or after 1 January 2016) 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.

According to the decision of the European Union, IFRS14 will not be approved.

- **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 financial statements, the approval of these amendments has been deferred by the European Union.

2.3 Interests in subsidiaries

Interests in controlled entities are recognised at acquisition cost.

Investments in subsidiaries are tested for impairment whenever there is indication of impairment or indication that any previously recognised impairment loss is no longer required or has decreased.

2.4 Segment reporting

Information on operating segments is presented on the same basis as that used for internal reporting to the 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 financial statements prepared in accordance with the UE IFRS.

2.5 Valuation of items denominated in foreign currencies

Functional currency

Items contained in the Company's financial statements are measured in the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in the Polish zloty, which is the functional currency and the presentation currency of the Company.

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.

2.6 Property, plant and equipment

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

The acquisition price includes the purchase price of an asset (i.e. the amount due to a seller, decreased by 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 entity 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 Company 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 Company 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.

2.7 Leases

Finance leases which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased asset are recognised in the 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.

2.8 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%

2.9 Impairment on non-financial non-current assets

As at the end of each reporting period, the Company assesses whether there is any evidence that any of its non-financial non-current assets may be impaired. If the Company finds that there is such evidence, or if the Company is required to perform annual impairment tests (in the case of goodwill), the Company 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 dispose 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 Company assesses whether there is evidence that any impairment loss recognised in the previous periods with respect to a given asset or cash-generating unit is no longer necessary or should be reduced. If such evidence exists, the Company measures the recoverable amount of the given asset or cash-generating unit.

2.10 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.

2.11 Financial assets

Upon initial recognition, financial assets are measured at fair value of the consideration given plus transaction cost, with the exception of financial assets at fair value through profit or loss in the case of which the transaction cost is 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 2017 and 31 December 2016, all financial assets held by the Company were classified as “loans and receivables”.

2.12 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 aged 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.

2.13 Inventory

Inventory includes 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.

The amount of an impairment loss is calculated based on rotation of individual items of goods for resale and it depends on the ratio of inventory level and the quantity of goods sold over the last 12 months. Items for which inventory level exceeds sales expected for the 2-years period are written off, but the impairment write-off never amounts to 100%. 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. New products are excluded from the calculation of impairment loss, due to the period required to place the new product on the market and lack of sufficient historical data for further analysis.

Impairment losses on inventory are recognised in cost of sales.

2.14 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.

2.15 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 transaction costs related to public share issue;
- own shares are stated at purchase price and presented in equity with a negative sign;
- reserve capital for buyback of own shares is created based on the resolution of General Shareholders' Meeting;
- other comprehensive income include 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. Transaction costs related to buyback of own shares reduce reserve capital created based on the resolution of General Shareholders' Meeting.

2.16 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.

2.17 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.

2.18 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. The tax expense is calculated using the tax rates effective for a given fiscal year.

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 Company 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, as at this level the criteria of IAS 12 “Income tax” 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, except where the Company controls the reversal of such temporary differences and it is probable the differences will not reverse in the foreseeable future.

2.19 Liabilities from employee benefits

Post-employment benefit plan – the defined contribution plan

The 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 Company are entitled to death benefits and retirement severance pays. Death benefits are one-off benefits paid to an employee’s family following the employee's death. Retirement benefits are paid out as one-off benefit upon retirement. The plan is fully financed by the Company. The amount of a retirement severance pay or death benefit depends on the length of employment and average remuneration of a given employee. The Company 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.

2.20 Provisions

Provisions are created when the Company has a present obligation (legal or constructive) resulting from past events, 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 Company’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.

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

2.21 Recognition of revenue

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

Revenues from sales of goods for resale

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 Company's warehouse.

Interest income

Interest income is recognised using the effective interest rate method.

2.22 Dividends

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

3. Foreign currencies used in preparation of these financial statements

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

Currency	31 December 2017	31 December 2016
1 EUR	4.1709	4.424
1 USD	3.4813	4.1793

4. Material accounting estimates and judgements

Estimates and judgements are verified on an ongoing basis. Estimates and judgements used during the preparation of the 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, are believed to be reasonable under the circumstances.

The Company 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.

Useful lives and depreciation rates for property, plant and equipment

The Company's Management Board determines estimated useful lives and depreciation rates for tangible non-current assets. 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 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 than expected, respectively, and revalues technologically obsolete assets, and assets which are not of strategic importance and whose use has been discontinued.

If the actual useful lives of property, plant and equipment had been by 10% shorter than the Management Board's estimates, the depreciation of property, plant and equipment would have been higher by PLN 199 thousand as at 31 December 2017 (PLN 188 thousand as at 31 December 2016).

Provisions and impairment write-downs

As at each end of a reporting period, the Management Board of the 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 2.20; 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 2.20;

- 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 2.13; for details on the amount of the write-down, see note 11;

- impairment write-downs on receivables – estimated amount of the write-down created for individual maturity brackets in accordance with the policy described in note 2.12; 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 12.

- other provisions resulting from claims brought against the Company – the values are determined taking into consideration the probability of having to pay the obligation and the amount of potential claim – see note 31.

5. Financial risk management

5.1 Financial risk factors

The Company'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 Company's overall risk management programme is designed to mitigate the potential effect of risk on the Company's financial performance. The Company 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

Currently the Company 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 2017, trade payables in USD represented 37% of the total trade payables and trade payables in CNY represented 33% of the total trade payables (as at 31 December 2016 - trade payables in USD represented 54% of the total trade payables).

The Company may use EUR and USD denominated credit facilities available under executed credit facility agreements. As at 31 December 2017 and 31 December 2017, the Company had no loan liabilities denominated in foreign currencies.

As at 31 December 2017, cash in foreign currencies (EUR and USD) represented 74% of the total cash (83% as at 31 December 2016).

34% of the Company's sales revenue is generated from exports, at prices denominated in foreign currencies, mainly in USD. As at 31 December 2017, trade receivables in USD represented 13% of the total trade receivables (17% as at 31 December 2016).

There is a risk that future fluctuations of exchange rates may have a negative or positive effect on the Company's financial performance. So far, the Company has not used derivative financial instruments to hedge against the results of future changes in exchange rates.

If, as at 31 December 2017, PLN had appreciated/depreciated by 10% against USD (all other conditions remaining unchanged), the profit before income tax for 2017 would have risen/ dropped by approximately PLN 201 thousand mainly due to the measurement of USD denominated trade payables (drop/rise by approximately PLN 173 thousand in 2016).

If, as at 31 December 2017, PLN had appreciated/depreciated by 10% against euro (all other conditions remaining unchanged), the profit before income tax for 2017 would have dropped/risen by approximately PLN 221 thousand (in 2016 by approximately PLN 241 thousand) mainly due to the measurement of EUR denominated trade receivables.

If, as at 31 December 2017, PLN had appreciated/depreciated by 10% against CNY (all other conditions remaining unchanged), the profit before income tax for 2017 would have risen/dropped by approximately PLN 686 thousand mainly due to the measurement of CNY denominated trade payables.

In the Management Board's opinion, the concentration of foreign exchange risk is insignificant.

Risk of interest rate changes affecting cash flows and fair values

As at 31 December 2017 the Company did not held any interest-bearing assets. As at 31 December 2016 the Company held an interest-bearing asset as described in note 12. The receivable has a variable interest rate, which exposes the Company to the risk of interest rate changes affecting cash flows, however taking into consideration the amount of interest, the risk is insignificant.

The Company's policy envisages the use of bank loans bearing interest at variable rates. This exposes the Company to the risk of interest rate changes affecting its cash flows. As at 31 December 2017, all liabilities under bank loans bear interest at variable rates (which was also the case as at 31 December 2016).

The Company 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 Company 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 below 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 Company 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 2017 and the assumed WIBOR variance.

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

Analysis of sensitivity to interest rate risk

	+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	(57)	(46)	57	46
Total for 2017	**(57)**	**(46)**	**57**	**46**

	+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 assets				
Other receivables from related entities	4	3	(4)	(3)
Financial liabilities				
Variable interest rate loans	(62)	(50)	62	50
Total for 2016	**(58)**	**(47)**	**58**	**47**

The Company 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 and credit exposures to customers, including trade receivables due.

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

Credit risk relating to credit exposures to Company's customers is considered as low by the Management Board. The Company sells its products to 2 key customer groups: retail chains and wholesale customers (including wholesalers, distributors and authorised retail stores). The Company sells its products on the domestic and foreign markets – mainly countries in Central, Eastern and Southern Europe (Russia, Romania, Baltic states, Hungary, Belarus, the Czech Republic, Germany, Ukraine).

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

	2017	**2016**
Domestic sales – wholesale market	40%	43%
Domestic sales – retail chains	20%	21%
Domestic sales – other	3%	2%
Export	37%	34%
Total	**100%**	**100%**

As regards sales to retail chains, the Company 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 which jointly account for approximately 92% 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.

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

In the area of wholesale distribution, the Company has established cooperation with authorised distributors, a few dozen wholesalers across the country and stores. In 2017 and 2016, the concentration of receivables in the wholesale channel was at a similar level - 75% of sales was executed by 14 customers. The Company 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 Company mitigates its credit risk by having trade receivables insured in renowned insurance company. As at 31 December 2017, 89% of the trade receivables were insured (31 December 2016 – 83%). 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 Company 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 12.

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 payment delays. The Company's cash is held in banks with BBB+, BBB- and A- ratings (EuroRating agency). With respect to trade receivables, the Company does not have external ratings, but monitors counterparty payment delays on an on-going basis. Receivables which as at 31 December 2017 were not past due and did not suffer impairment come from customers that settle their receivables to TOYA S.A. 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 2017, the maximum credit risk exposure was PLN 4,379 thousand (31 December 2016: PLN 6,158 thousand).

5.4 Liquidity risk

The Management Board of the Company believes that the Company'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 Board monitors the level of short-term liabilities and current assets, as well as current cash flows of the Company.

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

	31 December 2017	31 December 2016
Current assets	182,729	166,828
Current liabilities	59,432	49,267

	2017	2016
Cash flow from operating activities	34,750	6,299

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

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 and borrowings	29,040	-	-	-	**29,040**
Trade and other payables	21,278	-	-	-	**21,278**
Liabilities from finance leases	475	1,188	-	-	**1,663**
As at 31 December 2017	**50,793**	**1,188**	**-**	**-**	**51,981**
Loans and borrowings	31,443	-	-	-	**31,443**
Trade and other payables	11,138	-	-	-	**11,138**
Liabilities from finance leases	197	343	-	-	**540**
As at 31 December 2016	**42,778**	**343**	**-**	**-**	**42,778**

5.5 Capital management

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

The Company's capital management activities are aimed at protecting the Company'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 Company also follows a rule that non-current assets are to be fully financed by equity.

	31 December 2017	31 December 2016
Non-current assets	43,454	42,551
Equity	165,332	159,558

In the period covered by these financial statements, the Company 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 Company for similar financial instruments (level 3).

6. Financial instruments

As at 31 December 2017	**Financial assets**	**Other financial liabilities**
	Loans and receivables	**Liabilities measured at amortised cost**
Trade receivables	43,197	-
Cash	786	-
Trade and other payables	-	21,278
Loans and borrowings	-	28,489
Liabilities from finance leases	-	1,539
	43,983	**51,306**

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

As at 31 December 2016	**Financial assets**	**Other financial liabilities**
	Loans and receivables	**Liabilities measured at amortised cost**
Trade receivables	43,612	-
Cash	213	-
Trade and other payables	-	10,712
Loans and borrowings	-	30,759
Liabilities from finance leases	-	500
	43,825	**41,971**

Revenue and expense recognised in the 2017 and 2016 financial results, relating to financial assets or financial liabilities not measured at fair value though profit or loss are presented below:

12 months ended 31 December 2017	**Financial assets**	**Financial liabilities**
Interest income	23	-
Interest expenses	-	(501)
Profits on exchange differences	1,139	4,540
Losses on exchange differences	(2,712)	(1,144)
Reversal of impairment write-downs	(7)	-
Total net profit / (loss) from financial assets and liabilities	**(1,557)**	**2,895**

12 months ended 31 December 2016	**Financial assets**	**Financial liabilities**
Interest income	57	-
Interest expenses	-	(373)
Profits on exchange differences	1,748	2,758
Losses on exchange differences	(1,309)	(1,449)
Establishment of impairment write-downs	54	-
Total net profit / (loss) from financial assets and liabilities	**550**	**936**

7. Property, plant and equipment

	31 December 2017	**31 December 2016**
Land	2,907	2,907
Buildings and structures	8,761	9,133
Plant and equipment	1,765	1,730
Vehicles	331	179
Other	2,149	2,134
Total	**15,913**	**16,083**
Property, plant and equipment not transferred for use	1,329	67
Total property, plant and equipment	**17,242**	**16,150**

(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	Fixed assets not transferred for use	Total
Initial value							
As at 1 January 2017	2,907	12,625	4,909	1,553	9,069	67	**31,130**
Increases	-	12	619	181	817	2,415	**4,044**
Decreases	-	-	(118)	(73)	(43)	(1,153)	**(1,387)**
As at 31 December 2017	**2,907**	**12,637**	**5,410**	**1,661**	**9,843**	**1,329**	**33,787**
As at 1 January 2016	2,907	12,126	4,355	1,583	8,288	536	**29,795**
Increases	-	499	595	33	746	997	**2,870**
Decreases	-	-	(46)	(63)	-	(1,466)	**(1,575)**
Reclassification	-	-	5	-	35	-	**40**
As at 31 December 2016	2,907	12,625	4,909	1,553	9,069	67	**31,130**
Accumulated depreciation							
As at 1 January 2017	-	3,492	3,179	1,374	6,935	-	**14,980**
Increases	-	384	569	29	810	-	**1,792**
Decreases	-	-	(103)	(73)	(51)	-	**(227)**
As at 31 December 2017	-	3,876	3,645	1,330	7,694	-	**16,545**
As at 1 January 2016	-	3,113	2,720	1,424	6,146	-	**13,403**
Increases	-	379	496	13	800	-	**1,688**
Decreases	-	-	(38)	(63)	(17)	-	**(118)**
Reclassification	-	-	1	-	6	-	**7**
As at 31 December 2016	-	3,492	3,179	1,374	6,935	-	**14,980**
Carrying amount							
As at 31 December 2017	**2,907**	**8,761**	**1,765**	**331**	**2,149**	**1,329**	**17,242**
As at 31 December 2016	**2,907**	**9,133**	**1,730**	**179**	**2,134**	**67**	**16,150**

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

As at 31 December 2017, the Company holds servers and a car under finance lease (of which one server and the car were not yet transferred for use as of 31 December 2017):

	31 December 2017	31 December 2016
Purchase cost	2,194	898
Accumulated depreciation	(364)	(128)
Net book value	**1,830**	**770**

Detailed information about lease liabilities - see note 20.

As at 31 December 2017, the Company used a warehouse in Nadarzyn and several dozen of passenger cars under an operating lease agreement (note 21).

Apart from the property, plant and equipment serving as security in respect of working capital facilities (note 17), there are no restrictions on the use of property, plant and equipment held by the Company.

As of 31 December 2017 the Company has placed an order for forklifts, which delivery is expected in 2018 and which will be financed through finance leasing. The estimated value of the contract amounts to PLN 1,700 thousand.

In 2017 and 2016, the Company did not capitalise borrowing costs due to the insignificancy of these amounts.

8. Intangible assets

	31 December 2017	31 December 2016
Licences, copyright, concessions and patents, including:	2,155	1,991
– software	2,155	1,991
Other - trademarks and industrial designs	136	144
Total	**2,291**	**2,135**
Intangible assets under development	-	376
Total intangible assets	**2,291**	**2,511**

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

No security interests in the intangible assets have been created.

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

Changes in intangible assets

	Software	Other	Intangible assets under development	Total
Initial value				
As at 1 January 2017	3,298	249	376	**3,923**
Increases	468	-	-	**468**
Decreases	-	(9)	(376)	**(385)**
As at 31 December 2017	3,766	240	-	**4,006**
As at 1 January 2016	2,262	236	1,210	**3,708**
Increases	1,076	13	160	**1,249**
Decreases	-	-	(994)	**(994)**
Reclassification	(40)	-	-	**(40)**
As at 31 December 2016	**3,298**	**249**	**376**	**3,923**
Accumulated amortisation				
As at 1 January 2017	1,307	105	-	**1,412**
Amortization for the year	304	-	-	**304**
Decreases	-	(1)	-	**(1)**
As at 31 December 2017	1,611	104	-	**1,715**
As at 1 January 2016	1,114	96	-	**1,210**
Amortization for the year	200	9	-	**209**
Reclassification	(7)	-	-	**(7)**
As at 31 December 2016	**1,307**	**105**	**-**	**1,412**
Carrying amount				
As at 31 December 2017	**2,155**	**136**	**-**	**2,291**
As at 31 December 2016	**1,991**	**144**	**376**	**2,511**

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

9. Interests in subsidiaries

As at 31 December 2017 and 31 December 2016, the Company held shares in the following entities:

	Country	Type of equity link	% of shares and votes held	Value of shares
31 December 2017				
Yato Tools (Shanghai) Co. Ltd	China,	Subsidiary	100.00	20,746
Toya Romania S.A.	Romania	Subsidiary	99.99	1,885
				22,631
31 December 2016				
Yato Tools (Shanghai) Co. Ltd	China,	Subsidiary	100.00	20,746
Toya Romania S.A.	Romania	Subsidiary	99.99	1,885
				22,631

In 2017 and in 2016 there were no changes in investments held by the Company.

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

Key financial data of subsidiaries is presented in the table below:

	Non-current assets	Current assets	Equity	Long-term liabilities	Short-term liabilities	Revenues (*)	Expenses (**)	Net profit
2017								
Yato Tools (Shanghai) Co. Ltd	2,891	50,445	20,619	-	32,717	143,363	(140,764)	2,599
Toya Romania S.A.	2,158	17,292	15,299	-	4,151	37,520	(33,566)	3,954
	5,049	67,737	35,918	-	36,868	180,883	(174,330)	6,553
2016								
Yato Tools (Shanghai) Co. Ltd	2,998	35,831	20,370	-	18,459	96,655	(95,955)	700
Toya Romania S.A.	2,102	13,433	12,496	-	3,039	34,026	(30,649)	3,377
	5,100	49,264	32,866	-	21,498	130,681	(126,604)	4,077

(*) revenues comprise: revenue from the sales of goods for resale, other operating revenue and financial revenue

(**) expenses comprise: cost of goods for resale sold, selling costs, administrative expenses, other operating expenses and income tax expense

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

10. Trade and other long-term receivables

	31 December 2017	31 December 2016
Prepayments related to the perpetual usufruct right	218	221
Total gross receivables	**218**	**221**

The Company purchased the right of perpetual usufruct from other entities. Perpetual usufruct fees included in the financial result amounted to PLN 20 thousand both in 2017 and in 2016.

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

	31 December 2017	31 December 2016
up to 1 year	20	20
1–3 years	40	40
3–5 years	40	40
more than 5 years	1,380	1,400
Total	**1,480**	**1,500**

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

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

11. Inventory

	31 December 2017	31 December 2016
Goods in warehouse and in transit	139,353	121,988
Revaluation write-down	(1,906)	(1,897)
Total inventory	**137,447**	**120,091**

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

	2017	2016
As at 1 January	1,897	1,927
Increase	9	
Reversal/utilisation	-	(30)
As at 31 December	**1,906**	**1,897**

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.

For security created over inventory, see note 17.

12. Trade and other receivables

	31 December 2017	31 December 2016
Trade receivables from related parties	2,181	3,311
Trade receivables from third parties	42,490	42,211
Total trade receivables	**44,671**	**45,522**
Tax receivables	612	182
Other receivables from related parties	-	2,044
Other receivables from third parties	151	103
Prepayments	536	583
Total gross receivables	**45,970**	**48,434**
Impairment write-downs of doubtful receivables	(1,474)	(1,910)
Total net receivables	**44,496**	**46,524**

On 23 December 2015, the 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 remaining amount of PLN 2,000 thousand, with interest, was repaid on 29 June 2017.

As at 31 December 2017, trade receivables in the amount of PLN 9,189 thousand (31 December 2016: PLN 5,233 thousand) were past due, of which trade receivables of PLN 7,806 thousand were past due but not impaired (31 December 2016: PLN 4,932 thousand).

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

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

	31 December 2017	31 December 2016
Overdue period:		
from 1 to 180 days	7,719	4,932
from 181 to 365 days	87	-
more than 365 days	-	-
Total	**7,806**	**4,932**

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

	2017	2016
As at 1 January	1,910	1,893
Increase	-	54
Release	(7)	-
Utilisation	(429)	(37)
As at 31 December	1,474	1,910

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

As at 31 December 2017, receivables for which impairment write-downs were recorded individually amounted to PLN 1,385 thousand (31 December 2016: PLN 1,611 thousand). Impairment of those receivables is related to taking the receivables to court.

For security created over receivables, see note 17.

13. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash in hand and at bank	786	213
Total cash and cash equivalents	**786**	**213**

Apart from cash disclosed in the statement on financial position, the 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 2017, these funds amounted to PLN 110 thousand (as at 31 December 2016: PLN 11 thousand). The Company may use these funds only in the manner provided by law for the ZFŚS resources.

Apart from the ZFŚS resources, as at 31 December 2017 and 31 December 2016, the Company did not have any cash of limited disposability.

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

Reconciliation of changes in individual items as shown in the statement of financial position and in the statement of cash flows:

12 months ended 31 December 2017		**Adjustments**			
	Balance sheet change	**Interest accrued on receivables**	**Measurement of cash in foreign currencies**	**Actuarial losses recognised in other comprehensive income**	**Change in statement of cash flows**
Change in trade and other receivables	2,031	(44)	-	-	1,987
Change in inventories	(17,356)	-	-	-	(17,356)
Change in provisions	38	-	-	-	38
Change in trade and other payables	10,349	-	-	-	10,349
Change in employee benefit liabilities	668	-	-	(39)	629
Change in cash	573	-	3	-	576

12 months ended 31 December 2016		**Adjustments**			
	Balance sheet change	**Interest accrued on receivables**	**Measurement of cash in foreign currencies**	**Actuarial losses recognised in other comprehensive income**	**Change in statement of cash flows**
Change in trade and other receivables	(5,400)	44	-	-	(5,356)
Change in inventories	(26,859)	-	-	-	(26,859)
Change in provisions	29	-	-	-	29
Change in trade and other payables	2,724	-	-	-	2,724
Change in employee benefit liabilities	2,465	-	-	58	2,523
Change in cash	(86)	-	-	-	(86)

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

14. Share capital

As at 31 December 2017 and 31 December 2016, the share capital amounted to PLN 7,833,084.10 and comprised 78,330,841 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 2017 (according to information provided to the Company by its shareholders):

Name	Status	Number of shares	Type of shares	Par value per share (PLN)	Par value of the shares (PLN)	Structure (%)
Jan Szmidt	natural person	28,170,647	ordinary bearer	0.1	2,817,064.70	35.96%
Tomasz Koprowski	natural person	13,704,424	ordinary bearer	0.1	1,370,442.40	17.50%
Romuald Szałagan	natural person	9,652,290	ordinary bearer	0.1	965,229.00	12.32%
Altus TFI S.A.	legal person	6,705,590	ordinary bearer	0.1	670,559.00	8.56%
Generali OFE	legal person	5,001,147	ordinary bearer	0.1	500,114.70	6.38%
TOYA S.A. (own shares)	legal person	3,288,615	ordinary bearer	0.1	328,861.50	4.20%
Other – share below 5%	not applicable	11,808,128	ordinary bearer	0.1	1,180,812.80	15.08%
TOTAL		**78,330,841**			**7,833,084.10**	**100.00%**

15. Own shares and reserve capital

On 29 June 2017 the General Shareholders' Meeting of Toya S.A. adopted a resolution to create a reserve capital in the amount of PLN 29,598 thousand to fund buyback of the Company's own shares.

Under share buyback offering lasting from 11 to 22 September 2017, the Company purchased 3,288,615 of own shares at the price of PLN 8.95 per share. Total value of purchased shares amounted to PLN 29,433 thousand. Total transaction costs related to purchase of own shares amounted to PLN 139 thousand and were deducted from reserve capital created pursuant to General Shareholders' Meeting resolution. After completion of the shares purchase transaction, the reserve capital has been reduced by the total value of shares purchased, in accordance with article 363 § 6 of the Commercial Companies Code.

After the balance sheet date, the Extraordinary General Shareholders' Meeting adopted a resolution to cancel own shares – see note 34.2.

16. Retained earnings and dividend per share

On 29 June 2017, the General Shareholders' Meeting of Toya S.A. approved the financial statements of Toya S.A. for 2016, and resolved to allocate the profit for 2016 in the amount of PLN 29,598 thousand to supplementary capital.

In addition, the General Shareholders' Meeting of Toya S.A. adopted a resolution to create a reserve capital in the amount of PLN 29,598 thousand to fund acquisition of the Company's own shares.

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 the case of the Parent Company – PLN 2,611 thousand as at 31 December 2017. These statutory reserve funds are exempt from distribution among shareholders and may only be used to cover losses. As at 31 December 2017 and 31 December 2016, 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 146,858 thousand as at 31 December 2017, represents accumulated profit from previous years and may be allocated to the payment of dividend.

Dividend paid per share:

	12 months ended 31 December	
	2017	**2016**
Dividend paid	-	28,199
Weighted average number of ordinary shares ('000) (*)	77,466	78,331
Dividend per share (PLN)	**-**	**0.36**

(*) weighted average number of ordinary shares calculated in line with calculation of earnings per share in note 29.

17. Liabilities under loans and borrowings

	31 December 2017	**31 December 2016**
Bank loan liabilities, including	**28,489**	**30,759**
– long-term	-	-
– short-term	28,489	30,759

Changes in bank loans are presented in the table below:

	Bank loans
As at 1 January 2016	**6,662**
Loans taken	24,051
Interest for the period (note 27)	456
Interest repaid	(410)
As at 31 December 2016	**30,759**
Loans taken	14,869
Interest for the period (note 27)	437
Interest repaid	(476)
Loan repaid	(17,100)
As at 31 December 2017	**28,489**

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

Description of loan agreements:

Object and value of agreement	Name of the Bank	Loan amount as per agreement as at 31 December 2017	Amount outstanding as at 31 December 2017	Amount outstanding as at 31 December 2016	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	9,784	4,446	WIBOR 1 M + bank's margin EURIBOR/LIBOR 1 M + bank's margin	7 March 2018	Change of expiry date – see note 34
2. Overdraft facility agreement No BDK/KR-RB/000054601/0641/10 of 22 December 2010	Bank Handlowy w Warszawie S.A.	30,000	9,174	19,817	WIBOR 1 M + bank's margin	14 December 2018	-
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	-	-	6,496	-	19 September 2017	-
4. Overdraft facility agreement No K00856/17	Bank Zachodni WBK S.A. with its registered office in Wroclaw	25,000	9,531	-	WIBOR 1 M + bank's margin	18 September 2018	-
Total liabilities, of which:		**80,000**	**28,489**	**30,759**			
– short-term portion		80,000	28,489	30,759			
– 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 2017	31 December 2016
Mortgage	62,500	77,200
Transfer of title to inventory	56,000	50,000
Assignments of claims	41,018	41,786
Total restricted assets	**159,518**	**168,986**

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 11,668 thousand as at 31 December 2017 (PLN 12,040 thousand as at 31 December 2016). The values of other types of security were determined at the carrying amounts of the assets provided as security as at 31 December 2017 and 31 December 2016.

The securities apply throughout the term of loan agreements. The Company has limited abilities to dispose of the mortgaged assets. In the event of securities established over inventory, the 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 56 million. In the case of assignments of trade receivables, the Company is obliged to refrain from any legal or actual actions resulting in restrictions on the Company's ability to dispose of these receivables. In addition, the 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 2017, the weighted average cost of loans (without commissions) was 1.93%.

Observance of the loan agreement

As at 31 December 2017, 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 loan agreements.

The Company has good relationships with banks, and in its activity so far it hasn't had any 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)

18. Trade and other payables

	31 December 2017	31 December 2016
Trade payables to related parties	6,900	29
Trade payables to third parties	13,607	10,642
Total trade payables	**20,507**	**10,671**
Tax liabilities	1,154	1,371
Accruals (including settlement of lease costs over time)	762	29
Other payables to third parties	3	3
Deferred income	6	9
Total other current payables	**1,925**	**1,412**
Total	**22,432**	**12,083**

19. Liabilities from employee benefits

	31 December 2017	31 December 2016
Provisions for retirement benefits, disability pensions and for death benefits	305	236
Liabilities from employee benefits – non-current portion	**305**	**236**
Provisions for retirement benefits, disability pensions and for death benefits	6	15
Payroll liabilities	3,498	2,996
Unused holidays	771	665
Liabilities from employee benefits – current portion	**4,275**	**3,676**

The Company pays retirement benefits, disability pensions and death benefits in accordance with the Labour Code, i.e. 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 2017 and 31 December 2016 was estimated by an actuary. The basic assumptions were as follows:

	31 December 2017	31 December 2016
Discount rate (risk-free rate)	3.25%	3.59%
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 2017	31 December 2016
Current value of liability as at 1 January	**251**	**247**
Current service cost	26	30
Net interest on net liability	9	8
Actuarial gains or losses, including resulting from:	39	(58)
changes in demographic assumptions	*1*	*(36)*
changes in financial assumptions	*13*	*(22)*
ex post adjustments of actuarial assumptions	*25*	*-*
Past service cost	-	24
Benefits paid	(14)	-
Current value of liability as at 31 December	**311**	**251**

Total expenses recognised in profit or loss in respect of future employee benefits amounted to PLN 35 thousand in 2017 and PLN 62 thousand in 2016 and were recognised in administrative expenses. Actuarial losses incurred in 2017 amounted to PLN 39 thousand (in 2016: gains in the amount of PLN 58 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 2017 are as follows:

Assumption	Changes in the assumption	Increase in the assumption	Decrease in the assumption
Technical discount rate	1%	(36)	43
Salary rise in the Company	1%	43	(37)
Turnover ratio	1%	(17)	19

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	-	-	3	14	35	977
Disability pension	1	1	1	1	1	15
Death benefit	5	6	7	7	7	238
Total	**6**	**7**	**11**	**22**	**43**	**1,230**

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

20. Finance lease – the Company as a lessee

	31 December 2017	31 December 2016
Minimum lease payments		
payable up to 1 year	475	197
payable between 2 and 5 years	1,188	328
Total	**1,663**	**525**
Future interest expenses	(124)	(25)
Present value of finance lease liabilities	**1,539**	**500**
of which:		
payable up to 1 year	425	182
payable between 2 and 5 years	1,114	318

As at 31 December 2017, the Company leased two servers under finance lease agreements entered into in 2014 and 2017, and a truck under finance lease agreement entered into in 2017. The net amount of the lease liability as at the date of the agreements was PLN 2,194 thousand. The agreements were concluded for a period of 60 months. Monthly lease payments amount to approx. PLN 40 thousand. The terms and conditions of the agreements were not different from terms and conditions typical to this type of agreements.

Summary of changes in financial lease liabilities in the period is presented below:

	Short-term	Long-term	Total
As at 1 January 2017	**182**	**318**	**500**
Repayment of principal	(257)	-	(257)
Entering into new lease agreements	234	1,062	1,296
Reclassification	266	(266)	-
As at 31 December 2017	**425**	**1,114**	**1,539**

21. Operating lease – the Company as a lessee

The Company uses: an office premises, warehouses, car park in Wrocław and passenger cars, under non-cancellable operating lease agreements. Moreover, the Company uses land in Wrocław, to which it has the right of perpetual usufruct of land (for detailed information see note 10).

The costs incurred in connection with the operating leases amounted to PLN 3,121 thousand in 2017 (PLN 2,955 thousand in 2016). These 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 2017	31 December 2016
up to 1 year	2,154	2,045
2–3 years	3,958	3,702
4–5 years	169	3,805
more than 5 years	1,340	1,400
Total	**7,621**	**10,952**

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

The warehouse lease agreement was signed by the Company in 2006 (with later annexes) and is valid until 31 January 2022.

In 2017, the Company entered into a general passenger car lease agreement. As at 31 December 2017, a few dozen of passenger cars had been provided for use under the new agreement, in place of the cars provided under previous general lease agreement from 2012. The agreement was concluded for a period of 36 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

22. Provisions

	Provisions for guarantee repairs and returns
As at 1 January 2017	**328**
Provision created	366
Provision used	(328)
As at 31 December 2017	**366**
Short-term as at 31 December 2017	366
As at 1 January 2016	**299**
Provision created	328
Provision used	(299)
As at 31 December 2016	**328**
Short-term as at 31 December 2016	328

The provision for guarantee repairs is created in accordance with the policy described in note 2.20. 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".

23. Sales revenue

	12 months ended 31 December	
	2017	**2016**
Sales revenue		
Sales of services	1,176	926
Sales of goods	286,607	258,830
Total sales revenue	**287,783**	**259,756**

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

24. Costs by type and cost of goods sold

	12 months ended 31 December	
	2017	**2016**
Amortisation and depreciation	2,096	1,897
Material and energy consumption	2,980	2,818
Third-party services	14,026	12,344
Taxes and fees	955	952
Costs of employee benefits	24,152	23,222
Other costs by type	4,715	4,396
Value of goods sold	195,637	178,689
Total costs by type and value of goods sold	**244,561**	**224,318**

Selling costs	35,803	32,323
Administrative expenses	13,121	13,306
Cost of goods sold	195,637	178,689
Total	**244,561**	**224,318**

The Company does not conduct important R&D works.

25. Cost of employee benefits

	12 months ended 31 December	
	2017	**2016**
Payroll	19,667	19,050
Cost of social insurance	3,632	3,629
Cost of provision for unused leaves	283	2
Cost of retirement benefits	21	62
Cost of other employee benefits	549	479
Total cost of employee benefits	**24,152**	**23,222**

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

	12 months ended 31 December	
	2017	**2016**
Total employees	241	242

26. Other operating revenue and expenses

	12 months ended 31 December	
	2017	**2016**
Gain on sale of property, plant and equipment	-	8
Surplus of FX gains over FX losses on operating activities	1,823	1,748
Revenue from other sales	142	209
Motor insurance claims received from counterparties	31	31
Interest received	2	12
Other operating revenue	78	83
Total other operating revenue	**2,076**	**2,091**

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

	12 months ended 31 December	
	2017	**2016**
Loss on liquidation of property, plant and equipment	13	-
Surplus of FX losses over FX gains on operating activities	126	201
Penalties and fines paid	7	44
Court and debt recovery fees	6	-
Interest paid to the state budget and to counterparties	107	1
Donations given	12	-
Motor insurance claims, on balance with compensation received	200	9
Receivables written-off	278	-
Other	24	112
Total other operating expenses	**773**	**367**

27. Financial revenue and expenses

	12 months ended 31 December	
	2017	**2016**
Interest on cash in bank accounts	-	13
Interest on receivable	23	44
Total financial revenue	**23**	**57**

	12 months ended 31 December	
	2017	**2016**
Interest and commissions on loans	437	456
Interest on finance lease liabilities	30	21
Total financial expenses	**467**	**477**

28. Income tax

Tax expense

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

- from 1 January 2017 to 31 December 2017,
- from 1 January 2016 to 31 December 2016.

	12 months ended 31 December	
	2017	**2016**
Current tax	8,729	7,503
Deferred tax	(27)	(358)
Total income tax	**8,702**	**7,145**

A 19% corporate income tax rate was applicable in all the aforementioned periods.

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:

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

	12 months ended 31 December 2017	2016
Profit before tax	44,080	36,743
Tax rate applicable in the period	19%	19%
Tax calculated at the applicable tax rate	**8,375**	**6,981**
Tax effect of the following items:		
- permanent tax differences – costs	321	156
- temporary tax differences for which no asset was created	(18)	7
- tax related to previous periods	24	-
Other	-	1
Income tax reported in the profit and loss account	**8,702**	**7,145**

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 2017			As at 1 January 2017	Recognised in profit or loss / equity
	Assets	Liabilities	Net	Net	
Non-current assets					
Property, plant and equipment	-	905	(905)	(595)	(310)
Trade and other receivables	-	-	-	(8)	8
Current assets					
Inventory	362	-	362	360	2
Trade and other receivables	280	61	220	279	(59)
Cash and cash equivalents	1	-	1	-	1
Long-term liabilities					
Liabilities from finance leases	211	-	211	60	151
Liabilities from employee benefits	58	-	58	45	13
Short-term liabilities					
Trade and other payables	197	-	197	119	78
Liabilities from employee benefits	775	-	775	672	103
Liabilities from loans and borrowings	3	-	3	9	(6)
Liabilities from finance leases	81	-	81	35	46
Provisions	70	-	70	62	8
Total deferred income tax, including:	**2,038**	**966**	**1,072**	**1,038**	**34**
– recognised in profit or loss					27
– recognised in equity (*)					7

	As at 31 December 2016			As at 1 January 2016	Recognised in profit or loss / equity
	Assets	Liabilities	Net	Net	
Non-current assets					
Property, plant and equipment	-	595	(595)	(505)	(90)
Trade and other receivables	-	8	(8)	(43)	35
Current assets					
Inventory	360	-	360	366	(6)
Trade and other receivables	363	84	279	348	(69)
Cash and cash equivalents	-	-	-	-	-
Long-term liabilities					
Liabilities from finance leases	60	-	60	95	(35)
Liabilities from employee benefits	45	-	45	46	(1)
Short-term liabilities					
Trade and other payables	119	-	119	70	49
Liabilities from employee benefits	672	-	672	222	450
Liabilities from loans and borrowings	9	-	9	2	7
Liabilities from finance leases	35	-	35	33	2
Provisions	62	-	62	57	5
Total deferred income tax, including	**1,724**	**686**	**1,038**	**691**	**347**
– recognised in profit or loss					358
– recognised in equity (*)					(11)

(*) applies to deferred tax from actuarial gains/losses recognised in other comprehensive income

Of the above-reported value of deferred tax asset, the amount of PLN 46 thousand concerns items that the Company expects to realise over a period exceeding 12 months.

29. Earnings per share

	12 months ended 31 December	
	2017	**2016**
Net profit	**35,378**	**29,597**
Weighted average number of ordinary shares ('000)	78,331	78,331
Adjustment for weighted average number of own shares purchased ('000)	(865)	-
Adjusted weighted average number of ordinary shares ('000)	**77,466**	**78,331**
Basic earnings per share (PLN)	**0.46**	**0.38**
Diluted net profit	**35,378**	**29,597**
Weighted average number of issued ordinary shares, applied to calculate basic earnings per share	77,466	78,331
Dilution impact	-	-
Adjusted weighted average number of ordinary shares used for calculating diluted earnings per share ('000)	77,466	78,331
Diluted earnings per share (PLN)	**0.46**	**0.38**

Basic earnings per share were calculated by dividing the net profit by the weighted average number of ordinary shares during the period. Weighted average number of ordinary shares was calculated taking into account adjustment for own shares purchased in accordance with the offer for purchase of shares of TOYA S.A. announced on 4 September 2017. The buyback of own shares was completed on 27 September 2017. As of 31 December 2017 the acquired own shares were held by the Company. After the balance sheet date, on 28 February 2018, the Extraordinary General Shareholders' Meeting adopted a resolution to cancel own shares (see note 34.2).

As at 31 December 2017 the Company had no potential dilutive instruments.

30. Financial guarantees granted

As at 31 December 2017, 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 190,466	28 February 2018 (*)

(*) after the end of the financial year, the guarantee was extended until 28 February 2019, for the amount of EUR 195,503.

As at 31 December 2017, the Company has not granted any guarantees.

31. Contingent assets and liabilities

On 29 November 2012, the Parent Company and TOYA Development Sp. z o.o. Spółka Komandytowa in liquidation (hereinafter: Toya Development) concluded an agreement (the "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 was estimated at net PLN 2.5 million. At the same time, as at 31 December 2015, the Parent Company had 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. On 14 June 2016 the appeal was dismissed. The Court decision is final and legally valid, therefore as of 31 December 2016 the contingent liability for compensation due to the incurred expenditure and the contingent asset due to compensation for the incurred expenditure from the Trzebnicki Poviat in the same amount, have been terminated.

On 21 November 2017, TOYA S.A. received request from TOYA Development for payment of PLN 3,076 thousand (the "Request"), due to the legal defect of the real property which was contributed in kind to TOYA Development by TOYA S.A. on 6 April 2011, pursuant to Resolution No 1 of the Extraordinary General Shareholders' Meeting of TOYA Development. Based on legal opinions obtained, the Request has been considered as unfounded, due to the fact that the matter of compensation for damage resulting from the legal defect of the real property had already been regulated in the Agreement between the parties. As a result, in opinion of TOYA S.A., the Request received from TOYA Development has no valid factual and legal grounds. According to the Management Board of TOYA S.A., the probability that the payment will have to be made is low, therefore no provision for that purpose has been recognised in the financial statements as at 31 December 2017.

32. Transactions with related entities

In 2017 and 2016, the Company effected transactions with the following related parties:

- Toya Romania SA – subsidiary,
- Yato Tools (Shanghai) Co., Ltd. – subsidiary,
- Toya Development Sp. z o.o. S.K. in liquidation – entity related through key management personnel,
- Golf Telecom Sp. z o.o. SKA – entity related through key management personnel,
- Grzegorz Pinkosz – President of the Management Board – key management personnel,
- Dariusz Hajek – Vice-President of the Management Board until 20 September 2016 – key management personnel,
- Maciej Lubnauer – Vice-President of the Management Board – 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,
- Wioletta Koprowska – a person closely-related with a key management personnel,
- Grzegorz Maciąg – Member of the Supervisory Board – key management personnel,
- Dariusz Górka – Member of the Supervisory Board – key management personnel,
- Michał Kobus - Member of the Supervisory Board since 29 June 2017 – key management personnel,
- Wojciech Bartłomiej Papierak - Member of the Supervisory Board since 29 June 2017 – key management personnel.

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

Breakdown of transactions and balances with related entities

	Trade and other receivables	Trade and other payables	Revenue from sales of goods and services	Purchase of goods and services	Remuneration for work	Financial revenue – interest	Dividend paid	Buyback of shares (*)
	31.12.2017		1.01.2017 - 31.12.2017					
Subsidiaries	2,179	6,883	17,553	103,631	-	-	-	-
Entities related through key management personnel	2	17	28	66	-	-	-	-
Key management personnel	-	-	-	-	2,248	23	-	9,693
Person closely-related with a key management personnel	-	-	-	-		-	-	1,088
Total	**2,181**	**6,900**	**17,581**	**103,697**	**2,248**	**23**	**-**	**10,781**
	31.12.2016		1.01.2016 - 31.12.2016					
Subsidiaries	3,310	18	14,629	63,657	-	-	-	-
Entities related through key management personnel	1	11	18	186	-	-	-	-
Key management personnel	2,044	-	-	-	1,758	44	15,578	-
Total	**5,355**	**29**	**14,647**	**63,843**	**1,758**	**44**	**15,578**	**-**

(*) As part of buyback of own shares transaction during the year, the Company purchased shares from the following individuals (based on information provided to the Company by its shareholders) at the price of PLN 8.95 per share:

- Tomasz Koprowski – 1,066,784 shares
- Wioletta Koprowska – 121,610 shares
- Grzegorz Pinkosz – 11,410 shares
- Maciej Lubnauer – 4,813 shares

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

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

In the years ended 31 December 2017 and 31 December 2016, no receivables from related parties were written down.

On 15 February 2017, the Company entered into an agreement with Mr. Jan Szmidt concerning the transfer from Mr. Jan Szmidt to the Company of the property rights to the works used by the Parent Company in the YATO, Vorel and FLO trademarks in accordance with the resolution No. 4/2017 of the Extraordinary General Meeting of Shareholders of the Company dated 12 January 2017 regarding granting of consent to the conclusion with Jan Szmidt of the agreement and the Supervisory Board resolution no 2/RN/2017 dated 13 February 2017 on granting of consent to the conclusion of the agreement as well as an agreement to transfer the right of protection. At the same time, pursuant to § 4 of the Agreement, on 15 February 2017 the Company entered into an agreement with Mr. Jan Szmidt on the transfer of protection rights to the trademark registered in the European Union Intellectual Property Office under the number 015230006, after obtaining the prior approval of the Supervisory Board on 13 February 2017, expressed in Resolution No 2/RN/2017. The agreement is an important agreement because it governs the use of copyright in accordance with the principles established by the parties to the Agreement and comprehensively organizes the copyright of the property rights to the works indicated in it. The terms of the agreement for the transfer of protection rights to a trademark registered in the European Union Intellectual Property Office under no. 015230006 do not entail financial obligations for any of the parties to the contract, provide no contractual penalties, and do not depart from the terms commonly used for such contracts.

On 29 June 2017, member of the key management personnel of the Company repaid amount receivable, referred to in note 12, in the amount of PLN 2,000 thousand, together with interest.

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 Supervisory Board of the Company comprise the key management personnel of the Company.

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

	2017	2016
Remunerations and benefits under employment contracts and appointment contracts - Management Board	1,593	1,038
Social insurance (ZUS) costs borne by the Company – Management Board	39	77
Remunerations for positions held - Supervisory Board	655	720
Social insurance (ZUS) costs borne by the Company – Supervisory Board	110	112

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

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

33. Operating segments

Identification of operating and reporting segments

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

The Company specifies four operating and reporting segments for its activities:

- trading area – domestic sales to retail networks,
- trading area – domestic sales – wholesale market,
- trading area – exports,
- trading area – other sales.

As part of the retail networks segment, the Company cooperates with the largest retail networks throughout Poland and Romania. Wholesale on the domestic market is conducted through a network of wholesalers, authorised retail stores and sales representatives. Foreign markets are supported using sales department of the Company. The segment of other sales comprises mainly sales through a stationary store and online store. As at 31 December 2017, 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 Company for segment description are consistent with the data disclosed in the statement of profit or loss and other comprehensive income.

In 2017 the Company registered revenue with one external customer exceeding 10% of total sales revenue, which amounted to PLN 29,501 thousand and involved a customer from the retail networks segment. In 2016, the Company did not record revenue with one external customer, exceeding 10% of total sales revenue.

As at 31 December 2017, the Company's assets amounted to PLN 226,183 thousand (as at 31 December 2016: PLN 209,379 thousand), and the Company's liabilities amounted to PLN 60,851 thousand (as at 31 December 2016: PLN 49,821 thousand) and were related only to trading activities.

The Company had no non-current assets located abroad.

The Management Board of the Company does not examine the assets and liabilities of the Company for each segment separately.

The most important geographic export directions of the Company are:

	12 months ended 31 December 2017		12 months ended 31 December 2016	
	Sales revenue	**Share in export sales**	**Sales revenue**	**Share in export sales**
Romania	17,472	16%	14,483	16%
Baltic countries	14,659	14%	13,074	15%
Russia	11,680	11%	10,553	12%
Ukraine	10,775	10%	9,145	10%
Hungary	8,721	8%	6,347	7%
Germany	8,521	8%	8,194	9%
Belarus	8,391	8%	5,903	7%
Czech Republic	8,174	8%	8,319	9%

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

12 months ended 31 December 2017	***Trading – EXPORTS***	***Trading – WHOLESALE MARKET***	***Trading – RETAIL NETWORKS***	***Trading – OTHER***	**Total**
Revenue					
Sales to external customers	106,276	114,739	58,155	8,613	287,783
Total segment revenue	**106,276**	**114,739**	**58,155**	**8,613**	**287,783**
Cost of goods sold					
Sales to external customers	(77,344)	(72,465)	(41,355)	(4,473)	(195,637)
Total costs of goods sold	**(77,344)**	**(72,465)**	**(41,355)**	**(4,473)**	**(195,637)**
Gross profit	**28,932**	**42,274**	**16,800**	**4,140**	**92,146**
Gross margin	**27%**	**37%**	**29%**	**48%**	**32%**
Gross profit – all operating segments					**92,146**
Selling costs					(35,803)
Administrative expenses					(13,121)
Other operating revenue					2,076
Other operating expenses					(774)
Operating profit					**44,524**
Financial revenue					23
Financial expenses					(467)
Profit before tax					**44,080**
Income tax					(8,702)
Net profit					**35,378**

12 months ended 31 December 2016	***Trading – EXPORTS***	***Trading – WHOLESALE MARKET***	***Trading – RETAIL NETWORKS***	***Trading – OTHER***	**Total**
Revenue					
Sales to external customers	89,051	109,919	55,232	5,554	259,756
Total segment revenue	**89,051**	**109,919**	**55,232**	**5,554**	**259,756**
Cost of goods sold					
Sales to external customers	(63,111)	(72,207)	(40,521)	(2,850)	(178,689)
Total costs of goods sold	**(63,111)**	**(72,207)**	**(40,521)**	**(2,850)**	**(178,689)**
Gross profit	**25,940**	**37,712**	**14,711**	**2,704**	**81,067**
Gross margin	**29%**	**34%**	**27%**	**49%**	**31%**
Gross profit – all operating segments					**81,067**
Selling costs					(32,323)
Administrative expenses					(13,306)
Other operating revenue					2,091
Other operating expenses					(367)
Operating profit					**37,162**
Financial revenue					57
Financial expenses					(477)
Profit before tax					**36,742**
Income tax					(7,145)
Net profit					**29,597**

34. Material events subsequent to the end of reporting period

34.1 Annex to a significant agreement

On 22 February 2018, 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 agreement has been prolonged until 8 March 2019 and the credit costs decreased compared to the previous conditions of the Agreement.

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.

34.2 Extraordinary General Shareholders' Meeting

On 27 February 2018, the Extraordinary General Shareholders' Meeting of TOYA S.A. adopted a resolution to cancel 3,288,615 shares of the Company, with a par value of PLN 0.10 each. These shares were purchased as a part of share buyback offering described in Note 15. The Extraordinary General Shareholders' Meeting adopted also a resolution to decrease the share capital from PLN 7,833,084.10 to PLN 7,504,222.60 and create separate reserve capital – "reserve capital from decrease of share capital", to which amount resulting from decrease of share capital of TOYA S.A. (PLN 328,861.50) will be transferred.

In connection with the completion of purchase of own shares of the Company, following the authorization granted to the Management Board of the Company through resolution No 19 of the Ordinary General Shareholders' Meeting dated 29 June 2017, the Extraordinary General Shareholders' Meeting decided that the remaining unused funds in the amount of PLN 25,847.97 (in words: twenty-five thousand eight hundred and forty seven Polish zlotys 97/100) recognized in reserve capital, referred to in § 1 of the resolution, will be transferred to supplementary capital of the Company.

As of the date of publication of these financial statements, the cancellation of shares has not yet been registered in the National Court Register.

Grzegorz Pinkosz
President of the
Management Board

Maciej Lubnauer
Vice-President of the
Management Board

Iwona Banik
Person responsible for bookkeeping

Wrocław, 15 March 2018

DIRECTORS' REPORT
ON THE OPERATIONS OF
TOYA S.A.
IN 2017

Contents

1. DESCRIPTION OF THE COMPANY

1.1 TOYA S.A. – general profile

TOYA S.A. (hereinafter referred to as the "Company") is a joint-stock company, established on the basis of the Commercial Companies Code. The Company has its 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 court decision of 3 December 1999, the Company was entered in the Commercial Register maintained by the District Court for Wrocław-Fabryczna, 6th Commercial Division, under entry No RHB 9053. By virtue of a decision of 4 December 2001, the District Court for Wrocław-Fabryczna, 6th Commercial Division of the National Court Register, decided to enter the Company in the Register of Entrepreneurs, with the reference number KRS 0000066712. The entry in the Register took place on 5 December 2001.

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

Duration of the Company is unlimited.

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

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

1.2 Share capital

As at 31 December 2017, 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 2017, there were no changes in the share capital.

1.3 The Management Board and the Supervisory Board

In the period from 1 January 2017 to 31 December 2017 and as of the date of approval of this annual report for publication, the Management Board of the Company composed of the following members:

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

In the period from 1 January 2017 to 29 June 2017, the Supervisory Board of the 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.

From 29 June 2017 and as of the day of approval of this annual report for publication, the Supervisory Board of the Company was composed of the following members:

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

1.4 Own shares

On 29 June 2017 the General Shareholders' Meeting of Toya S.A. adopted a resolution to create a reserve capital in the amount of PLN 29,598 thousand to fund buyback of the Company's own shares.

Under share purchase offering announced on 4 September 2017 and lasting from 11 to 22 September 2017, the Company purchased **3,288,615** of own shares at the price of **PLN 8.95** per share. Total value of purchased shares amounted to **PLN 29,433 thousand**. Total transaction costs related to purchase of own shares amounted to PLN 139 thousand and were deducted from reserve capital created pursuant to General Shareholders' Meeting resolution.

1.5 Shareholders

According to information provided to TOYA S.A. by its shareholders, the Company's ownership structure as of 31 December 2017 was as follows:

Name	Status	Number of shares	Type of shares	Par value per share (PLN)	Par value of the shares (PLN)	Structure (%)
Jan Szmidt	natural person	28,170,647	ordinary bearer	0.1	2,817,064.70	35.96%
Tomasz Koprowski	natural person	13,704,424	ordinary bearer	0.1	1,370,442.40	17.50%
Romuald Szałagan	natural person	9,652,290	ordinary bearer	0.1	965,229.00	12.32%
Altus TFI S.A.	legal person	6,705,590	ordinary bearer	0.1	670,559.00	8.56%
Generali OFE	legal person	5,001,147	ordinary bearer	0.1	500,114.70	6.38%
TOYA S.A. (own shares)	legal person	3,288,615	ordinary bearer	0.1	328,861.50	4.20%
Other – share below 5%	not applicable	11,808,128	ordinary bearer	0.1	1,180,812.80	15.08%
TOTAL		**78,330,841**			**7,833,084.10**	**100.00%**

According to information provided to TOYA S.A. by its shareholders, shareholders holding directly or indirectly at least 5% of the total number of votes as at 31 December 2017 were:

	Number of shares	Share (%)	Number of votes	Share in total number of shares on General Shareholders' Meeting (%)
Jan Szmidt	28,170,647	35.96%	28,170,647	35.96%
Tomasz Koprowski	13,704,424	17.50%	13,704,424	17.50%
Romuald Szałagan	9,652,290	12.32%	9,652,290	12.32%
Altus TFI S.A.	6,705,590	8.56%	6,705,590	8.56%
Generali OFE	5,001,147	6.38%	5,001,147	6.38%

Since the submission of the last quarterly report (i.e. 9 November 2017), TOYA S.A. has not received notification from the shareholders about any changes in the ownership structure of significant blocks of shares.

1.6 Shares held by managers and supervisors

1.6.1 Shares held by members of the 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	146,812	14,681.20	146,812	0.19%
Maciej Lubnauer	61,831	6,183.10	61,831	0.09%
TOTAL members of the Management Board	**208,643**	**20,864.30**	**208,643**	**0.28%**

Members of the Management Board participated in the purchase of own shares by the Company (see point 2.6). As part of the own shares purchase offering, the Company purchased the following number of own shares (based on information provided to the Company by its shareholders, in accordance with the applicable laws) at a price of PLN 8.95 per share:

- Grzegorz Pinkosz – 11,410 shares
- Maciej Lubnauer – 4,813 shares

1.6.2 Shares held by members of the 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	13,704,424	1,370,442.40	13,704,424	17.50%
Grzegorz Maciąg	5,275	527.50	5,275	0.01%
TOTAL Members of the Supervisory Board	**41,880,346**	**4,294,713**	**41,880,346**	**54.83%**

Member of the Supervisory Board participated in the purchase of own shares by the Company (see point 2.6). The Company purchased 1,066,784 shares from Tomasz Koprowski at a price of PLN 8.95 per share.

1.6.1 Information about the employee share ownership plan control system

In 2017, there were no employee share ownership plans at the Company.

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

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

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

Remuneration of the Management Board:

Name and surname	Position	Gross remuneration for position held under the employment agreement, including bonuses (PLN '000)	Dividend paid from profit (PLN '000)	TOTAL in PLN '000
2017				
Grzegorz Pinkosz	President of the Management Board	805	-	907
Maciej Lubnauer	Vice-President of the Management Board	788	-	831
2016				
Grzegorz Pinkosz	President of the Management Board	367	57	424
Dariusz Hajek	Vice-President of the Management Board until 20.09.2016 (*)	305	36	341
Maciej Lubnauer	Vice-President of the Management Board	367	24	391

(*) cost of remuneration presented in the table includes the period until resignation from the Management Board

In addition, Member of the Management Board participated in the purchase of own shares by the Company (see point 1.6.1).

Remuneration of the Supervisory Board:

Name and surname	Position	Gross remuneration for position held (PLN '000)	Dividend paid from profit	TOTAL in PLN '000
2017				
Piotr Mondalski	President of the Supervisory Board	180	-	180
Jan Szmidt	Vice-President of the Supervisory Board	114	-	114
Tomasz Koprowski	Member of the Supervisory Board	72	-	9,620
Dariusz Górka	Member of the Supervisory Board	120	-	120
Grzegorz Maciąg	Member of the Supervisory Board	120	-	120
Michał Kobus	Member of the Supervisory Board	24	-	24
Wojciech Papierak	Member of the Supervisory Board	24	-	24
2016				
Piotr Mondalski	President of the Supervisory Board	180	-	180
Jan Szmidt	Vice-President of the Supervisory Board	180	10,141	10,321
Tomasz Koprowski	Member of the Supervisory Board	120	5,318	5,438
Dariusz Górka	Member of the Supervisory Board	120	-	120
Grzegorz Maciąg	Member of the Supervisory Board	120	2	122

In addition, Member of the Supervisory Board – Tomasz Koprowski, participated in the purchase of own shares by the Company (see point 1.6.2).

As at 31 December 2017, no agreements have been concluded between the Company and its management staff providing for compensation in case of resignation or dismissal of a member of management staff from his/her position without a valid reason or if his/her dismissal results from a merger of the Company by way of acquisition.

1.9 Changes in the methods of managing the company

There were no significant changes in the methods of managing the Company in 2017.

2. THE MOST SIGNIFICANT EVENTS OF 2017

2.1 Extraordinary General Shareholders' Meeting

On 12 January 2017 the Extraordinary General Shareholders' Meeting adopted a resolution approving the Company to enter into an agreement with Jan Schmidt regarding free of charge transfer of intellectual property rights in the form of YATO, Vorel and FLO trademarks, as well as an agreement to transfer to Jan Szmidt the right of protection from the trademark registration, in the scope defined in EUIPO application No. 015230006. The agreement has been concluded on 15 February 2017.

On 14 February 2017 the Shareholder, Tomasz Koprowski, informed the Company about the submission on 13 February 2017 in the District Court in Wrocław, 9th Commercial Division, a claim for annulment of the above mentioned resolution. The claim has been withdrawn – see point 2.8.2.

2.2 Agreement with the Vice-President of the Supervisory Board

On 15 February 2017, the Company entered into an agreement with Mr. Jan Szmidt concerning the transfer from Mr. Jan Szmidt to the Company of the property rights to the works used by the Company in the YATO, Vorel and FLO trademarks in accordance with the resolution No. 4/2017 of the Extraordinary General Meeting of Shareholders of the Company dated 12 January 2017 regarding granting of consent to the conclusion with Jan Szmidt of the agreement and the Supervisory Board resolution no 2/RN/2017 dated 13 February 2017 on granting of consent to the conclusion of the agreement as well as an agreement to transfer the right of protection. At the same time, pursuant to § 4 of the Agreement, on 15 February 2017 the Company entered into an agreement with Mr. Jan Szmidt on the transfer of protection rights to the trademark registered in the European Union Intellectual Property Office under the number 015230006, after obtaining the prior approval of the Supervisory Board on 13 February 2017, expressed in Resolution No 2/RN/2017.

The agreement is an important agreement because it governs the use of copyright in accordance with the principles established by the parties to the Agreement and comprehensively organizes the copyright of the property rights to the works indicated in it.

The terms of the agreement for the transfer of protection rights to a trademark registered in the European Union Intellectual Property Office under no. 015230006 do not entail financial obligations for any of the parties to the contract, provide no contractual penalties, and do not depart from the terms commonly used for such contracts.

2.3 Resolution to approve financial statements for 2016 and distribute profits

On 29 June 2017, the General Shareholders' Meeting of Toya S.A. approved the financial statements of Toya S.A. for 2016, and resolved to allocate the profit for 2016 in the amount of PLN 29,598 thousand to supplementary capital.

In addition, the General Shareholders' Meeting of Toya S.A. adopted a resolution to create a reserve capital in the amount of PLN 29,598 thousand to fund acquisition of the Company's own shares.

Objections to the above mentioned resolutions were raised by representatives of two shareholders.

2.4 Appointment of Members of the Supervisory Board

On 29 June 2017, the Ordinary General Shareholders' Meeting of TOYA S.A. appointed members of the Supervisory Board for a new term, comprising of:

1. Dariusz Górka;
2. Michał Kobus;
3. Tomasz Koprowski;
4. Grzegorz Maciąg;
5. Piotr Mondalski;
6. Wojciech Bartłomiej Papierak;
7. Jan Szmidt.

2.5 Appointment of Management Board for a new term

On 7 July 2017 the Supervisory Board of TOYA S.A. appointed Members of Management Board for a new term, comprising of:

1. Grzegorz Pinkosz – President of the Management Board;
2. Maciej Lubnauer – Vice-President of the Management Board.

2.6 Purchasing own shares for remission

On 29 June 2017, the General Shareholders' Meeting of Toya S.A. adopted a resolution to grant authorization to Toya S.A.'s Management Board for purchasing own shares for remission, on the conditions and rules described below:

1) the maximal amount of purchased Shares shall not exceed 3,288,615;
2) the total face value of purchased own shares at the moment of their purchase and in the possession of the Company and its subsidiaries at a given moment shall not exceed 20% of the Company's share capital, including the face value of own shares in the possession of the Company and its subsidiaries;
3) the purchased Shares shall be fully covered;
4) the amount of minimal payment for one Share shall be between PLN 8.90 and PLN 9.00 per share;
5) the total payment for Shares, increased by costs of purchasing, shall not be bigger than the amount of reserve capital created under the resolution regarding the creation of reserve capital for the purchase of own shares of the TOYA S.A.;
6) the purchase of Shares shall be executed by way of announcing the share buyback offer, where the acquisition of own shares will occur in such a way that will provide equal treatment of all of the Company's shareholders;
7) the Management Board shall be authorised to purchase Shares until financial resources in the reserve capital created for this purpose are exhausted, but no later than by 30 September 2017;
8) the beginning and end of the purchase of Shares shall require separate resolutions of the Management Board; The Management Board will make available for the public the detailed information regarding the purchase of Shares, including the date of beginning and end of the purchase of Shares;

9) the Shares purchased by the Company shall be remitted on the basis of a separate resolution of the General Shareholders Meeting.

On 4 September 2017, Management Board of TOYA S.A. announced "The Offer for purchase of shares of TOYA SA". As a result of share purchase offering, between 11 and 22 September 2017, the Company purchased 3,288,615 of own shares at the price of PLN 8.95 per share. The purchase of the above mentioned shares was performed outside of a the regulated market, through a brokerage house - Dom Maklerski mBank, with its registered offices in Warsaw, and was completed on 27 September 2017. The transaction was conducted in accordance with the provisions of resolution authorizing TOYA S.A. to acquire own shares for remission. Total nominal value of shares purchased amounted to PLN 328,861.50 and represents 4.2% of total share capital and gives 3,288,615 votes on the General Shareholders' Meeting of the Company. The average rate of reduction was in compliance with terms of the Offer and amounted to 92.78%.

Before completion of the transaction mentioned above, the Company did not held any own shares. Upon completion of the purchase, the Company held 3,288,615 own shares, which represent 4.2% of share capital and give 3,288,615 votes on the General Shareholders' Meeting of the Company. The voting rights from own shares are not exercised on the General Shareholders' Meetings.

2.7 Conclusion of a significant agreement

On 19 September 2017 TOYA S.A. has entered into a Credit Facility Agreement in current account No. K00856/17 with Bank Zachodni WBK S.A. with its registered office in Wrocław in the amount of PLN 25,000,000 with the repayment date until 18 September 2018. The agreement will be launched after the obligation is extinguished in accordance with the Multi-Purpose Credit Facility Agreement No. WAR/4060/12/102/CB with BGŻ BNP Paribas S.A. with its registered office in Warsaw, in the amount of PLN 30,000,000 with maturity date of 19 September 2017, and after successful establishment of collateral. Mortgage security is a mortgage on real estate in Wroclaw at Soltysowicka 39 with the transfer of rights under the property insurance policy, registered pledge on stocks located in the warehouse in Młochów at Al. Kasztanowa 160 with the transfer of rights from movables under the insurance policy mentioned above and transfer of trade receivables from the sale of goods from domestic customers.

The terms of the agreement do not differ from those commonly used for this type of contract.

2.8 Disputes

2.8.1 Claim for annulment of General Shareholders' Meeting resolutions of 23 June 2016

On 13 January 2017 the Shareholder, Jan Szmidt, informed the Company about withdrawing and waving of a claim submitted on 21 July 2016 in the District Court in Wrocław, Commercial Division X, for annulment of the resolutions:

1. Resolution No. 18 of the Ordinary General Shareholders' Meeting of TOYA S.A. with its registered office in Wrocław dated 23 June 2016 on the use of funds from the supplementary capital,
2. Resolution No. 22 of the Ordinary General Shareholders' Meeting of TOYA S.A. with its registered office in Wrocław dated 23 June 2016 concerning the distribution of profit for the financial year of 2015,

with a proposal for a possible repeal in the event of not annulment of the above mentioned resolutions.

On 6 February 2017 the Company has been informed that the resolution confirming the discontinuance of the proceedings, dated 13 January 2017, has been delivered to the above mentioned Shareholder by District Court in Wrocław, Commercial Division X. On 24 March 2017 the Company has been informed by the Proxy that the decision dated 13 January 2017 confirming the discontinuance of the proceeding has been delivered to the above mentioned Proxy on 26 January 2017 by District Court in Wrocław, Commercial Division X. On 18 April 2017, the District Court in Wrocław, Commercial Division X, ascertained the force of law of the decision.

2.8.2 Claim for annulment of Extraordinary General Shareholders' Meeting resolution of 12 January 2017

On 14 February 2017 the Shareholder Tomasz Koprowski informed the Company about the submission on 13 February 2017 in the District Court in Wrocław, Commercial Division X a claim for annulment of the resolution referred to in point 2.1. On 10 October 2017 the Company received information from its proxy that a letter withdrawing the above mentioned claim from Shareholder Tomasz Koprowski, dated 9 October 2017, has been received from District Court in Wrocław, Commercial Division X.

The decision to terminate the proceedings has been announced by District Court in Wrocław, Commercial Division X, on 10 October 2017.

3. ORGANISATIONAL AND EQUITY LINKS WITH OTHER ENTITIES

3.1 Equity links

The table below presents the main information on the Company and its equity links as at the date of publication of the report on operations:

Entity name	Registered office	Business profile	Type of equity link	% of shares and votes held	Link establishment date	Method of consolidation / recognition as at the end of the reporting period
TOYA S.A.	Wrocław, Poland	Distribution of tools and power tools, developer operations, servicing of golf fields	Parent Company	Not applicable	Not applicable	Not applicable
Toya Romania S.A.	Bucharest, Romania	Distribution of tools and power tools	Subsidiary	99.99	November 2003	Full consolidation method
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 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. took control over Yato China as a result of share capital increase and amendments to the entity's articles of association. 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.

3.2 Other significant links

As at the date of publication of the report on operations, the Company had personal links with the following entities (this summary includes entities with whom the Company has concluded transactions in 2017):

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

4. MAJOR R&D ACHIEVEMENTS

The Group offers a wide portfolio of products and considers development and further improvement of its products as one of the key elements in building its competitive advantage on the market. Development activities are mainly focused on the analysis of the design trends on the market, analysis of potential of the brand's design as well as conceptual and design works for selected product groups and have been carried out for several years by the Product Development Centre – organisational unit of the Company. R&D activities are financed from the Company's own funds.

5. FACTORS AND EVENTS AFFECTING FINANCIAL RESULTS

5.1 Basic economic and financial values; factors and events affecting the Company's operations in 2017.

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

	For 12 months ended 31 December	
	2017	**2016**
Sales revenue	287,783	259,756
Gross sales profit	92,146	81,067
Operating profit	44,524	37,162
Profit before tax	44,080	36,742
Net profit	35,378	29,597

In 2017, sales revenue amounted to PLN 287,783 thousand and exceeded the level of revenue achieved in 2016 by PLN 28,027 thousand, i.e. by 10.8%. An increase in gross profit on sales by PLN 11,079 thousand in 2017 as compared to 2016 resulted mainly from higher volume of export sales, primarily in traditional distribution channel.

Gross profit in 2017 amounted to PLN 44,524 thousand and was 19.8%, higher than in 2016. This resulted mainly from higher profit before tax.

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

Net profit in 2017 amounted to PLN 35,378 thousand and was PLN 5,781 thousand, i.e. 19.5%, higher than in 2016.

Profitability ratios of TOYA S.A.

	For the year ended 31 December	
	2017	**2016**
Sales profit margin	32.0%	31.2%
Operating profit margin	15.5%	14.3%
Pre-tax profit margin	15.3%	14.1%
Net profit margin	12.3%	11.4%

Key:

Sales profit margin – the ratio of gross profit to sales revenue

Operating profit margin – the ratio of operating profit to sales revenue

Pre-tax profit margin – the ratio of pre-tax profit to sales revenue

Net profit margin — the ratio of net profit to sales revenue

Net profit margin reached a very good level of 12.3% in 2017.

For TOYA S.A., the sales profit margin is the key indicator of the Company's market competitiveness and has a decisive impact on its financial position. Analysis of this ratio for 2017 shows that the sales profit margin in this period increased by 0.9 percentage points as compared to 2016.

Profit margins at the level of the operating profit, pre-tax profit and net profit slightly increased in 2017 as compared to the previous year.

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

	For 12 months ended 31 December	
	2017	**2016**
Cash flows from operating activities	34,750	6,299
Cash flows from investment activities	(1,608)	(1,630)
Cash flows from financial activities	(32,566)	(4,755)
Change in net cash	**576**	**(86)**
Cash and cash equivalents at the beginning of the period	213	299
Cash and cash equivalents at the end of the period	786	213

In 2017, TOYA S.A. disclosed positive operating cash flows which amounted to PLN 34,750 thousand. Due to the increased volume of orders and with a simultaneous rise in sales, the Company increased its inventories by PLN 17,356 thousand. Short-term trade and other receivables decreased by PLN 2,028 thousand.

In 2017, the Company did not undertake any significant investment activities. Cash outflows during that period were mainly connected with the purchase of exhibition shelves, investments in IT equipment.

In 2017, the Company generated negative cash flows from financial activities in the amount of PLN 32,566 thousand. The main reason for negative cash flows was the buyback of own shares performed by the Company for the amount of PLN 29,433 thousand and transaction costs associated with the buyback in the amount of PLN 139 thousand. In addition, the Company has limited its credit exposure by the amount of PLN 2,270 thousand in comparison with 2016.

The liquidity of TOYA S.A. during the analysed period remained at the right level. The Company'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

	31.12.2017	**31.12.2016**
Current ratio	3.07	3.39
Quick ratio	0.76	0.95

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 decreased to 3.07 as at 31 December 2017 in relation to 3.39 as at 31 December 2016. A lower level of the current ratio indicates a higher growth rate of liabilities in relation to the growth rate of the working capital.

The value of the quick ratio amounted to 0.76 as at 31 December 2017 in relation to 0.95 as at 31 December 2016. It is notable that this ratio has still reached a very good level.

5.2 The structure of assets and liabilities

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

	31.12.2017	31.12.2016
Non-current assets	43,454	42,551
Intangible assets	2,291	2,511
Property, plant and equipment	17,242	16,150
Investments in subsidiaries	22,631	22,631
Current assets	182,729	166,828
Inventory	137,447	120,091
Trade and other receivables	44,496	46,524

% asset structure of TOYA S.A.

	31.12.2017	31.12.2016
Non-current assets / Assets	19%	20%
Intangible assets / Assets	1%	1%
Property, plant and equipment / Assets	8%	8%
Investments in subsidiaries / Assets	10%	11%
Current assets / Assets	81%	80%
Inventory / Assets	61%	57%
Trade and other receivables / Assets	20%	22%

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

	31.12.2017	31.12.2016
Equity	165,332	159,558
Trade and other payables	22,432	12,083
Short-term liabilities	59,432	49,267
Long-term liabilities	1,419	554

% equity and liability structure of TOYA S.A.

	31.12.2017	31.12.2016
Equity / Equity and liabilities	73%	76%
Short-term liabilities / Equity and liabilities	26%	24%
Long-term liabilities / Equity and liabilities	1%	0%
Short-term liabilities / Liabilities	98%	99%
Long-term liabilities / Liabilities	2%	1%

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

	For 12 months ended 31 December	
	2017	2016
Return on assets (ROA)	16%	14%
Return on equity (ROE)	21%	19%
Return on current assets	19%	18%

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 2017, the Company's property, plant and equipment constitute 8% of total assets used in the Company's operations. Property, plant and equipment comprise primarily land, buildings and structures necessary for the Company's commercial activity. There were no material changes in their structure during the analysed period.

As at 31 December 2017, investments in subsidiaries include shares in Toya Romania S.A. totalling PLN 1,885 thousand, in Yato Tools (Shanghai) Co. Ltd. totalling PLN 20,746 thousand. There were no changes in their structure in 2017.

The structure of current assets used in the operations of TOYA S.A., which as at 31 December 2017 constitute 81% of total assets, includes primarily inventories and trade and other receivables, which is typical to the business activity conducted by TOYA S.A.. Both these items constitute, in total, 99% of current assets involved in the Company's operations as at 31 December 2017 and as at 31 December 2016.

TOYA S.A. conducts efficient warehouse management by adjusting the stock levels to the customers' demand. In 2017, the Company increased its inventories by 14.5% as compared to the end of 2016, thereby increasing availability of the Company's goods to customers.

Equity structure and debt ratios of TOYA S.A.

	31.12.2017	31.12.2016
Total debt ratio	27%	24%
Equity debt ratio	37%	31%
Long-term debt ratio	1%	0%
Short-term debt ratio	26%	24%
The ratio of coverage of non-current assets with equity and long-term liabilities	384%	376%

Key:

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

As at 31 December 2017 retained earnings totalling PLN 151,230 thousand were the main item in the equity of TOYA S.A. The Company's share capital as at 31 December 2017 amounted to PLN 7,833 thousand. As at 31 December 2017 the Company has also held own share with the total value of PLN 29,433 thousand, reported as negative value in equity.

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 2017, TOYA S.A. financed 73% of its operations from equity. As at this date, the Company's short-term liabilities due to loans, borrowings and other debt instruments amounted to PLN 28,489 thousand. The long-term debt ratio as at 31 December 2017 amounted to 1%.

TOYA S.A. management effectiveness ratios

	For 12 months ended 31 December	
	2017	2016
Inventories turnover period (days)	172	166
Receivables inflow period (days)	56	64
Liabilities repayment period (days)	28	17

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 2017, the liabilities repayment period was shorter than the receivables inflow period. This means that the credit terms the Company extended to its customers were longer than those received from its suppliers. It implies higher demand for financing of working capital, which is typical of the industry in which the Company conducts its commercial activity. In 2017, the inventories turnover period was increased to 172 days compared to 2016, primarily in relation with the increase in inventories, which were adjusted to match the volume of orders. Importantly, the Company conducts activity associated with selection of offer appropriately to the customer's needs, increasing the efficiency of the entire sales group as well as continuous improvement of logistics processes.

SEASONALITY

The first and fourth quarter of the year are usually characterised by a lower level of sales and net profit as compared to other quarters. However, year by year this trend becomes less marked owing to the actions taken by TOYA S.A. to prevent seasonality — mainly through increasing the product range. In Q1 and Q4 2017, sales revenue amounted to PLN 149,226 thousand, which accounted for 52% of the annual sales revenue, while in the same periods of 2016, sales revenue accounted for 50% of the total sales revenue for the entire year. The main reasons for seasonality in sales are climate factors (lower demand for some of the Company's goods in winter), lower likelihood for the Company's 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 sectors using hand and power tools.

5.3 External and internal factors crucial for the Company's development and analysis of the Company's development perspectives in 2018, taking into account the Company's market strategy components

Macroeconomic situation

The Company is present in the markets in different European countries, 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 Company's customers. The destabilisation of the political situation in some of the local regions may temporarily reduce the Company's expansion in foreign markets and force it to look for new customers.

European markets constitute one of the largest areas of the Company's operations, therefore internal problems of the European Union could have a significant adverse effect on economy. This could further result in a reduced purchasing power of the European societies and creation of trade barriers, which could be additionally deepened by the devaluation of local currencies in relation to the most important global currencies. However the impact of these factors is difficult to estimate, as future economic and regulatory situation may differ from the Management Board's expectations. The Company'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 Company due to the fact that the Company 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.

Most of the Company 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 Company.

Competition
The Polish market for distribution of industrial goods, which is the Company's main field of operation, is relatively highly dispersed in spite of the presence of several market leaders. Entities currently competing with the Company 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 Company's financial standing, because further expansion of the market may be slowed down, become difficult or even impossible. The Company will continue monitoring of the market and its environment, taking various measures in order to maintain its competitive advantage.

Changes in FX markets
The Company's strict link with foreign suppliers and settlements made primarily in USD and CNY make its financial results sensitive to changes in FX rates. The Management Board 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 Company's sales revenue is earned through the export channel based on prices set in foreign currencies, the Company is, to a certain extent, secured against sudden movements in exchange rates. However 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 Company makes use of external capital funding. An increase in interest rates could have a negative influence on the servicing costs of financing and could impair the Company's profitability, since TOYA S.A. has entered into loan agreements with variable interest rates in PLN.

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

Interpretation and application of legal regulations
Changes in legislation and diverse interpretations of the law impede the Company's operations. Changes in legislation, in particular in tax, customs, labour and social insurance law, may have negative consequences for the Company's activity. Frequent changes in the interpretation of the tax law and the 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 Company exercises due care to ensure that these transactions are compliant with legislation – in particular with the tax law. In spite of that, the risk of third-party claims, possible disputes with tax authorities or proceedings of various state authorities cannot be ruled out. Such claims, disputes or proceedings, as well as cases when fiscal authorities or courts and the Company adopt different interpretations of tax regulations and different tax qualification of events and transactions in which TOYA S.A. participated, may have adverse impact on the Company and its financial performance.

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

The Company's development prospects for 2018

The Company has been performing development activities aimed at strengthening the market position, searching for new attractive possibilities for expansion, through expanding the product offer and acquiring new customers. The most important actions are as follows:

- <u>Developing the export channel</u>

  The Company attaches great importance to development of export markets and it benefits from the good economic performance on the local markets, which results in a continuous sales increase in the export channel. The largest geographic market are still Baltic countries, Russia and Ukraine, which accounted for 35% of export sales of the Company. The Company will continue its efforts to strengthen its positions on these markets in the upcoming quarters.

  The Company plans to expand sales on other European markets, including countries in which the customers were developing most dynamically in 2017 (Belarus, Hungary) as well as other countries, such as Germany and Hungary, which already represent big commercial markets for a long time.

- <u>Effective products management</u>

  Effective management of the Company's brands, products and supply chain (in the broad sense) is one of the most important elements of building the competitive advantage on the market. Key elements of this strategy include systematic growth of share of YATO in the Company's products portfolio, expanding the product range by adding few hundreds of new products every year, as well as expanding and updating the existing product lines. These activities are aimed at adapting to increasing expectations of even the most demanding clients from various markets, offering products manufactured according to the latest technology and with modern design. These efforts will be carried on in the coming quarters.

- <u>Developing the capital group</u>

  The Capital Group is subject to continuous developments. Very positive results achieved by the subsidiaries in 2017 prove not only that the support mechanisms implemented to date brings the expected results, but also that having the appropriate organizational and financial support enables the subsidiaries to continue further intensive development.
  After increasing the storage capacity (which involved changing the seat of the company) and hence the scale of operations, Yato Tools (the Chinese subsidiary) is currently upgrading its IT system to improve its functionality and reliability. This in turn will enable the company to exchange data with the servers of the Company, which will result in more efficient exchange of information within the Group, enable automation of selected operational process and will increase level of clients' satisfaction from the Group's offer.
  Toya Romania, subsidiary operating on the Romanian market, continues its efforts to increase its share on the local market through ensuring high quality of the offered products and services as well as providing comprehensive offer suited to local customers' requirements. These efforts will continue in the upcoming quarters.

- <u>Capital investments</u>

  The Company 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.

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

The Management Board of TOYA S.A. did not publish financial result forecasts for 2017.

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

The customer credit risk is not material due to high dispersion of customers. To reduce the risk of overdue receivables from customers, the Company periodically examines their creditworthiness and systematically monitors (internally and externally) due balances. Credit limits for individual counterparties are set by the Management Board. Customers who systematically miss payment deadlines are subject to an appropriate debt collection procedure and to restrictions in the purchase of goods from the Company. To minimise risk, the Company also concludes agreements to insure its receivables with one of the leading financial institutions.

Due to the specific nature of its operations, the Company requires working capital to secure settlements with suppliers before receiving payments from customers of goods 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 Company uses services of several banks which have high credibility ratings. Interest rate on loans is based on WIBOR rate. The Company does not use instruments hedging against the risk of movements in interest rates.

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

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

8.2 Objectives and methods of financial risk management

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

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

26% of the Company's activity is financed from external capital. Loan agreements require the Company 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 Company enjoys very good relationships with banks and financial institutions and so far has had no problems renewing its loans on advantageous terms. The Company continues to maintain 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 Company's ability to cover its liabilities.

10. ASSESSMENT OF THE ABILITY TO CARRY OUT INVESTMENT OBJECTIVES

In the opinion of the Management Board, there are no threats to the implementation of the Company's investment objectives. The activities planned for 2018 have been described in item **Błąd! Nie można odnaleźć źródła odwołania.**. Apart from funds generated by its operations, the Company has secured external funding in the form of credit limits, pursuant to the agreements discussed in item 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 S.A. is also the general distributor of the Italian brand GAV (pneumatic tools).

The Company'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 Company'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. In 2017, the offer was further extended by products for gastronomy – pots, pans, jugs, containers and utensils, but also by specialized equipment for mechanical food processing (slicers, mixers, mincers), thermal processing (grills, cookers, burners) and large appliances such as refrigerated display cabinets and tables, dedicated for professional use.

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 54% revenue of TOYA S.A. in 2017 (51% in 2016).

VOREL is the brand which used to have the highest share in the sales of the Company'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 32% of revenue of TOYA S.A. in 2017 (34% in 2016).

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 4% of revenue of TOYA S.A. in 2017 (5% in 2016).

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 1% of revenue of TOYA S.A. in 2017 (2% in 2016).

Under **FALA** brand, the Company 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 revenue of TOYA S.A. in 2017 (1% in 2016).

Under the brand STHOR, the Company 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 5% of revenue of TOYA S.A. in 2017 (4% in 2016).

LUND is a brand established in mid-2010, under which the Company 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 revenue of TOYA S.A. in 2017 and 1% in 2016.

11.2 Sales according to product groups

The most profitable brand is YATO. Every year, the Company records an increase in the sales volume of this brand on the domestic market, and since 2012, TOYA S.A. has achieved the highest revenue from the sale of YATO brand.

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

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

Sales revenue of TOYA S.A.	for 12 months ended 31 December			
	2017	share	2016	share
	PLN '000	%	PLN '000	%
YATO	156,738	54%	133,309	51%
VOREL	90,595	32%	87,727	34%
FLO	11,944	4%	12,762	5%
STHOR	13,961	5%	9,138	4%
POWER UP	3,432	1%	4,776	2%
FALA	3,256	1%	2,378	1%
LUND	2,971	1%	3,410	1%
Other	4,886	2%	6,256	2%
TOTAL	**287,783**	**100%**	**259,756**	**100%**

12. MAIN SELLING MARKETS

12.1 Sales structure

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

a) domestically:

- Wholesale market, i.e. distributors, wholesalers and stores;
- Retail networks;
- On-line store;

b) export.

The largest part of sales is generated by TOYA S.A. through the domestic wholesale distribution channel (40% share of the segment "Trading activity – the wholesale market" in sales revenue for 2017, with a profit margin of 37%). The Company's distribution channel with the second highest share in sales is the segment "Trading activity – export". In 2017, its share in sales amounted to 37%, with a profit margin of 27%. Distribution through retail chains on the domestic market has the lowest share in sales revenue, which in 2017 reached the level of 20%, with a profit margin of 29%.

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 Company.

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

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

Sales revenue of TOYA S.A.	for 12 months ended 31 December			
	2017		2016	
	PLN '000	%	PLN '000	%
Trading activity – the wholesale market	114,739	40%	109,919	42%
Trading activity – export	106,276	37%	89,051	34%
Trading activity – retail networks	58,155	20%	55,232	21%
Trading activity – other	8,613	3%	5,554	2%
Total	**287,783**	**100%**	**259,756**	**100%**

Sales profitability of segments which are the Company's distribution channels

Sales profitability	for 12 months ended 31 December	
[%]	2017	2016
Trading activity – the wholesale market	37%	34%
Trading activity – export	27%	29%
Trading activity – retail networks	29%	27%
Trading activity – other	48%	49%
Average	**32%**	**31%**

Key:

Segment's sales profitability ratio – the ratio of segment's profit before tax to revenue from sales of good for certain segment (based on segment's financial information as disclosed in the financial statements)

Average – weighted average sales for all the segments

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 2017, TOYA S.A. cooperated with multiple authorised distributors. This network is constantly developing. The Company also cooperates with several 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 Company employs a few 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			
	2017		2016	
	PLN '000	%	PLN '000	%
Authorised distributors	89,524	78%	88,174	80%
Wholesalers and stores	25,215	22%	21,745	20%
Total	**114,739**		**109,919**	

12.1.2 Retail networks – sales in Poland

Domestic sale to retail networks constitutes approx. 20% of the Company's sales revenue. TOYA S.A. cooperates with few large networks in Poland. The Company sells industrial goods on the basis of its customers' orders for specific quantities of products to be delivered on specific dates. Upon acceptance, these orders give rise to typical contractual obligations. In this channel, the Company cooperates with customers with established market positions that are reliable and financially transparent and have a sound payment history.

In 2017, the Company's turnover with Castorama Polska Sp. z o.o. constituted 10.25% of the Company's total revenue. This entity is not formally associated with the Company.

In 2016 there were no entities with which the Company's turnover would constitute more than 10% of the Company's total revenue.

12.1.3 Export sales – TOYA S.A.

For many years, the 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			
	2017		2016	
	PLN '000	% share	PLN '000	% share
Romania	17,472	16%	14,483	16%
Baltic countries	14,659	14%	13,074	15%
Russia	11,680	11%	10,553	12%
Ukraine	10,775	10%	9,145	10%
Hungary	8,721	8%	6,347	7%
Germany	8,521	8%	8,194	9%
Belarus	8,391	8%	5,903	7%
Czech Republic	8,174	8%	8,319	9%
Other	17,883	17%	13,033	15%
Total	**106,276**	**100%**	**89,051**	**100%**

12.1.4 On-line store – sales in Poland

In 2017, TOYA S.A. continued to develop the www.toya24.pl on-line store. The share in sales revenue amounted to 3% with the gross profit margin of 48%.

The Company plans dynamic development of that distribution channel in the nearest future.

12.2 Suppliers

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

The Company's biggest supplier is its subsidiary - Yato Tools (Shanghai) Co. Ltd. Purchases from this entity represented 48% of all purchases of the Company in 2017.

13. CONCLUDED AGREEMENTS IMPORTANT TO THE COMPANY'S OPERATIONS

The criterion for recognising agreements as important adopted by the Company is agreement value exceeding 10% of TOYA S.A. equity. According to this criterion, in 2017 the Company concluded:

- overdraft credit facility agreement No K00856/17 with Bank Zachodni WBK S.A. with its registered office in Wroclaw in the amount of PLN 25,000 thousand, with the repayment date until 18 September 2018 (see point 17);
- annexes to agreements with banks which were presented in item 17.

In addition, in 2017 the Company entered into agreement with member of the Supervisory Board – see item 15 for more details.

The table below includes the Company's insurance policies:

No	Insurance period	Insurer	Object of insurance	Total sum insured
1.	1 July 2017 – 30 June 2018	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 148 million
2.	18 August 2017 – 17 August 2018	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) approx.. PLN 4.5 million
3.	1 July 2017 – 30 June 2018	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 2017 – 19 September 2018	TUiR Allianz S.A. with its registered office in Warsaw	Civil liability insurance of members of companies' bodies	PLN 40 million
5.	1 August 2017 - 31 July 2018	TU Euler Hermes S.A. with its registered office in Warsaw	Insurance of the trade credit risk on certain agreements	a maximum of 60 times the contribution paid for a given insurance year
6.	1 March 2017 – 28 February 2018	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 2018 – 31 December 2018	ERGO HESTIA S.A. with its registered office in Sopot	Guarantee for the payment of customs fees	PLN 800 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, Ul. Lecha Kaczyńskiego 14, 00-638 Warsaw.
The agreement on audit and review was concluded on 4 May 2017, and it covers semi-annual review and annual review of the individual and consolidated financial statements for 2017.

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

	2017	2016
Audit of annual financial statements (individual and consolidated)	98	100
Review of semi-annual financial statements	48	50
Tax consulting (*)	-	21
Other services (*)	24	356
TOTAL	**170**	**527**

(*) covers the services provided by PricewaterhouseCoopers Sp. z o.o. and other entities from PwC network

15. RELATED PARTY TRANSACTIONS

Related party transactions are entered into on the arm's length basis in the course of the Company's day-to-day operations. These transactions have been presented in note 32 to the financial statements.

On 15 February 2017, the Company entered into an agreement with Mr. Jan Szmidt concerning the transfer from Mr. Jan Szmidt to the Company of the property rights to the works used by the Company in the YATO, Vorel and FLO trademarks in accordance with the resolution No. 4/2017 of the Extraordinary General Meeting of Shareholders of the Company dated 12 January 2017 regarding granting of consent to the conclusion with Jan Szmidt of the agreement and the Supervisory Board resolution no 2/RN/2017 dated 13 February 2017 on granting of consent to the conclusion of the agreement as well as an agreement to transfer the right of protection. At the same time, pursuant to § 4 of the Agreement, on 15 February 2017 the Company entered into an agreement with Mr. Jan Szmidt on the transfer of protection rights to the trademark registered in the European Union Intellectual Property Office under the number 015230006, after obtaining the prior approval of the Supervisory Board on 13 February 2017, expressed in Resolution No 2/RN/2017.

The agreement is an important agreement because it governs the use of copyright in accordance with the principles established by the parties to the Agreement and comprehensively organizes the copyright of the property rights to the works indicated in it. The terms of the agreement for the transfer of protection rights to a trademark registered in the European Union Intellectual Property Office under no. 015230006 do not entail financial obligations for any of the parties to the contract, provide no contractual penalties, and do not depart from the terms commonly used for such contracts.

In 2017 the 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. DISPUTES

As of 31 December 2017, total amount of receivables and liabilities resulting from proceedings conducted before courts, arbitration authority and public administration authorities did not exceed 10% of equity of TOYA S.A.

17. LOANS AND BORROWINGS

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

Object and value of agreement	Name of the Bank	Loan amount as per agreement as at 31 December 2017	Amount outstanding as at 31 December 2017	Amount outstanding as at 31 December 2016	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	9,784	4,446	WIBOR 1 M + bank's margin EURIBOR/LIBOR 1 M + bank's margin	7 March 2018	Change of expiry date to 8 March 2019 – see point **Błąd! Nie można odnaleźć źródła odwołania.**
2. Overdraft facility agreement No BDK/KR-RB/000054601/0641/10 of 22 December 2010	Bank Handlowy w Warszawie S.A.	30,000	9,174	19,817	WIBOR 1 M + bank's margin	14 December 2018	-
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	-	-	6,496	WIBOR 3 M + bank's margin	19 September 2017	-
4. Overdraft facility agreement No K00856/17	Bank Zachodni WBK S.A. with its registered office in Wroclaw	25,000	9,531	-	WIBOR 1 M + bank's margin	18 September 2018	-
Total liabilities, of which:		**80,000**	**28,489**	**30,759**			
– short-term portion		80,000	28,489	30,759			
– long-term portion		-	-	-			

18. EXTENDED LOANS AND BORROWINGS

In 2017, the Company did not extend any borrowings or loans.

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

As at 31 December 2017, 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 in the amount of EUR 190,466	28 February 2018 (*)

(*) after the end of the financial year, the guarantee was extended until 28 February 2019, for the amount of EUR 195,503.

On 29 November 2012, the 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 was estimated at net PLN 2.5 million. At the same time, as at 31 December 2015, the Company had 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. On 14 June 2016 the appeal was dismissed. The Court decision is final and legally valid, therefore as of 31 December 2016 the contingent liability for compensation due to the incurred expenditure and the contingent asset due to compensation for the incurred expenditure from the Trzebnicki Poviat in the same amount, have been terminated.

On 21 November 2017, TOYA S.A. received request from TOYA Development for payment of PLN 3,076 thousand (the "Request"), due to the legal defect of the real property which was contributed in kind to TOYA Development by TOYA S.A. on 6 April 2011, pursuant to Resolution No 1 of the Extraordinary General Shareholders' Meeting of TOYA Development. Based on legal opinions obtained, the Request has been considered as unfounded, due to the fact that the matter of compensation for damage resulting from the legal defect of the real property had already been regulated in the Agreement between the parties. As a result, in opinion of TOYA S.A., the Request received from TOYA Development has no valid factual and legal grounds. According to the Management Board of TOYA S.A., the probability that the payment will have to be made is low, therefore no provision for that purpose has been recognised in the financial statements as at 31 December 2017.

20. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

20.1 Annex to a significant agreement

On 22 February 2018, 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 agreement has been prolonged until 8 March 2019 and the credit costs decreased compared to the previous conditions of the Agreement.

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.

20.2 Extraordinary General Shareholders' Meeting

On 27 February 2018, the Extraordinary General Shareholders' Meeting of TOYA S.A. adopted a resolution to cancel 3,288,615 shares of the Company, with a par value of PLN 0.10 each. These shares were purchased as a part of share purchase offering described in Note 2.6. The Extraordinary General Shareholders' Meeting adopted also a resolution to decrease the share capital from PLN 7,833,084.10 to PLN 7,504,222.60 and create separate reserve capital – "reserve capital from decrease of share capital", to which amount resulting from decrease of share capital of TOYA S.A. (PLN 328,861.50) will be transferred.

In connection with the completion of purchase of own shares of the Company, following the authorization granted to the Management Board of the Company through resolution No 19 of the Ordinary General Shareholders' Meeting dated 29 June 2017, the Extraordinary General Shareholders' Meeting decided that the remaining unused funds in the amount of PLN 25,847.97 recognized in reserve capital, referred to in § 1 of the resolution, will be transferred to supplementary capital of the Company.

As of the date of publication of this report, the cancellation of shares has not yet been registered in the National Court Register.

21. STATEMENT ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

21.1 Indication of the set of corporate governance rules governing the Company and the place where the set is publicly available.

In accordance with § 91 section 5 point. 4) Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by laws of non-member state (Journal of Laws. Laws of 2014 item 133 as amended), the Management Board hereby presents its corporate governance statement for 2016.

From 1 January 2016, the Company is subject to a set of principles of best practice companies listed on the WSE 2016 "(annex to resolution No. 26/1413/2015 of the Supervisory Board of the stock exchange in Warsaw of 13 October 2015). The text of the statement of principles is available to the public on the official website of the Warsaw Stock Exchange S. A. at: http://www.gpw.pl/dobre_praktyki_spolek_regulacje.

21.2 An indication to the extent that the Company departed from the provisions of the set of principles of corporate governance, with an indication of those provisions and the reasons for the withdrawal.

Pursuant to Article 29.3 of the Regulations of Warsaw Stock Exchange, the Management Board submitted a report on the Company' compliance with the corporate governance rules (contained in the document referred to above) in the EBI report No. 1/2016 dated 4 January 2016. According to the report, in 2017 the Company was compliant with:

A. Detailed principles contained in Best Practice for WSE Listed Companies 2016, except for:

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

   Explanation of the Company's departure from the application of the detailed principle I.Z.1.3.:

   The Company has an internal organizational division among the members of its management board. At the same time, it does not see it necessary to publish a chart showing the division of duties and responsibilities among the members of its management board.

2. Detailed principle I.Z.1.7. - information materials published by the company concerning the company's strategy and its financial results.

   Explanation of the Company's departure from the application of the detailed principle I.Z.1.7.:

   The Company's strategy and its financial results are published in periodic reports. The Company does not see it necessary to publish any additional information.

3. Detailed principle I.Z.1.10. - A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation.

   Explanation of the Company's departure from the application of the detailed principle I.Z.1.10.:

   The Company does not publish financial projections due to the high volatility of the macroeconomic environment.

4. Detailed principle I.Z.1.17 - A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation justification of draft resolutions of the general meeting concerning issues and determinations which are relevant to or may give rise to doubts of shareholders, within a timeframe enabling participants of the general meeting to review them and pass the resolution with adequate understanding.

   Explanation of the Company's departure from the application of the detailed principle I.Z.1.17.:

   In the Company's opinion, the fact that it each time publishes draft resolutions before a general shareholders' meeting, together with additional, extensive documentation, in accordance with the generally applicable legal standards, directly following from the Commercial Companies Code of 15 September 2000 (i.e. Journal of Laws of 2013, item 1030, as amended), makes it possible for the shareholders to review relevant resolutions and pass them with adequate understanding. The Company declares that it is going to consider the application of the principle in the future if there is a significant change in the structure of shareholders.

5. Detailed principle I.Z.1.20 - A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation an audio or video recording of a general meeting.

   Explanation of the Company's departure from the application of the detailed principle I.Z.1.20.:

   On account of the structure of shareholders, at the moment, the Company does not see it necessary to make audio or video recordings of general meetings. The cost of introduction of the technology, recording of general meetings and publication of such broadcasts, the need to obtain comprehensive legal analyses of, among other things, the publication of the shareholders' image and statements, and the resulting organizational burden, all the more so warrant the non-introduction of these procedures at the Company. The Company will consider the adoption of the principle in question in the future.

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

   Explanation of the Company's departure from the application of the detailed principle II.Z.1.:

   The Company has an internal division of responsibilities for individual areas of the Company's activity among management board members, however, it does not see it necessary to publish the information in question on its website.

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

   Explanation of the Company's departure from the application of the detailed principle IV.Z.2.:

   In the Company's opinion, the structure of shareholders does not justify the application of the principle in question. The adoption of this principle requires the Company to introduce several operating procedures. The cost of introduction of the technology, recording of general meetings and publication of such broadcasts, the need to obtain comprehensive legal analyses of, among other things, the publication of the shareholders' image and statements, and the resulting organizational burden, all the more so warrant the non-introduction of these procedures at the Company. If there is a fundamental change in the structure of shareholders, the Company will consider the adoption of the principle in question.

8. Detailed principle V.Z.6. - In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding

members of the Management Board or the Supervisory Board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

Explanation of the Company's departure from the application of the detailed principle V.Z.6.:

Due to the amendments to the reporting laws and regulations as brought about by the entry into force of: Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council, and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC - the so called MAR, and Directive of the European Parliament and of the Council No 2014/57/EU of 16 April 2014 on criminal sanctions for market abuse - the so called MAD, the Company is working on the creation of internal regulations to address, among other things, the matters involved in the principle in question.

9. Detailed principle VI.Z.1. - Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

   Explanation of the Company's departure from the application of the detailed principle VI.Z.1.:

   Due to the discontinuation of the existing incentive scheme in 2015, the Company does not have an incentive scheme in place at the moment. Therefore, the principle is not applicable.

10. Detailed principle VI.Z.2. - To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

    Explanation of the Company's departure from the application of the detailed principle VI.Z.2.:

    Due to the discontinuation of the existing incentive scheme in 2015, the Company does not have an incentive scheme in place at the moment. Therefore, the principle is not applicable.

11. Detailed principle VI.Z.4. – In this activity report, the company should report on the remuneration policy including at least the following:

    1) general information about the company's remuneration system;

    2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;

    3) information about non-financial remuneration components due to each management board member and key manager;

    4) significant amendments of the remuneration policy in the last financial year or information about their absence;

    5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

    Explanation of the Company's departure from the application of the detailed principle VI.Z.4.:

    The Company does not have an approved remuneration policy. The remuneration of members of the Management Board, its amount, are set by the Supervisory Board. At the same time, the Company discloses the aggregate amount of remuneration, bonuses and benefits paid or payable to members of its governing and supervisory bodies in its activity report.

B. Recommendations and principles contained in Best Practice for GPW Listed Companies 2016, except for:

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

   Explanation of the Company's departure from the application of the detailed principle I.R.2.:

   The principle is not applicable to the company. In the Company's opinion, sponsorship, charity or other similar activities pursued by the Issuer are of marginal importance, therefore this recommendation is not applicable.

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

   Explanation of the Company's departure from the application of the detailed principle IV.R.2.:

   The principle is not applied. In the Company's opinion, the structure of shareholders does not justify the application of the recommendation in question. The adoption of this recommendation requires the Company to introduce several operating procedures. The cost of introduction of the technology, recording of general meetings and publication of such broadcasts, introduction of real-time bilateral communication, would result in the need to obtain comprehensive legal analyses of, among other things, the publication of the shareholders' image and statements, and the resulting organizational burden, which all the more so warrant the nonintroduction of these procedures at the Company. If there is a fundamental change in the structure of shareholders, the Company will consider the adoption of the recommendation in question.

3. Recommendation IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

   Explanation of the Company's departure from the application of the detailed principle IV.R.3.:

   The principle is not applicable to the Company. Securities issued by the Company are only traded on the Polish market, therefore, the recommendation in question is not applicable.

4. Recommendation VI.R.1. The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

   Explanation of the Company's departure from the application of the detailed principle VI.R.1.:

   The principle is not applied. The Company does not have an approved remuneration policy. The remuneration of members of the Management Board, its amount, are set by the Supervisory Board, therefore, the recommendation in question is not applicable.

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

The Management Board of the Company is responsible for the internal control system in the Company and its effectiveness in the process of preparing the 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 Company applies internal control systems with regard to accounting and financial reporting to ensure reliable and transparent presentation of its financial and assets standing. The Company has in place documentation describing the adopted accounting principles, specifying the methods of assets and liabilities valuation and determination of the financial result, as well as the manner of keeping the books of account and the system for protection of data and data collections. The adopted accounting principles are applied on a continuous basis by ensuring comparability of financial statements while using the rule of going concern and prudent valuation. The Company's financial statements are audited by authorised entities 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.

21.4 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 of shareholders who hold, directly or indirectly, major blocks of shares of TOYA S.A., 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 as of 31 December 2017 (status according to information provided to Company by its shareholders):

Name	Number of shares/Number of votes	Percentage share in the share capital/Percentage share in the total number of votes at the general meeting
Jan Szmidt	28,170,647	35.96%
Tomasz Koprowski	13,704,424	17.50%
Romuald Szałagan	9,652,290	12.32%
Altus TFI S.A.	6,705,590	8.56%
Generali OFE	5,001,147	6.38%

21.5 Holders of any securities which provide special control rights

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

21.6 Restrictions on voting rights, such as limitation of the voting rights of holders of a given percentage or number of votes, time limits on the exercising of voting rights, or provisions under which, with the company's cooperation, equity rights attaching to securities are separated from the holding of the securities.

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.

21.7 Limitations in transferring the ownership right to the issuer's securities

In 2017, there were no such limitations.

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

Pursuant to the Articles of Association, the Management Board comprises 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.

21.9 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.

21.10 The functioning of the General Shareholders' Meeting, its basic entitlements, the rights of shareholders and the manner of exercising these rights and entitlements, and in particular the rules set forth by the Bylaws of the General Meeting of Shareholders provide such bylaws have been adopted, unless such information is determined directly by the provisions of law

The General Shareholders' Meetings of TOYA S.A. 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 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 Company determines the list of shareholders entitled to participate in the General Meeting on the basis of the list prepared by the entity maintaining the depository of securities, according to the provisions on trade in financial instruments, submitted to the Company not later than a week before the date of the General Meeting.

Shareholders can participate in the General 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 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 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.

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

Adopting resolutions concerning amendments to the Articles of Association of the Company 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).

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

MANAGEMENT BOARD

The composition of the Management Board as at 31 December 2017 was as follows:

- Grzegorz Pinkosz – 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.

SUPERVISORY BOARD

As at 31 December 2017, 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,
- Wojciech Papierak,
- Michał Kobus.

AUDIT COMMITTEE

The Supervisory Board, fulfilling the obligation referred to in Article 128 and 129 section 3 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight (Journal of Laws of 2017, item 1089, hereafter referred to as "the Act"), appointed the Audit Committee from among its members.

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

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, entities entitled to provide an audit of the financial statements and public supervision.

A member of the Audit Committee with knowledge and skills in the field of industry specializing in TOYA S.A. Is Jan Szmidt.

Tasks of the Audit Committee include:

The main role of the Audit Committee is to advise and support the Supervisory Board in carrying out its control and supervisory duties concerning the widely understood financial reporting, including:

1) monitoring:
   a) the Company's financial reporting process,
   b) the effectiveness of internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting,
   c) monitoring of performing of financial revisions, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and arrangements of the Audit Supervision Committee stemming from an audit (inspection) performed at an audit company;
2) controlling and monitoring of independence and impartiality of the chartered accountant (certified auditor) and the entity entitled to examine financial statements, in particular in case other services than an audit are provided for the benefit of the Company;
3) informing the Supervisory Board of audit results and explaining as to who did the audit contribute to trustworthiness of financial reporting in the Company, and also what was the role of the Audit Committee in course of the audit;
4) performing the evaluation of independence of the certified auditor and expressing consent for performing by him of permitted services not constituting the audit within the Company;
5) developing the policy for selecting the auditing company to perform the audit;
6) developing a policy of performing by the auditing company performing the audit, entities related with the auditing company and members of the auditing company's corporate network of permitted services no constituting the audit;
7) defining the procedure for selecting the auditing company by the Company;
8) presenting to the Supervisory Board of recommendation, as required under Art. 16.2 Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, in line with policies referred to above in items 4 and 5;
9) presenting recommendations aimed at ensuring reliability of the financial reporting process within the Company,
10) performing other activities vested with audit committees pursuant to Act of 11 May 2017 on certified auditors, auditing companies and public oversight.

21.13 Information concerning applying a diversity policy by the Company

The Company did not prepare and does not pursue a diversity policy. The position of the Company's Management Board is that the sole criterion for appointing persons to perform functions in the Company's authorities and its key management is the experience and competence of the candidates for performing the given functions. The Company declares that it will consider developing a diversity policy in the future.

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

Wroclaw, 15 March 2018