# TOYA S.A. Capital Group

**Consolidated financial statements**

**for the year ended 31 December 2012**

## Consolidated statements of financial position

| ASSETS | Note | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 16,558 | 16,134 |
| Intangible assets | 8 | 898 | 637 |
| Equity-accounted investments in jointly-controlled entities | 9 | 1,479 | 1,868 |
| Trade receivables and other long-term receivables | 10 | 3,912 | 357 |
| Deferred income tax assets | 28 | 1,294 | 741 |
| | | 24,141 | 19,737 |
| **Current assets** | | | |
| Inventory | 11 | 93,643 | 96,882 |
| Trade and other receivables | 12 | 31,089 | 39,818 |
| Income tax receivables | | 9 | 75 |
| Cash and cash equivalents | 13 | 4,213 | 3,731 |
| | | 128,954 | 140,506 |
| **Total assets** | | **153,095** | **160,243** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to shareholders of the parent company** | | | |
| Share capital | 14 | 7,521 | 7,484 |
| Share premium | | 24,078 | 22,907 |
| Currency translation differences | | (242) | 295 |
| Other reserve capital | 15 | 1,853 | 1,175 |
| Retained earnings | 16 | 71,391 | 53,748 |
| | | 104,601 | 85,609 |
| **Long-term liabilities** | | | |
| Liabilities from loans and borrowings | 17 | - | - |
| Liabilities from finance leases | 20 | - | 154 |
| Liabilities from deferred income tax | 28 | - | - |
| Liabilities from employee benefits | 19 | 139 | 107 |
| | | 139 | 261 |
| **Short-term liabilities** | | | |
| Trade and other payables | 18 | 18,787 | 23,399 |
| Liabilities from employee benefits | 19 | 464 | 379 |
| Liabilities from loans, borrowings and other debt instruments | 17 | 27,738 | 46,692 |
| Liabilities from finance leases | 20 | 154 | 154 |
| Liabilities from current income tax | 28 | 977 | 3,520 |
| Provisions | 22 | 235 | 229 |
| | | 48,355 | 74,373 |
| **Total liabilities** | | 48,494 | 74,634 |
| **Total equity and liabilities** | | **153,095** | **160,243** |

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## Consolidated statement of comprehensive income

| | Note | 12 months ended 31 December | |
|---|---|---|---|
| | | **2012** | **2011** |
| Revenue from sales | 23, 33 | 201,247 | 210,308 |
| Cost of products, goods and materials sold | 24, 33 | (134,463) | (137,486) |
| **Gross profit** | | **66,784** | **72,822** |
| Selling costs | 24 | (27,481) | (27,463) |
| Administrative expenses | 24 | (11,478) | (11,261) |
| Other operating income | 26 | 720 | 1,725 |
| Other operating expenses | 26 | (2,511) | (616) |
| **Operating profit** | | **26,034** | **35,207** |
| Financial income | 27 | 37 | 90 |
| Financial expenses | 27 | (3,391) | (3,994) |
| Share in the losses of jointly-controlled entities | 9 | (241) | (50) |
| **Profit before tax** | | **22,439** | **31,253** |
| Income tax | 28 | (4,796) | (6,123) |
| **Net profit from continuing operations** | | **17,643** | **25,130** |
| Profit/Loss for the year from discontinued operations | 34 | - | 497 |
| **Net profit** | | **17,643** | **25,627** |
| Currency translation differences | | (537) | 648 |
| **Other net comprehensive income** | | **(537)** | **648** |
| **Net comprehensive income for the financial year** | | **17,106** | **26,275** |
| **Net profit for the period attributable to shareholders of the parent company** | | **17,643** | **25,627** |
| **Total comprehensive income for the period attributable to shareholders of the parent company, net** | | **17,106** | **26,275** |
| Basic/diluted earnings per share from continuing operations (PLN) | | **0.24** | **0.36** |
| Basic/diluted earnings per share from discontinued operations (PLN) | | **-** | **0.01** |

## Consolidated statement of changes in equity

| | Attributable to shareholders of the parent company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Transaction costs related to public share issue | Share premium | Currency translation differences | Other reserve capital | Retained earnings | Total |
| **As at 1 January 2012** | **7,484** | **-** | **22,907** | **295** | **1,175** | **53,748** | **85,609** |
| Net profit | - | - | - | - | - | 17,643 | 17,643 |
| Currency translation differences | | - | | (537) | | | (537) |
| **Total comprehensive income** | **-** | **-** | **-** | **(537)** | **-** | **17,643** | **17,106** |
| **Transactions with owners** | | | | | | | |
| Issue of shares | 37 | - | 1,171 | - | (1,171) | - | 37 |
| Share option scheme | - | - | - | - | 1,849 | - | 1,849 |
| **Total transactions with owners** | **37** | **-** | **1,171** | **-** | **678** | **-** | **1,886** |
| **As at 31 December 2012** | **7,521** | **-** | **24,078** | **(242)** | **1,853** | **71,391** | **104,601** |
| | | | | | | | |
| **As at 1 January 2011** | **6,557** | **(398)** | **-** | **(353)** | **-** | **75,102** | **80,908** |
| Net profit | - | - | - | - | - | 25,627 | 25,627 |
| Currency translation differences | - | - | - | 648 | - | - | 648 |
| **Total comprehensive income** | **-** | **-** | **-** | **648** | **-** | **25,627** | **26,275** |
| **Transactions with owners** | | | | | | | |
| Payment of dividend | - | - | - | - | - | (9,282) | **(9,282)** |
| Distribution of disposal group | - | - | - | - | - | (39,521) | **(39,521)** |
| Compensation for withdrawal from general partner position in Toya Development Sp. z o.o. SKA | - | - | - | - | - | 1,822 | **1,822** |
| Issue of shares | 927 | (1,705) | 25,010 | - | - | - | **24,232** |
| Reduction of share premium by transaction costs related to share issue | - | 2,103 | (2,103) | - | - | - | **-** |
| Share option scheme | - | - | - | - | 1,175 | - | **1,175** |
| **Total transactions with owners** | **927** | **398** | **22,907** | **-** | **1,175** | **(46,981)** | **(21,574)** |
| **As at 31 December 2011** | **7,484** | **-** | **22,907** | **295** | **1,175** | **53,748** | **85,609** |

## Consolidated cash flow statement

| | Note | 12 months ended 31 December | |
|---|---|---|---|
| | | **2012** | **2011** |
| **Cash flows from continuing operating activities** | | | |
| **Profit before tax** | | **22,439** | **31,253** |
| **Adjustments for:** | | | |
| Amortisation and depreciation | | 1,711 | 2,399 |
| Interest | | 3,353 | 3,994 |
| Profit/Loss on investing activities | | (28) | 52 |
| Share in the losses of jointly-controlled entities | | 241 | 50 |
| Foreign exchange gains/losses | | (252) | 181 |
| Valuation of share options | | 1,849 | 1,175 |
| **Changes in balance sheet items:** | | | |
| Change in trade and other receivables | | 4,614 | (2,320) |
| Change in inventories | | 3,239 | (22,448) |
| Change in provisions | | 6 | 12 |
| Change in trade and other payables | | (4,612) | (2,943) |
| Change in employee benefit liabilities | | 117 | (503) |
| Income tax paid | | (7,826) | (3,760) |
| **Net cash from continuing operating activities** | | **24,851** | **7,142** |
| **Net cash from discontinued operating activities** | | **-** | **6,028** |
| **Cash flows from continuing investing activities** | | | |
| Proceeds from sale of property, plant and equipment and intangible assets | | 40 | 25 |
| Purchases of property, plant and equipment and intangible assets | | (2,395) | (2,869) |
| Interest received | | 37 | |
| **Net cash from continuing investing activities** | | **(2,318)** | **(2,844)** |
| **Net cash from discontinued investing activities** | | **-** | **(2)** |
| **Cash flows from continuing financing activities** | | | |
| Proceeds from loans and borrowings | | 12,098 | 34,547 |
| Repayments of loans and borrowings | | (31,109) | (48,228) |
| Repayment of liabilities arising from finance leases | | (154) | (154) |
| Interest paid on loans and borrowings | | (2,766) | (3,953) |
| Interests paid on leases | | (19) | (19) |
| Proceeds from shares issues | | 37 | 25,936 |
| Transaction costs arising from public share issues | | - | (1,705) |
| Dividends paid | | - | (9,282) |
| **Net cash from continuing financing activities** | | **(21,913)** | **(2,858)** |
| **Net cash from discontinued financing activities** | | **-** | **(2,074)** |

| | Note | 12 months ended 31 December 2012 | 2011 |
|---|---|---|---|
| **Change in cash and cash equivalents – continuing operations** | | **620** | **1,440** |
| **Change in cash and cash equivalents – discontinued operations** | | **-** | **3,952** |
| **Change in cash and cash equivalents – continuing and discontinued operations** | | **620** | **5,392** |
| **Cash and cash equivalents at the beginning of the period** | 13 | 3,731 | 2,489 |
| *- including cash of discontinued operations* | | - | *310* |
| Distribution of cash relating to the distribution of disposal group | | - | (4,296) |
| Exchange gains/(losses) on measurement of cash and cash equivalents | | (138) | 146 |
| **Cash and cash equivalents at the end of the period** | 13 | **4,213** | **3,731** |
| *- including cash of discontinued operations* | | - | - |

**Accounting policy and other explanatory notes**

## 1. General information

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

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

The Company was incorporated by virtue of a Notarial Deed of 17 November 1999 drawn up by Notary Public Jolanta Ołpińska in the Notarial Office in Wrocław (Rep. A No. 5945/99). Next, pursuant to a court decision of 3 December 1999, the Company was entered in the Commercial Register maintained by the District Court for Wrocław-Fabryczna, VI Commercial Division, under entry No RHB 9053.By virtue of a decision of 4 December 2001, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register, entered the Company into the Register of Entrepreneurs under entry No KRS 0000066712.

As at 31 December 2012, 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 area of TOYA S.A. is importing and distributing 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). Furthermore, a subsidiary – TOYA Romania S.A. – was established in 2003, whose business consists in selling hand and power tools in Romania. That company offers the same products and brands as those offered by the Company in Poland.

Duration of the Company is unlimited.

As at 31 December 2012, joint control of the company is exercised by: Jan Szmidt, Romuald Szałagan, Tomasz Koprowski, Piotr Wojciechowski, Beata Szmidt, Wioletta Koprowska, Beata Szałagan and Elżbieta Wojciechowska. Joint control is exercised based on an agreement entered into on 31 August 2010 by the following shareholders: Jan Szmidt, Romuald Szałagan and Tomasz Koprowski, joined on 6 April 2011 by Piotr Wojciechowski and on 9 August 2011 by Beata Szmidt, Wioletta Koprowska, Beata Szałagan and Elżbieta Wojciechowska. Under this agreement, the parties undertook to cooperate with regard to all matters concerning the Company and, in particular, to agree on common positions submitted to the Company's governing bodies and to unanimously vote on resolutions adopted by the Company's General Shareholders Meeting.

## 2. Group structure and jointly-controlled entities

As at 31 December 2012, the Group comprised the following entities:

| Entity name | Registered office | Business profile | Type of equity link | % of shares and votes held | Date of assuming control | Method of consolidation / recognition as at the end of the reporting period |
|---|---|---|---|---|---|---|
| Toya S.A. | Wrocław, Poland | Distribution of hand and power tools | Parent Company | Not applicable | Not applicable | Not applicable |
| Toya Romania S.A. | Bucharest, Romania | Distribution of hand and power tools | Subsidiary | 99.99 | November 2003 | Full consolidation method |
| Toya Golf & Country Club Sp. z o.o. w likwidacji [in liquidation] * | Wrocław, Poland | Leisure, sports, real estate trading – the company is dormant | Subsidiary | *100.00 | November 2008 | Full consolidation method |
| Yato China Trading Co., Ltd ** | Shanghai, China, | Distribution of hand and power tools | Jointly-controlled entity | ** 51.00 | June 2008 | Equity method |

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

** In June 2008, the Parent Company and Saame Tools (Shanghai) Import & Export Co., Ltd China established a joint venture under the name Yato China Trading Co., Ltd.The Parent Company acquired 51% of shares in the share capital, while the remaining 49% was acquired by Saame Tools (Shanghai) Import & Export Co., Ltd China. All the shares were paid up with a cash contribution. Although it holds 51% of the shares and total vote in Yato China Trading Co., Ltd., TOYA S.A. does not control the company – in accordance with the Articles of Association of the joint venture, material operational and financial decisions must be made unanimously by the partners. After the end of the financial year, on 2 January 2013, TOYA S.A. acquired control over the company. Detailed information is provided in note 35.1.

## 3. Summary of significant accounting policies

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

### 3.1 Basis of preparation

These consolidated financial statements of the Group for the financial year ended 31 December 2012 have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) and interpretations issued by the International Accounting Standards Board, as adopted by the European Union (“EU”).

These consolidated financial statements have been prepared in accordance with IFRS and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) which had been issued and were in effect as at the reporting date, i.e. 31 December 2012.

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

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

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

**Approval of the financial statements**

These consolidated financial statements were approved for publication and signed by the Management Board on 10 April 2013.

**Going concern**

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

**Effect of new or amended standards and interpretations on the Group’s consolidated financial statements**

These consolidated financial statements have been prepared on the basis of the EU IFRS issued and effective as at the reporting date, i.e. 31 December 2012.

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 2012

The following new and revised standards and interpretations, which became effective on 1 January 2012, were applied for the first time in these consolidated financial statements:

- **Amendments to IFRS 7 – "*Disclosure of information about transfers of financial assets*"**

  The purpose of the amendments is to increase the transparency of information on risks involving transactions in which financial assets were transferred. The amendment to IFRS 7 requires presentation in a separate note to the financial statements for each class of financial assets transferred, which were not entirely derecognised, information on the nature and carrying amount of assets transferred and the risks and rewards associated with them. For the assets transferred, in which the entity continues to be involved, the amended IFRS 7 requires disclosure of information enabling the evaluation of the nature of the involvement and of the risks associated with the continuing involvement of the entity with the derecognised financial assets, by each class of continued involvement, including the carrying amount and fair value of financial assets and liabilities representing the continued involvement of the entity in the derecognised financial assets.

  At present, the amendments have no material impact on these consolidated financial statements. Should there occur any transactions concerned by the amendment to IFRS 7, the Group will provide disclosures in the financial statements pursuant to the new requirements.

### b) New standards, interpretations and amendments, which are not yet effective and have not previously been applied by the Group.

The following new standards, interpretations and amendments have been published and are effective for reporting periods beginning on or after 1 January 2013:

- **IFRS 9 "Financial Instruments Phase 1: Classification and measurement"**

  IFRS 9 published by the International Accounting Standards Board on 12 November 2009 replaces those parts of IAS 39 which refer to the classification and measurement of financial assets. In October 2010, IFRS 9 was supplemented with the issues of classification and measurement of financial liabilities. In accordance with amendments introduced in December 2011, the new standard is valid for annual periods starting on or after 1 January 2015.

  The standard introduces one model providing for only two categories of classification of financial assets: measured at fair value and measured 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.

  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 through profit or loss in other total income.

  As at the date of drawing up these consolidated financial statements, IFRS 9 has not yet been approved by the European Union. The Group intends to apply IFRS 9 as of the date of entry into force established by the EU.

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

- **IFRS 10 "Consolidated financial statements"**

IFRS 10 was published by the International Accounting Standards Board in May 2011 and is valid for annual periods starting on or after 1 January 2013 (mandatory in the European Union as of 1 January 2014).

The new standard replaces guidelines concerning control and consolidation contained in IAS 27 "Consolidated and separate financial statements" and in SIC interpretation 12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control in such a way that the same control determination criteria are in force for all entities. The changed definition is accompanied by extensive guidelines concerning application.

The Group will apply IFRS 10 as of 1 January 2014.

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

- **IFRS 11 "Joint arrangements"**

IFRS 11 was published by the International Accounting Standards Board in May 2011 and is valid for annual periods starting on or after 1 January 2013 (mandatory in the European Union as of 1 January 2014).

The new standard replaces IAS 31 "Interests in joint ventures" and interpretation SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". Changes in definitions restricted the number of joint ventures to two: joint operations and joint ventures. At the same time, the previous possibility of selecting proportionate consolidation in relation entities under joint control was eliminated. All venturers are currently obliged to recognise them under the equity method.

The Group will apply IFRS 11 as of 1 January 2014.

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

- **IFRS 12 "Disclosure of interests in other entities"**

IFRS 12 was published by the International Accounting Standards Board in May 2011 and is valid for annual periods starting on or after 1 January 2013 (mandatory in the European Union as of 1 January 2014).

The new standard concerns entities with interests in a subsidiary, joint arrangement (joint operation or joint venture), associates or unconsolidated structured entity. The standard replaces the disclosure requirements currently contained in IAS 27 "Consolidated and Separate Financial Statements", IAS 28 "Investments in Associates" and IAS 31 "Interests in Joint Ventures". IFRS 12 requires that entities disclose information which will help the users of financial statements to assess the nature, risk and financial consequences of investments in subsidiaries, associates, joint arrangements and unconsolidated structured entities. For that purpose, the new standard imposes the requirement to disclose information concerning many areas, including significant evaluations and assumptions adopted when determining whether an entity has control or joint control of, or significant influence over, another entity; extensive information about the importance of non-controlling entities in the group's activities and cash flows; summary financial information about subsidiaries with considerable non-controlling interests, as well as detailed information about holdings in unconsolidated structured entities.

The Group will apply IFRS 12 as of 1 January 2014.

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

- **IFRS 13 “Fair value measurement”**

IFRS 13 was published by the International Accounting Standards Board in May 2011 and is valid for annual periods starting on or after 1 January 2013.

The purpose of the new standard is to improve cohesion and reduce complexity through the formulation of a precise definition of fair value and combining requirements concerning fair value measurement and disclosure of relevant information in one standard.

The Group will apply IFRS 13 as of 1 January 2013.

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

- **Amended IAS 27 “Separate financial statements”**

The amended IAS 27 “Separate financial statements” was published by the International Accounting Standards Board in May 2011 and is valid for annual periods starting on or after 1 January 2013 (mandatory in the European Union as of 1 January 2014).

IAS 27 was amended in relation to the publication of IFRS 10 “Consolidated financial statements”. The purpose of the amended IAS 27 is to determine requirements for disclosure and presentation of investments in subsidiaries, joint ventures entities and associates when an entity draws up separate financial statements. The guidelines on the control and consolidated financial statements were replaced by IFRS 10.

The Group will apply the amended IAS 27 as of 1 January 2014.

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

- **Amended IAS 28 “Investments in associates and joint ventures”**

The amended IAS 28 “Investments in associates and joint ventures” was published by the International Accounting Standards Board in May 2011 and is valid for annual periods starting on or after 1 January 2013 (mandatory in the European Union as of 1 January 2014).

Amendments to IAS 28 resulted from the IASB on joint arrangements. The Board decided to include the principles concerning the recognition of joint arrangements under the equity method in IAS 28 because that method applied both to joint ventures and associates. With this exception, other guidelines remained unchanged.

The Group will apply the amended IAS 28 as of 1 January 2014.

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

- **“Recovery of underlying assets” – amendments to IAS 12**

Amendments to IAS 12 “Income Taxes” concerning the recovery of underlying assets were published by the International Accounting Standards Board in December 2010 and are valid for annual periods starting on or after 1 January 2012 (mandatory in the European Union as of 1 January 2013).

The amendments concern the valuation of deferred income tax provisions and assets with regard to investment properties measured at fair value in accordance with IAS 40 “Investment property” and introduce a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. This presumption can be rebutted if the investment property is held

within a business model whose objective is to consume basically all economic benefits represented by the investment property during use and not at the time of sale. SIC-21 "Income tax – Recovery of revalued non-depreciable assets" referring to similar issues concerning assets not subject to depreciation, which are valued in accordance with the revaluation method presented in IAS 16 "Property, plant and equipment" has been included in IAS 12 after the exclusion of guidelines concerning investment properties measured at fair value.

The Group will apply the amendments to IAS 12 as of 1 January 2013.

The amendments to IAS 12 will have no material impact on the consolidated financial statements of the Group.

- **"Presentation of items of other comprehensive income" – amendments to IAS 1**

  Amendments to IAS 1 "Presentation of financial statements" concerning presentation of components of other total income were published by the International Accounting Standards Board in June 2011 and are valid for annual periods starting on or after 1 July 2012.

  The amendments require that entities divide items presented under other total income into two groups on the basis of whether in the future they may be included in the financial result. Additionally, the title of statements on total income was changed to "statement of profit or loss and other comprehensive income".

  The Group will apply the amendments to IAS 1 as of 1 January 2013.

  The amendments to IAS 1 will have no material impact on the consolidated financial statements of the Group.

- **Amendments to IAS 19 "Employee benefits"**

  Amendments to IAS 19 „Employee benefits" were published by the International Accounting Standards Board in June 2011 and are valid for annual periods starting on or after 1 January 2013.

  The amendments introduce new requirements with regard to recognition and measurement of the costs of specific benefit schemes and termination benefits, and they amend the required disclosures concerning all employee benefits.

  The Group will apply the amendments to IAS 19 as of 1 January 2013.

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

- **"Offsetting financial assets and financial liabilities" – amendments to IAS 32**

  Amendments to IAS 32 "Financial instruments: presentation" concerning the offsetting of financial assets and liabilities were published by the International Accounting Standards Board in December 2011 and are valid for annual periods starting on or after 1 January 2014.

  The amendments introduce additional explanations to the application of IAS 32 in order to clarify inconsistencies encountered during the application of some offsetting criteria. They include a clarification as to what the term "has a legally enforceable right to set off the amounts" means, as well as that certain mechanisms of gross settlement may be treated as net settlement where appropriate conditions have been met.

  The Group will apply the amendments to IAS 32 as of 1 January 2014. The Group is currently assessing the impact of these amendments on the consolidated financial statements.

- **"Disclosure of information – offsetting financial assets and financial liabilities" – amendments to IFRS 7**

  Amendments to IFRS 7 – offsetting financial assets and financial liabilities – were published by the International Accounting Standards Board in December 2011 and are effective for annual periods beginning on or after 1 January 2013.

  The amendments introduce the obligation to present new disclosures which will enable users of financial statements to assess effects or potential effects of agreements allowing net settlements, including rights to set off.

  The Group will apply the amendments to IFRS 7 as of 1 January 2013.

  The Group is currently assessing the impact of the amended standard on its financial statements.

- **"Government loans" – Amendments to IFRS 1**

  Amendments to IFRS 1 "First-time adoption of IFRS" concerning government loans were published by the International Accounting Standards Board in March 2012 and are effective for annual periods beginning on or after 1 January 2013.

  The amendments, which concern loans taken out by an entity on preferential terms (interest rate below the market rate), allow entities preparing financial statements under IFRS for the first time to be exempt from full retrospective recognition of such transactions. The amendments, therefore, introduce the same exemption for first-time adopters of IFRS as for the other entities.

  As at the date of drawing up these consolidated financial statements, the amendments to IFRS 1 have not yet been approved by the European Union. The amendments do not apply to the Group's operations.

- **IFRIC 20 "Stripping costs in the production phase of a surface mine"**

  IFRIC Interpretation 20 was published by the International Accounting Standards Board in October 2011 and is valid for annual periods starting on or after 1 January 2013.

  The interpretation explains that the costs of stripping activity to be accounted for in accordance with the principles of IAS 2 "Inventories" to the extent that the benefit from the stripping activity is realised in the form of inventory produced. However, if the stripping activity provides a benefit in the form of improved access to ore, the entity should recognise the costs as a non-current 'stripping activity asset', provided that criteria specified in the interpretation are met.

  The interpretation is not applicable to the Group's operations.

- **Improvements to IFRS 2009–2011**

  In May 2012, the International Accounting Standards Board published the "Improvements to IFRS 2009–2011", amending 5 standards. The improvements contain changes in the presentation, recognition and valuation, as well as terminological and editing changes. The changes will be valid for annual periods starting on 1 January 2013.

  As at the date of drawing up these consolidated financial statements, the Improvements to IFRS 2009–2011 have not yet been approved by the European Union. The Group intends to apply the Improvements to IFRS 2009–2011 as of the date of entry into force established by the EU.

  The Group is currently assessing the impact of the Improvements to IFRS 2009–2011 on its consolidated financial statements.

- **Amendments to the transitional provisions of IFRS 10, IFRS 11, IFRS 12**

  In June 2012, the International Accounting Standards Board published amendments to the transitional provisions of IFRS 10, IFRS 11 and IFRS 12. The amendments will be valid for annual periods

starting on 1 January 2013 or earlier – if the standard on which they are based (IFRS 10, 11 or 12) have been used at an earlier date.

The amendments clarify the transitional provisions of IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control as at the first day of the annual period in which IFRS 10 is adopted and if the results of this assessment differ from the conclusions of IAS 27 and SIC 12, then comparative data should be restated, unless impracticable. The amendments also introduce additional transitional relief in the application of IFRS 10, IFRS 11 and IFRS 12 by limiting the requirement to present adjusted comparative data only to data for the immediately preceding reporting period. In addition, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 was first applied.

As at the date of preparing these consolidated financial statements, the amendments to the transitional provisions of IFRS 10, IFRS 11, IFRS 12 have not yet been approved by the European Union. The Group will apply the aforesaid amendments as of the date of entry into force established by the EU.

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

- **"Investment Entities" – amendments to IFRS 10, IFRS 12 and IAS 27**

  Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities" were published by the International Accounting Standards Board in October 2012 and are effective for annual periods beginning on or after 1 January 2014.

  The amendments introduce the definition of an investment entity to IFRS 10. Such entities will be required to recognise their subsidiaries at fair value through profit or loss and consolidate only those subsidiaries that provide them with services associated with the investing activities of the company. IFRS 12 was also amended by introducing new disclosures on investment entities.

  As at the date of these consolidated financial statements, the amendments to IFRS 10, IFRS 12 and IAS 27 have not yet been approved by the European Union. The Group will apply the aforesaid amendments as of the date of entry into force established by the EU.

  The amendments do not apply to the Group's operations.

In these consolidated financial statements, no standard or interpretation was adopted prior to its effective date or prior to approval by the European Union.

## 3.2 Consolidation

### Subsidiaries

Subsidiaries are all entities in respect of which the Group has the power to govern their financial and operating policies, which is usually the case if the Group holds the majority of total votes in a company's governing bodies. Any assessment as to whether the Group has control of a given entity is made taking into account the existence and effect of potential voting rights that are currently exercisable or convertible. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. They are no longer consolidated once the control ceases.

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

With respect to transactions which took place after 1 January 2010, the cost of an acquisition is measured as the fair value of the assets transferred, financial instruments issued and liabilities incurred or assumed at the date of exchange, plus liabilities resulting from a contingent consideration arrangement. Acquisition-related costs are recognised in the consolidated profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as at the acquisition date. For each acquisition, the Group recognises non-controlling interests in the acquiree at their fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

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

**Interests in jointly-controlled entities**

Interests in jointly controlled entities are accounted for using the equity method. The Group’s investment in jointly-controlled entities includes goodwill as at the acquisition date.

The Group’s share in the profit or loss of jointly-controlled entities from the acquisition date is recognised in profit or loss, and its share in other comprehensive income from the acquisition date – in other comprehensive income. When the Group’s share of a jointly-controlled entity's losses becomes equal to or higher than its interest in the entity, the Group no longer recognises further losses, unless it has assumed liabilities or made payments on behalf of the jointly-controlled entity.

Unrealised gains on transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's proportionate interests in those entities. Unrealised losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred.

Where necessary, the accounting policies used by jointly-controlled entities were changed to ensure consistency with the accounting policies applied by the Group.

Investments in jointly-controlled entities 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.

## 3.3 Segment reporting

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

## 3.4 Valuation of items denominated in foreign currencies

**Functional currency**

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

**Transactions and balances**

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

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

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

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

| Currency | 31 December 2012 | 31 December 2011 |
|---|---|---|
| EUR 1 | 4.0882 | 4.4168 |
| USD 1 | 3.0996 | 3.4174 |
| RON 1 | 0.9197 | 1.0226 |
| CNY 1 | 0.4975 | 0.5428 |

**Translation of data of the Group companies and of jointly-controlled entities**

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

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

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

| Currency | 31 December 2012 | 31 December 2011 |
|---|---|---|
| RON 1 | 0.9197 | 1.0226 |
| CNY 1 | 0.4975 | 0.5428 |

Financial results have been translated using the following exchange rates:

| Currency | 31 December 2012 | 31 December 2011 |
|---|---|---|
| RON 1 | 0.9377 | 0.9773 |
| CNY 1 | 0.5126 | 0.4608 |

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

### 3.5 Property, plant and equipment

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

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

Production cost of a tangible fixed asset or a tangible fixed asset under construction includes all the expenses incurred by the 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 Group will derive economic benefits associated with the replaced items. Repair and maintenance costs are charged to profit or loss as incurred.

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

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

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

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

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

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

### 3.6 Leases

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased asset are recognised in the consolidated statement of financial position at commencement of the lease term at the lower of the fair value of the asset and the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability in such a way as 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 whereby the lessor retains substantially all the risks and rewards incidental to ownership of the leased asset are classified as operating leases. Operating lease payments and subsequent lease instalments are recognised as expenses and charged to profit or loss over the lease term on a straight-line basis.

### 3.7 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 recognised in 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 the components of intangible assets, using the straight line method. The amortisation rates applied to intangible assets are as follows:

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

The Group carries out research and development activities pertaining to the construction and development of the functionality of an on-line store platform.

An intangible asset arising from development activities is recognised when the entity can demonstrate:

a) that it is able, from a technical point of view, to complete the intangible asset so that it can be sold or used
b) that it intends to complete the intangible asset as well as to use it or sell it
c) that it is able to use or sell the intangible asset
d) the manner in which the intangible asset will generate probable future economic benefits
e) the availability of adequate technical, financial and other resources to complete development and to use or sell the intangible asset
f) the ability to measure reliably the expenditure during the development that can be attributed to the intangible asset.

Until the end of development work, capitalised development costs are recognised as intangible assets under development and are not amortised. Expenditure on research activities is recognised as an expense when incurred.

### 3.8 Goodwill

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

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

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

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

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

cost categories corresponding to the function of the asset with respect to which impairment has been identified.

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

### 3.10 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 as part of the cost of property, plant and equipment, investment property or intangible assets, as appropriate, until such assets become available for their intended use.

### 3.11 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 the following two subcategories:

- 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 2012 and 31 December 2011, all financial assets held by the Group were classified as "loans and receivables".

### 3.12 Impairment of financial assets

An impairment loss on a financial asset is recognised when there is objective evidence of its impairment 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 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,
- receivables which are past due for more than 180 days – 50% of the amount of such receivables,
- receivables which are past due for more than one year – 100% of the amount of such receivables.

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

### 3.13 Inventory

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

Inventories are presented at the cost of acquisition not higher than their 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.

Impairment losses on inventory are recognised in cost of sales.

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

An impairment loss on inventory of goods for resale (tools and power tools) is recognised in particular if the quantitative inventory consumption in a given year is lower than 33% of the total purchases and the year opening balance for a given item, as the estimated average period in which individual goods for resale are sold is three years. In the case of goods for resale, if the balance of any particular inventory item at the year end exceeds the estimated consumption of this inventory item over the next two years, a relevant impairment is recognised.

### 3.14 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.

### 3.15 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 Parent Company – stated at its par value as specified in the Company's Articles of Association and entered in the court register,
- share premium is stated in the proceeds from the issue of shares in the amount exceeding the par value of shares, less transactions costs related to pubic share issue,
- reserve capital is created in relation to the Parent Company's share based benefits for the members of the Parent Company's Supervisory Board and Management Board and key employees of the Parent. This capital is stated in fair value of granted share options,
- retained earnings – comprising profit (loss) distributions, undistributed profit (loss), and net profit (loss) for the reporting period to which given financial statements relate.

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

### 3.16 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.

### 3.17 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.

### 3.18 Current and deferred income tax

Mandatory decreases of profit include current and deferred income tax.

#### Current income 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 income tax

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

Deferred tax assets are recognised only if it is probable that the Group will have future taxable profits allowing for utilisation of the temporary differences and deduction of the tax losses. Deferred tax assets are determined as the amount of income tax recoverable in the future in respect of deductible temporary

differences which will reduce future income tax base and any deductible tax loss, determined in accordance with the prudence principle.

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

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

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

### 3.19 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 Security Institution (ZUS). This plan is a defined contribution plan. The contributions are expensed as paid.

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

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

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

### 3.20 Provisions

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

### 3.21 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 Group and the amount of the revenue can be measured reliably.

**Revenue from sales of goods for resale – continuing operations**

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

**Revenue from sales of recreation and catering services – discontinued operations**

In most cases, revenue from sales of recreation and catering services (related to the golf field and the restaurant) is recognised on a one-off basis following the performance of a service, except for revenue from fees collected for membership in the golf club, which is recognised on a straight-line basis.

**Revenue from sales of real estate – property development – discontinued operations**

The Group executes property development projects, as part of which it sells real estate (primarily single-family houses). The Group recognises revenue and costs relating to the sold real estate upon transferring to the buyer the control and significant risk related to the ownership, i.e. on the date of execution of a sale agreement in the form of a notarial deed.

### 3.22 Interest income

Interest income is recognised using the effective interest rate method.

### 3.23 Dividends

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

### 3.24 Non-current assets (Disposal group) classified as held for distribution and discontinued operations

Non-current assets (disposal group) are classified as held for distribution if the entity intends to deliver the asset (or a disposal group) to its owners. This is the case when assets are available for immediate delivery in their present condition, and their delivery is highly probable (i.e. an action has been initiated to deliver the assets and is expected to be completed within a year from the classification date; actions required to complete the delivery of assets indicate that significant changes concerning the delivery of assets or its abandonment are unlikely).

Non-current assets (or a disposal group) classified as held for distribution are measured at the lower of their carrying amount or fair value less distribution costs.

Business activities recognised in the period as discontinued operations is a part of the entity classified as held for distribution, which represents an important separate area of operations.

## 4. Material accounting estimates and judgements

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

**Material accounting estimates**

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

### Employee options

The Group measures the benefits due to the members of the Management Board and its key employees participating in the Incentive Scheme launched in 2011, based on share options. Details of the scheme are described in note 15.2. The total cost of the scheme was determined on the basis of fair value of granted options. The fair value of options does not include the impact of non-market conditions connected with the increase of the consolidated net profit of the TOYA S.A. Capital Group, this condition is, however, included in the assumptions concerning the expected number of options to which the participants are to be entitled. As at 31 December 2011, the non-market condition for 2011 had been met and the first tranche of the scheme was realised (for details see note 14). As at 31 December 2012, the condition regarding the increase in profit and the rate level had not been met. Due to the failure to meet the rate level condition, the estimate of the number of options acquired under the part of the scheme dependent on this condition has been revised and the total cost of PLN 58 thousand resulting from the valuation of options granted as part of the second tranche (2012) under that part of the Incentive Scheme has been reversed in the current year. With regard to the part of the Scheme concerning the fulfilment of the profit increase condition, the second tranche options for which rights have not been acquired may be carried forward to the subsequent years of the Scheme, in keeping with the adopted rules of the Scheme. The Management Board estimates that the non-market conditions pertaining to tranches for the years 2012–2014 will be met cumulatively in subsequent years, therefore the costs of the Scheme regarding the increase in profit for 2012 have been estimated on the assumption that the rights to all the options granted to eligible individuals will be acquired in the subsequent years of the Scheme (2013–2014). The assumptions concerning the expected number of shares for which rights have been acquired will be revised at the end of the next reporting period and the possible impact of the revision of the original estimates will be presented in the profit or loss.

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

The Group's Management Board determines estimated useful lives and depreciation rates for property, plant and equipment. The estimates are based on the projected useful lives for individual assets. The estimates may change materially as a result of new technological solutions emerging on the market, plans of the Parent Company's Management Board, or intensity of use. The Management Board increases or decreases a depreciation rate for a given asset if its useful life proves shorter or longer, respectively, than expected, and revalues technologically obsolete assets, and assets which are not of strategic importance and whose use has been discontinued. Property, plant and equipment values and depreciation are described in note 7.
If the actual useful lives of property, plant and equipment had been 10% shorter than the Management Board's estimates, then the carrying amount of property, plant and equipment would have been lower by PLN 207 thousand as at 31 December 2012 and PLN 267 thousand as at 31 December 2011.

### Provisions and impairment write-downs

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

- provisions for guarantees and complaints – estimated level of the ratio used to perform calculations in accordance with the policy described in Note 3.20; This ratio was determined on the basis of historical costs and claims; for details on the amount of the provision see note 22,
- impairment write-downs on inventory – estimated average period during which the product is sold, and beyond which a write-down is created in accordance with the policy described in note 3.13; 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 3.12; 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.

## 5. Financial risk management

### 5.1 Financial risk factors

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

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

### 5.2 Market risk

**Foreign exchange risk**

The Group purchases significant amounts of goods from foreign suppliers, located primarily in China, at prices denominated in foreign currencies, particularly in USD. As at 31 December 2012, trade payables in USD represented 75% of the total trade payables (81% as at 31 December 2011).

The Group may use EUR and USD denominated credit facilities available under executed credit facility agreements. As at 31 December 2012 and 31 December 2011, the Group had no loan liabilities denominated in foreign currencies.

As at 31 December 2012, cash in foreign currencies (USD and EUR) represented 73% of the total cash (37% as at 31 December 2011).

33% of the Group's sales revenue is generated from exports, at prices denominated in foreign currencies, mainly in USD. As at 31 December 2012, trade receivables in EUR represented 16% of the total trade receivables (14% as at 31 December 2011).

There is a risk that future fluctuations of exchange rates may have a negative or positive effect on the Group's financial performance. To date, the Group has not made extensive use of derivative financial instruments to hedge against the results of future changes in exchange rates.

If the zloty appreciated/depreciated by 10% against the dollar (with all other conditions unchanged), the profit before income tax for 2011 would rise/drop by approximately PLN 312 thousand mainly due to the measurement of USD denominated trade payables (rise/drop by approximately PLN 490 thousand in 2011 mainly due to the measurement of USD denominated trade payables).

If the zloty appreciated/depreciated by 10% against the euro (with all other conditions unchanged), the profit before income tax for 2011 would rise/drop by approximately PLN 153 thousand (in 2011 by approximately PLN 143 thousand) mainly due to the measurement of EUR denominated trade receivables.

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

Apart from short-term bank deposits (note 13) disclosed under "Cash and cash equivalents", as at 31 December 2012 and 31 December 2011 the Group held no other interest-bearing assets.

The Group's policy envisages the use of bank loans bearing interest at variable rates. This exposes the Group to the risk of interest rate changes affecting its cash flows. As at 31 December 2012, all liabilities under bank loans bear interest at variable rates (which was also the case as at 31 December 2011).

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

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

| | +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 | (55) | (45) | 55 | 45 |
| **Total for 2012** | **(55)** | **(45)** | **55** | **45** |

| | +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 | (93) | (76) | 93 | 76 |
| **Total for 2011** | **(93)** | **(76)** | **93** | **76** |

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

## 5.3 Credit risk

Credit risk is managed at the Group level. It arises mainly from bank deposits, loans granted, purchased bonds and credit exposures to customers, including trade receivables due.

Credit risk relating to bank deposits is considered by the Management Board as low since the Group cooperates with renowned financial institutions which enjoy premium credit ratings (BZ WBK, Raiffeisen Bank, DnB Nord and Citi Bank Handlowy).

Credit risk relating to credit exposures to customers is considered by the Management Board as low. The Group sells its products to 2 key customer groups: retail chains and wholesale customers (including wholesalers, distributors and authorised retail stores). The Group sells its products on the domestic and

foreign markets – notably countries in Central, Eastern and Southern Europe, (Romania, Hungary, Czech Republic, Germany, the Balkan States, Russia, Ukraine, Belarus, Moldova), and China.

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

| | 2012 | 2011 |
|---|---|---|
| Domestic sales – wholesale customers | 46% | 50% |
| Domestic sales – retail chains | 21% | 23% |
| Export sales | 33% | 27% |
| **Total** | **100%** | **100%** |

As regards sales to retail chains, the Group sells its products to the largest chains in Poland. Credit exposures in this customer group are rather evenly distributed, except for 2 key retail chains which jointly account for approximately 62% of sales made through this particular channel. Credit risk exposure to retail chains is considered by the Group as low since most of them are reliable and financially transparent customers with an established market position and a sound payment history.

In the area of wholesale distribution, the Group has established cooperation with 8 authorised distributors, a few dozen wholesalers across the country and authorised retail stores. Concentration of receivables from wholesale customers is low – approx. 26 customers account for 62% of sales moved through this distribution channel. The Group pursues a policy of reducing credit exposures to wholesale customers with the use of a credit limit mechanism. The limits are set for each customer based on a detailed assessment of its financial performance, market position, payment discipline and the overall situation in the sector. The utilisation of credit limits is monitored on a regular basis. A transaction exceeding the credit limit granted may only be executed upon the authorisation by the sales director.

The Group mitigates its credit risk by having trade receivables insured under an insurance contract with Euler Hermes (the contract does not cover receivables owed by retail chains and customers in Romania). As at 31 December 2012, 59% of the trade receivables were insured (45% as at 31 December 2011). In some cases, credit limits are awarded to the Group's customers on the basis of the ratings prepared based on the insurer's data. Under the insurance contract, the deductible is 10% for customers with a credit limit awarded by the insurer and 15% for customers with a credit limit awarded based on the Company's ratings.

The maturity structure of receivables and details on past due receivables are presented in note 12.

The maximum credit risk exposure is approximately equal to the book value of trade receivables net of receivables insured, advanced loans, purchased bonds, cash and cash equivalents. As at 31 December 2012, the maximum credit risk exposure is PLN 18,940 thousand (31 December 2011: PLN 24,010 thousand).

### 5.4 Liquidity risk

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

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Current assets | 128,954 | 140,506 |
| Current liabilities | 48,355 | 74,373 |

| | 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities – continued operations | 24,851 | 7,142 |

The table below presents financial liabilities of the Group 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 | 29,114 | - | - | - | **29,114** |
| Trade and other payables | 17,909 | - | - | - | **17,909** |
| Liabilities from finance leases | 173 | - | - | - | **173** |
| **As at 31 December 2012** | **47,196** | **-** | **-** | **-** | **47,196** |
| Loans and borrowings | 49,400 | - | - | - | **49,400** |
| Trade and other payables | 23,199 | - | - | - | **23,199** |
| Liabilities from finance leases | 173 | 173 | - | - | **346** |
| **As at 31 December 2011** | **72,772** | **173** | **-** | **-** | **72,945** |

## 5.5 Capital management

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

The Group's capital management activities are aimed at protecting the Group's ability to continue its operations so as to ensure a return on investment for the shareholders and benefits for other interested parties, as well as maintenance of the optimum capital structure to lower the cost of capital.

The Group also follows a rule that non-current assets are to be fully financed by equity.

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Non-current assets | 24,141 | 19,737 |
| Equity | 104,601 | 85,609 |

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

## 5.6 Fair value measurement

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

## 6. Financial instruments

| **As at 31 December 2012** | **Financial assets** | **Other financial liabilities** |
|---|---|---|
| | Loans and receivables | Liabilities measured at amortised cost |
| Trade receivables | 31,929 | - |
| Cash and cash equivalents | 4,213 | - |
| Trade payables | - | 17,475 |
| Loans and borrowings | - | 27,738 |
| Liabilities from finance leases | - | 154 |
| **TOTAL** | **36,142** | **45,367** |

| **As at 31 December 2011** | **Financial assets** | **Other financial liabilities** |
|---|---|---|
| | Loans and receivables | Liabilities measured at amortised cost |
| Trade receivables | 37,081 | - |
| Cash and cash equivalents | 3,731 | - |
| Trade and other payables | - | 23,199 |
| Loans and borrowings | - | 46,692 |
| Liabilities from finance leases | - | 308 |
| **TOTAL** | **40,812** | **70,199** |

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

2012:

| | **Financial assets** | **Financial liabilities** |
|---|---|---|
| Interest income | 37 | - |
| Interest expenses | (560) | (2,831) |
| Profits on exchange differences | 1,583 | - |
| Losses on exchange differences | (1,283) | (762) |
| Establishment of impairment write-downs | (94) | - |
| Reversal of impairment write-downs | 490 | - |
| **Total net profit / (loss)** | **173** | **(3,593)** |

2011:

| | **Financial assets** | **Financial liabilities** |
|---|---|---|
| Interest income | 90 | - |
| Interest expenses | - | (3,994) |
| Profits on exchange differences | 1,583 | - |
| Losses on exchange differences | - | (192) |
| Establishment of impairment write-downs | 148 | - |
| Reversal of impairment write-downs | (169) | - |
| **Total net profit / (loss)** | **1,652** | **(4,186)** |

## 7. Property, plant and equipment

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Land | 2,907 | 2,907 |
| Buildings and structures | 10,108 | 10,058 |
| Plant and equipment | 798 | 822 |
| Vehicles | 962 | 1,055 |
| Other | 1,751 | 1,279 |
| **Total** | **16,526** | **16,121** |
| Construction in progress | 32 | 13 |
| **Total property, plant and equipment** | **16,558** | **16,134** |

## Changes in property, plant and equipment assets by type

| | Land | Buildings and structures | Technical equipment and machinery | Vehicles | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **Initial value** | | | | | | | |
| As at 1 January 2012 | 2,907 | 11,713 | 3,207 | 3,968 | 5,226 | 13 | **27,034** |
| Increases | - | 412 | 309 | 430 | 895 | 1,092 | **3,138** |
| Decreases | - | - | (98) | (216) | (19) | (1,073) | **(1,406)** |
| Currency translation differences | - | - | (29) | (100) | (16) | - | **(145)** |
| **As at 31 December 2012** | **2,907** | **12,125** | **3,389** | **4,082** | **6,086** | **32** | **28,621** |
| As at 1 January 2011 | 2,907 | 11,012 | 2,585 | 3,492 | 4,355 | - | **24,351** |
| Increase | - | 701 | 711 | 544 | 908 | 13 | **2,877** |
| Decrease | - | - | (106) | (115) | (46) | - | **(267)** |
| Currency translation differences | - | - | 17 | 47 | 9 | - | **73** |
| **As at 31 December 2011** | **2,907** | **11,713** | **3,207** | **3,968** | **5,226** | **13** | **27,034** |
| **Depreciation** | | | | | | | |
| As at 1 January 2012 | - | 1,655 | 2,385 | 2,913 | 3,947 | - | **10,900** |
| Increases | - | 362 | 325 | 463 | 419 | - | **1,569** |
| Decreases | - | - | (98) | (205) | (19) | - | **(322)** |
| Currency translation differences | - | - | (21) | (51) | (12) | - | **(84)** |
| **As at 31 December 2012** | **-** | **2,017** | **2,591** | **3,120** | **4,335** | **-** | **12,063** |
| As at 1 January 2011 | - | 1,199 | 1,797 | 2,286 | 3,505 | - | **8,787** |
| Depreciation for the year | - | 456 | 660 | 639 | 524 | - | **2,279** |
| Decrease in accumulated depreciation | - | - | (93) | (52) | (46) | - | **(191)** |
| Currency translation differences | - | - | 21 | 40 | (36) | - | **25** |
| **As at 31 December 2011** | **-** | **1,655** | **2,385** | **2,913** | **3,947** | **-** | **10,900** |
| **Carrying amount** | | | | | | | |
| **As at 31 December 2012** | **2,907** | **10,108** | **798** | **962** | **1,751** | **32** | **16,558** |
| **As at 31 December 2011** | **2,907** | **10,058** | **822** | **1,055** | **1,279** | **13** | **16,134** |

As at 31 December 2012 and 31 December 2011, the Group held a server under a financial lease – for detailed information see note 20.

As at 31 December 2012, the Group used a warehouse in Nadarzyn and 6 cars under an operating lease agreement (note 21).

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

For contractual commitments to purchase property, plant and equipment, see note 32.

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

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

In connection with the spin-off of the Disposal group, the plot along with the expenditure has been removed from the Group’s books as at 6 April 2011, as detailed in the consolidated financial statements as at 31 December 2011. However, since there has been no effective transfer of ownership and the Parent Company formally is not the owner of the plot due to expropriation, the Parent Company is entitled to make claims against the Poviat for expropriation of the said property and the expenditure incurred in relation therewith. As a result of the disclosed legal defect of the contribution, the property along with the expenditure is recognised as at 31 December 2012 in the off-balance-sheet records of the Group, as it does not meet the definition of a Company’s asset and, therefore, it is not included in the table of changes in property plant and equipment presented on the previous page.

Thus, by way of compensation for the damage resulting from the property’s legal defect, the Parent Company is obliged to pay to Toya Development Sp. z o.o. SKA a compensation equivalent to the amount of compensation obtained from the Trzebnicki Poviat. The right to compensation will arise in the amount of the compensation obtained by Toya S.A., providing that such compensation is obtained. Consequently, on 31 December 2012, the Group had a contingent receivable from the Trzebnicki Poviat and the matching, equivalent liability towards Toya Development Sp. z o.o. SKA – see also note 30.

## 8. Intangible assets

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Concessions and patents, including: | 398 | 542 |
| software | 398 | 542 |
| Other | - | - |
| **Total** | **398** | **542** |
| Intangible assets under development | 500 | 95 |
| **Total intangible assets** | **898** | **637** |

### Changes in intangible assets

| | Software | Intangible assets under development | Total |
|---|---|---|---|
| **Initial value** | | | |
| As at 1 January 2012 | 1,127 | 95 | **1,222** |
| Increases | - | 405 | **405** |
| Decreases | - | - | **-** |
| Currency translation differences | (7) | - | **(7)** |
| **As at 31 December 2012** | **1,120** | **500** | **1,620** |
| As at 1 January 2011 | 832 | - | **832** |
| Increase | 305 | 95 | **400** |
| Decrease | (15) | - | **(15)** |
| Currency translation differences | 5 | - | **5** |
| **As at 31 December 2011** | **1,127** | **95** | **1,222** |
| **Depreciation** | | | |
| As at 1 January 2012 | 585 | - | **585** |
| Increases | 142 | - | **142** |
| Decreases | - | - | **0** |
| Currency translation differences | (5) | - | **(5)** |
| **As at 31 December 2012** | **722** | **-** | **722** |
| As at 1 January 2011 | 477 | - | **477** |
| Depreciation for the year | 120 | - | **120** |
| Decrease in accumulated depreciation | (14) | - | **(14)** |
| Currency translation differences | 2 | - | **2** |
| **As at 31 December 2011** | **585** | **-** | **585** |
| **Carrying amount** | | | |
| **As at 31 December 2012** | **398** | **500** | **898** |
| **As at 31 December 2011** | **542** | **95** | **637** |

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

Intangible assets under development include works related to the construction and development of the functionality of an on-line store at www.toya24.pl and the expenditure incurred for the implementation of the supply module in the SAP system in the Parent Company.

No security interests in the intangible assets have been created. For information on commitments to purchase intangible assets, see note 32.

## 9. Investments in jointly-controlled entities valued using the equity method

As at 31 December 2012 and 31 December 2011, the Group held interest and shares in the following equity-accounted jointly-controlled entities:

| | Type of equity link | % of shares and votes held | Value of shares |
|---|---|---|---|
| **31 December 2012** | | | |
| Yato China Trading Co., Ltd. | Jointly-controlled entity | 51.00 | 1,479 |
| | | | **1,479** |
| **31 December 2011** | | | |
| Yato China Trading Co., Ltd. | Jointly-controlled entity | 51.00 | 1,868 |
| | | | **1,868** |

In 2011 and 2012 the following changes in the interests and shares held took place:

| | Yato China Trading | Total |
|---|---|---|
| **As at 1 January 2011** | **1,596** | **1,596** |
| Acquisition of shares | - | - |
| +/- share in net profit/loss | (50) | (50) |
| +/- currency translation differences | 322 | 322 |
| **As at 31 December 2011** | **1,868** | **1,868** |
| Acquisition of shares | - | - |
| +/- share in net profit/loss | (241) | (241) |
| +/- currency translation differences | (148) | (148) |
| **As at 31 December 2012** | **1,479** | **1,479** |

Information on the acquisition of shares and control of Yato China Co., Ltd. after the end of the financial year, i.e. on 2 June 2013, is presented in Note 35.1.

Key financial data of jointly-controlled entities are presented in the table below:

| | Non-current assets | Current assets | Long-term liabilities | Short-term liabilities | Revenue | Expenses | Net loss |
|---|---|---|---|---|---|---|---|
| **31.12.2012 / 2012** | | | | | | | |
| Yato China Trading Co., Ltd. | 1,296 | 15,917 | - | 14,313 | 38,149 | 38,621 | (472) |
| | 1,296 | 15,917 | - | 14,313 | 38,149 | 38,621 | (472) |
| **31.12.2011 / 2011** | | | | | | | |
| Yato China Trading Co., Ltd. | 1,515 | 19,600 | - | 17,491 | 31,582 | 31,681 | (99) |
| | 1,515 | 19,600 | - | 17,491 | 31,582 | 31,681 | (99) |

For information on the guarantee issued by the Group for the benefit of Yato China Trading Co. Ltd see note 30.

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Trade receivables from related parties | 1,869 | - |
| Other receivables from related parties | 2,250 | - |
| Other receivables from third parties | 120 | 121 |
| Accruals and deferrals related to the perpetual usufruct right | 233 | 236 |
| **Total trade receivables and other long-term receivables, gross** | **4,472** | **357** |
| Discount of long-term receivables | (560) | - |
| **Total trade receivables and other long-term receivables, net** | **3,912** | **357** |

Pursuant to an agreement signed on 29 November 2012 with a related entity, the repayment date for an account receivable of PLN 4,119 thousand (including PLN 1,869 thousand of trade receivables and PLN 2,250 thousand of remuneration for withdrawal from the position of a general partner in Toya Development Sp. z o.o. SKA), which were past due as at the above date, has been postponed to 31 December 2015. On account of the postponed repayment date, the receivables have been valued at amortised cost, using the interest rate of 4.99% estimated on the basis of the average cost of a loan obtained by the Parent Company as at that date. The corresponding discount value of PLN 560 thousand has been recognised in finance costs.

The Group purchased the right of perpetual usufruct from other entities. Perpetual usufruct fees included in the financial result amounted to PLN 20 thousand both in 2011 and in 2012.

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| up to 1 year | 20 | 20 |
| 1–3 years | 40 | 40 |
| 3–5 years | 40 | 40 |
| over 5 years | 1,480 | 1,500 |
| **Total** | **1,580** | **1,600** |

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

## 11. Inventory

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Materials | 234 | 181 |
| Goods | 95,792 | 99,061 |
| Revaluation write-down | (2,383) | (2,360) |
| **Total inventory** | **93,643** | **96,882** |

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

| | 2012 | 2011 |
|---|---|---|
| **As at 1 January** | 2,360 | 2,601 |
| Increase | 23 | - |
| Reversal/utilisation | - | (241) |
| **As at 31 December** | **2,383** | **2,360** |

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 receivables and other receivables

Trade and other receivables comprise the following items:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Trade receivables from related parties | 86 | 1,783 |
| Trade receivables from third parties | 31,497 | 36,841 |
| **Total trade receivables** | **31,583** | **38,624** |
| Taxes, customs duties and social security receivable | 62 | 208 |
| Other receivables from related parties | - | 2,250 |
| Other receivables from third parties | 81 | 183 |
| Accruals and deferred income | 632 | 267 |
| **Total gross receivables** | **32,358** | **41,532** |
| Impairment write-downs of doubtful receivables | (1,269) | (1,714) |
| *of which write-down for tax receivables* | - | *(171)* |
| **Total net receivables** | **31,089** | **39,818** |

As at 31 December 2012, trade receivables in the amount of PLN 9,871 thousand (31 December 2011: PLN 7,917 thousand) were past due, of which trade receivables of PLN 8,602 thousand were past due but not impaired (31 December 2011: PLN 7,458 thousand).

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Overdue period** | | |
| from 1 to 180 days | 8,515 | 6,243 |
| from 181 to 360 days | 84 | 1,196 |
| more than 360 days | 3 | 19 |
| **Total** | **8,602** | **7,458** |

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

| | 2012 | 2011 |
|---|---|---|
| **As at 1 January** | **1,714** | **1,735** |
| Increase | 94 | 148 |
| Reversal/utilisation | (490) | (169) |
| Currency translation differences | (49) | |
| **As at 31 December** | **1,269** | **1,714** |

Recognition and reversal of impairment write-downs of receivables was recorded in: "Selling costs".

For security created over receivables, see note 17.

## 13. Cash and cash equivalents

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Cash in hand and at bank | 3,929 | 2,402 |
| Bank deposits | 282 | 1,327 |
| Cash equivalents | 2 | 2 |
| **Total cash and cash equivalents** | **4,213** | **3,731** |

Short-term deposits are placed at banks for periods of up to several days; most frequently these are overnight deposits.

Apart from cash disclosed in the consolidated 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 under loans granted, amounting to PLN 7 thousand as at 31 December 2012 and amounting to PLN 0 as at 31 December 2011. As at 31 December 2012, these founds amounted to PLN 34 thousand (as at 31 December 2011: PLN 59 thousand). The Parent Company may use these funds only in the manner provided for by the law with regard to the ZFŚS resources.

Apart from the ZFŚS resources, as at 31 December 2012 and 31 December 2011, the Group did not have any cash with restricted disposability.

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

| **12 months ended 31 December 2012** | | **Adjustments** | | |
|---|---|---|---|---|
| | **Balance sheet change** | **Discount of long-term receivables** | **Measurement of cash in foreign currencies** | **Change in statement of cash flows** |
| Change in trade and other receivables | 5,174 | (560) | - | 4,614 |
| Change in inventories | 3,239 | - | - | 3,239 |
| Change in provisions | 6 | - | - | 6 |
| Change in trade and other payables | (4,612) | - | - | (4,612) |
| Change in employee benefit liabilities | 117 | - | - | 117 |
| **Changes in cash** | **482** | **-** | **138** | **620** |

| **12 months ended 31 December 2011** | | **Adjustments** | | | | |
|---|---|---|---|---|---|---|
| | **Balance sheet change** | **Separation of assets for distribution and remuneration for withdrawal from general partner position** | **Change in receivables from transactions classified as discontinued operations** | **Measurement of cash in foreign currencies** | **Change in liabilities due to income tax on dividend** | **Change in the statement of cash flows** |
| Change in trade receivables and other receivables | (5,067) | 2,250 | 497 | - | - | (2,320) |
| Change in inventories | (22,448) | - | - | - | - | (22,448) |
| Change in provisions | 12 | - | - | - | - | 12 |
| Change in trade and other payables | (2,008) | - | - | - | (935) | (2,943) |
| Change in trade and benefit obligations | (503) | - | - | - | - | (503) |
| **Changes in cash** | **1,551** | **3,987** | **-** | **(146)** | **-** | **5,392** |

## 14. Share capital

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

As at 31 December 2011, the share capital amounted to PLN 7,484 thousand and comprised 74,836,800 shares with a par value of PLN 0.1 each.

The table below presents the ownership structure and percentage stakes held in the Parent Company as at 31 December 2012:

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

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

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

On 27 March 2012, the Management Board of the Parent Company adopted a resolution concerning an increase of the share capital through the issue of series E shares within the authorised capital and a resolution concerning the exclusion of the subscription rights of the existing shareholders for the new series E shares. The share capital was increased from PLN 7,484 thousand to PLN 7,502 thousand through the issue of 187,842 ordinary bearer shares of series E with a par value of PLN 0.10 and an issue price of PLN 0.10 per share.

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

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

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

## 15. Reserve capital

The Group's reserve capital is created in connection with the remuneration based on shares under IFRS 2.

### 15.1 Share options for the Supervisory Board

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

Pursuant to the adopted scheme:

a) Three members of the Supervisory Board (Piotr Mondalski, Dariusz Górka and Grzegorz Maciąg) will receive payments in the form of a right to acquire the Parent Company's shares in an aggregate number equal to 0.75% of all of the Parent Company's shares registered on the date when the offer to acquire the share is made, of which Piotr Mondalski will have the right to acquire 0.35% of such shares, whereas Dariusz Górka and Grzegorz Maciąg will each have the right to acquire 0.2% of the shares. The shares will be acquired in three tranches, with the first one already realised (see note 14). Subsequent tranches will be realised on the following dates: the second tranche between 1 December 2012 and 30 April 2013, and the third between 1 December 2013 and 30 April 2014. In the event that the offered shares are not acquired by the eligible individuals as stated above, they will be offered to them as part of the next tranches. The entitled members of the Supervisory Board may indicate another entity to acquire the shares.

b) The other four members of the Supervisory Board (the existing shareholders) will not be entitled to any remuneration for serving as members of the Supervisory Board.

c) The Management Board will offer the shares to the Supervisory Board members at their par value (i.e. PLN 0.1).

d) Each of the Supervisory Board members may decide to collect their remuneration in cash, up to the maximum amount of PLN 7 thousand a month. If a Supervisory Board member decides to collect a portion of his remuneration in cash, the number of shares offered to them by the Management Board will be reduced accordingly.

The total cost of the scheme was determined on the basis of the fair value of granted options and amounted to PLN 1,916 thousand as at the grant date. As at 31 December, following a revision of the number of shares which the eligible members of the Supervisory Board are entitled to acquire, the aggregate estimate value of the scheme is PLN 1,924 thousand. In 2012, the amount of PLN 613 thousand was recognised in costs, while in 2011 it was PLN 1,040 thousand.

The total cost is recognised over the vesting period, i.e. from 14 February 2011 (date of appointment of participating members of the Supervisory Board by the General Shareholders' Meeting, in accordance with IFRS 2 section IG4) until 13 February 2014.

As each participating member of the Supervisory Board has an option to settle the transaction in cash or in shares of the Parent Company, the remuneration scheme is a compound financial instrument consisting of both equity and debt component.

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

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

- the share price at the grant date – PLN 3.8 per share,
- dividend for 2011 and 2012 at the same level as in 2010, i.e. PLN 0.14 per share.
- risk-free interest rate was determined based on yield on zero-coupon government bonds with a remaining term close to the expected term of settlement of each tranche of the scheme (4.52%, 4.67% and 5.14% respectively),
- volatility of shares has been set to an average level of 40%.

Under the adopted rules of remuneration of the Supervisory Board, the Supervisory Board members or entities indicated by them obtained 187,842 ordinary bearer series E shares with a par value of PLN 0.10 and an issue price of PLN 0.10 per share (see: note 14) for the first year of service. As a result of exercising the options, the amount of PLN 665 thousand corresponding to the valuation of the exercised options according to their fair value was reclassified from reserve capital to share premium from the shares issued.

Information about resolutions adopted after the balance sheet date, connected with the offering of the 2nd tranche of shares to the eligible Supervisory Board members is provided in note 35.2.

### 15.2 Arrangements concerning employee participation in the Parent Company's share capital

A management incentive scheme has been introduced in the Parent Company to create incentive mechanisms which ensure long-term growth of the Parent Company's value and a steady increase of net profit, as well as stabilisation of the management staff. Based on resolution No 2 of the Extraordinary General Shareholders' Meeting of 8 February 2011 on adopting the rules of the incentive scheme for the Parent Company's management staff and key employees, TOYA S.A., the Parent Company, launched an incentive scheme which will be implemented over four consecutive financial years: 2011–2014. On 23 May 2011, by virtue of its Resolution No. 11, the Annual General Shareholders' Meeting introduced a number of amendments to the aforementioned resolution. The incentive scheme is addressed to members of the Management Board and key employees of the Parent Company, indicated annually by the Supervisory Board. Under the scheme, its participants will be entitled to acquire in aggregate up to 2,243,430 Series A registered subscription warrants carrying the right to acquire Series D ordinary bearer shares in the Parent Company with a par value of PLN 0.10 per share and an aggregate par value of PLN 224 thousand.

On 8 November 2011, the Supervisory Board approved the detailed terms of the Incentive Scheme together with its Rules, the list of Eligible Individuals and the number of Options available to each person. The total number of shares issued as part of the incentive scheme will not exceed 2,243,430. The eligible individual will have the right to acquire no more than: 18% of shares for 2011, 25% of shares for 2012, 27% of shares for 2013 and 30% of shares for 2014.

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

- growth of the Group's consolidated net profit for the financial years 2011–2014 by at least 22% per annum. Upon fulfilment of this condition, eligible individuals will be granted the right to acquire 100% of shares under the incentive scheme for 2011 and 75% of the shares under the incentive scheme for the years 2012–2014.
- the average price of shares of Toya S.A. from the last 40 exchange sessions in the year remaining in such a relation to WIG as at year-end in each two subsequent years of the Scheme that the percentage increase or decrease of the Parent Company's average share price in relation to the percentage increase or decrease in WIG will be accordingly higher or lower by at least one

percentage point in favour of the Parent Company's share price. Upon fulfilment of this condition, eligible individuals will be granted the right to acquire 25% of shares under the incentive scheme for the years 2012–2014.

- failure to fulfil any of the above conditions in a given year does not rule out the possibility to acquire shares if the conditions are met at the end of the term of the scheme.

To enable implementation of the scheme, Series A subscription warrants intended for the scheme participants will be issued in an aggregate number of up to 2,243,430, carrying the right to acquire up to 2,243,430 Series D shares. The subscription warrants will be issued free of charge, on such terms and conditions as specified by the Supervisory Board in the Rules for the Incentive Scheme. A single series A subscription warrant will carry the right to acquire one Series D share. The issue price of Series D shares acquired in exercise of the rights attached to Series A subscription warrants will be equal to PLN 0.10. Series D subscription warrants will not be issued in a public offering as referred to in Article 3.3 of the Act on Public Offering. The warrants will be non-transferable, except that they may be transferred to the Parent Company. Moreover, the warrants may be inherited.

According to the Supervisory Board Resolution dated 8 November 2011, later amended by Resolution of 29 May 2012, as at 31 December 2012 there are 22 participants of the scheme who may be granted a total of 1,299,287 share options in total.

The scheme has been valued by external actuary using the Monte-Carlo simulation techniques and analytical models. This method is an extension of the Black-Scholes-Merton model. The basic assumptions used for the purposes of the valuation were as follows:

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

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

The total cost of the scheme was determined on the basis of the fair value of granted options and was estimated at PLN 2,617 thousand for both pools as at the grant date. As at 31 December, following a revision of the number of shares which the eligible individuals are entitled to acquire, the aggregate estimate value of the scheme is PLN 2,531 thousand. In 2102, the amount of PLN 1,236 was recognised in costs, while in 2011 it was PLN 131 thousand.

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

On 16 July 2012, the Parent Company's Supervisory Board adopted a resolution concerning the granting of options to Eligible Individuals as a part of the first tranche of the Incentive Scheme. As part of realisation of that tranche, a total 188,947 ordinary bearer series D shares with a par value of PLN 0.10 and a total value of PLN 18,894.70 were issued. Detailed information is provided in note 14.

## 16. Retained earnings and dividend per share

In line with the provisions of the Commercial Companies Code, retained earnings are used to create statutory reserve funds, to which at least 8% of the profit generated in a given financial year is transferred until the statutory reserve funds reach at least one-third of the share capital, i.e. in the case of the Parent Company – PLN 2,507 thousand as at 31 December 2011 (and PLN 2,495 thousand as at 31 December 2011). These statutory reserve funds are exempt from distribution among shareholders and may only be used to cover losses. As at 31 December 2012 and 31 December 2011, 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 67,019 thousand as at 31 December 2012 represents accumulated profit from previous years, of which PLN 64,582 thousand represent the accumulated profit of the Parent Company and may be allocated to the payment of dividend.

Dividend per share:

| | 12 months ended 31 December | |
|---|---|---|
| | **2012** | **2011** |
| Dividend paid | - | 9,282 |
| Weighted average number of ordinary shares ('000) | 75,038 | 65,574 |
| **Dividend per share (PLN)** | **-** | **0.14** |

On 26 June 2012, the General Shareholders’ Meeting of Toya S.A. approved the consolidated financial statements of Toya S.A. Group and the financial statements of TOYA S.A. for 2011 and resolved to allocate the profit earned in 2011 to the statutory reserve funds.

## 17. Liabilities under loans, borrowings and other debt instruments

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Bank loan liabilities, of which** | **27,738** | **46,692** |
| - long-term | **-** | - |
| - short-term | 27,738 | 46,692 |

Changes in loans, borrowings and bonds related to continuing and discontinued operations are presented in the table below.

| | Loans taken | Borrowings taken | Total |
|---|---|---|---|
| **As at 1 January 2011** | **55,057** | **5295** | **60,352** |
| Increase in loans / issue of bonds | 29,547 | 5,000 | 34,547 |
| Interest for the period | 3,716 | 258 | 3,974 |
| Interest repaid | -3,550 | -403 | -3,953 |
| Repayment of principal | -38,078 | -10,150 | -48,228 |
| **As at 31 December 2011** | **46,692** | **-** | **46,692** |
| Increase in loans / issue of bonds | 12,098 | - | 12,098 |
| Interest for the period | 2,823 | - | 2,823 |
| Interest repaid | -2,766 | - | -2,766 |
| Repayment of principal | -31,109 | - | -31,109 |
| **As at 31 December 2012** | **27,738** | **-** | **27,738** |

## Description of loan agreements and borrowings:

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

Bank margins relating to the loans listed above range from 0.5% to 1%.

The table below presents security for repayment of the loans:

| Type of security | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Mortgage | 81,849 | 85,744 |
| Transfer of title to inventory | 57,794 | 45,831 |
| Assignments of claims | 23,235 | 29,965 |
| **Total restricted assets** | **162,878** | **161,540** |

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 state appraiser for the bank's needs). The book value of mortgaged assets was PLN 13,015 thousand as at 31 December 2012 (PLN 12,923 thousand as at 31 December 2011). The values of other types of security were determined at the carrying amounts of the assets provided as security as at 31 December 2012 and 31 December 2011.

The securities apply throughout the term of loan agreements. The Parent Company has a restricted ability to dispose of the mortgaged assets – the sale of such assets requires the bank's consent. In the event of securities established over inventory, the Parent Company may freely dispose of the assets, providing that they will be replaced by a security of the same type and in the same quantity, with minimum values defined in individual agreements with banks amounting to PLN 45 million. In the case of assignments of trade receivables, the Parent Company is obliged to refrain from any legal or actual actions resulting in restrictions on the Parent Company's ability to dispose of these receivables. In addition, the Parent Company has undertaken not to provide loans or guarantees to third parties without the prior consent of the bank throughout the term of the loan.

### Effective interest rate for loans

The effective interest rates are close to the nominal interest rates calculated in line with the terms of the agreements described above.

### Defaults under loan agreements

As at 31 December 2012 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.

Both the investment loan agreements and the working capital credit facility agreements require the borrower to maintain its financial debt ratios and debt servicing ratios at an agreed level throughout the lending period. If these requirements are not met, the bank has the right to terminate the agreement.

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

## 18. Trade and other payables

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Trade payables to related parties | 278 | - |
| Trade payables to third parties | 17,197 | 23,055 |
| **Total trade payables** | **17,475** | **23,055** |
| Tax liabilities | 245 | 201 |
| Accruals and deferred income | 989 | 72 |
| Other payables to third parties | 78 | 71 |
| **Total other current payables** | **1,312** | **344** |
| **Total** | **18,787** | **23,399** |

## 19. Liabilities from employee benefits

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Provisions for retirement benefits and disability pensions, and for death benefits | 139 | 107 |
| **Liabilities from employee benefits – non-current portion** | **139** | **107** |
| Provisions for retirement benefits and disability pensions, and for death benefits | 5 | 5 |
| Taxes and social security contributions payable | - | - |
| Payroll liabilities | 79 | 64 |
| Unused holidays | 380 | 310 |
| **Liabilities from employee benefits – current portion** | **464** | **379** |

The amount of provision for retirement benefits and death benefits as at 31 December 2012 and 2011 was estimated by an actuary. The basic assumptions were as follows:

Calculation as at 31 December 2012:

- discount rate (risk-free rate) – 3.7% in 2012 and 5.5% in 2011
- growth rate of remunerations – 1.5%

Calculation as at 31 December 2011:

- discount rate (risk-free rate) – 5.5% in 2011
- growth rate of remunerations – 0% in 2012 and 2013, 3.5% in 2014 and after

The statement of actuarial gains and losses is presented below.

| | 2012 | 2011 |
|---|---|---|
| **current value of liability as at 1 January** | **112** | **113** |
| current service cost | 15 | 25 |
| net interest on net liability | 6 | 6 |
| actuarial gains or losses | 19 | (17) |
| past service cost | (8) | - |
| benefits paid | - | (15) |
| **current value of liability as at 31 December** | **144** | **112** |

Total expenses recognised in profit or loss in respect of future employee benefits in accordance with the above statement amounted to PLN 32 thousand in 2012 and PLN 14 thousand in 2011 and were recognised in administrative expenses.

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Minimum lease payments** | | |
| payable up to 1 year | 173 | 173 |
| payable between 2 and 5 years | 0 | 173 |
| **Total** | **173** | **346** |
| Future interest expenses | 19 | 38 |
| **Finance lease liabilities** | **154** | **308** |
| of which: | | |
| payable up to 1 year | 154 | 154 |
| payable between 2 and 5 years | - | 154 |

The Group leases a server under finance lease of the carrying value amounting to PLN 167 thousand as at 31 December 2012, under an agreement dated 30 December 2010. The net amount of the lease liability as at the date of the agreement was PLN 462 thousand. The agreement was executed for a period of 36 months, with the last lease payment due on 31 January 2014. Monthly lease payments amount to PLN 14 thousand. Monthly lease payments amount to PLN 14 thousand. The buyout payment is 1% of the financing amount, i.e. PLN 5 thousand. The terms and conditions of the Agreement do not differ from terms and conditions commonly applied in this type of agreements. The server system was delivered in January 2011.

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

The Group uses a warehouse in Nadarzyn and a car park in Wrocław, and since 2012 also passenger cars, under non-cancellable operating lease agreements. Moreover, the Group uses land in Wrocław, under the perpetual usufruct of land (for detailed information see note 11).

The costs incurred in connection with the operating leases are presented in the table below:

| | 12 months ended 31 December | |
|---|---|---|
| | **2012** | **2011** |
| Costs incurred under warehouse lease agreements | 1,137 | 2,119 |
| Costs incurred under car park lease agreements | 16 | 16 |
| Costs incurred under car lease agreements | 2 | - |
| **Total** | **1,155** | **2,135** |

The warehouse leasing costs presented in the table above include the rent and service charges.

Total amounts of future minimum lease payments under lease agreements for the Nadarzyn warehouse amount to:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| up to 1 year | 1,708 | 585 (*) |
| 1–3 years | 3,416 | 3,673 |
| 3–5 years | 1,850 | 3,673 |
| over 5 years | - | 153 |
| **Total** | **6,975** | **8,084** |

(*) The warehouse is leased from ProLogis Poland XXXIX Sp. z o.o. under a ten-year lease agreement of 17 July 2006. On 29 March 2011, the Parent Company signed an annex amending the amount of rent. The annex gives the Parent Company the right to a reduced rent for 9 months starting from 29 January 2012. The future minimum lease payments up to 1 year as at 31 December 2011 have been adjusted to include changes introduced by the annex.

In October 2012, the Parent Company entered into a general passenger car lease agreement. As at 31 December 2012, 6 cars had been provided for use under the agreement. The agreements were concluded for a period of 48 months.

The aggregate future minimum lease payments under the car leases are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| up to 1 year | 55 | - |
| 1–3 years | 110 | - |
| 3–5 years | 53 | - |
| **Total** | **218** | **-** |

## 22. Provisions

| | Provisions for guarantee repairs | Other provisions | TOTAL |
|---|---|---|---|
| **As at 1 January 2012** | **229** | **-** | **229** |
| Provision created | 225 | 10 | 235 |
| Provision reversed | -229 | - | -229 |
| **As at 31 December 2012** | **225** | **10** | **235** |
| Short-term as at 31 December 2012 | 225 | 10 | 235 |
| | | | |
| **As at 1 January 2011** | **217** | **-** | **217** |
| Provision created | 229 | - | 229 |
| Provision reversed | -217 | - | -217 |
| **As at 31 December 2011** | **229** | **-** | **229** |
| Short-term as at 31 December 2011 | 229 | - | 229 |

## 23. Revenue from sales

| | 12 months ended 31 December | |
|---|---|---|
| | **2012** | **2011** |
| **Revenue from sales** | | |
| Sales of finished goods | - | - |
| Sales of services | - | - |
| Sales of goods for resale and materials | 201,247 | 210,308 |
| **Total sales revenues** | **201,247** | **210,308** |

## 24. Costs by type and cost of goods sold

| | 12 months ended 31 December | |
|---|---|---|
| | **2012** | **2011** |
| Amortisation and depreciation | 1,711 | 2,399 |
| Materials and energy consumption | 2,740 | 2,674 |
| Third-party services | 12,121 | 13,727 |
| Taxes and fees | 884 | 812 |
| Cost of employee benefits | 17,185 | 15,665 |
| Other costs by type | 4,318 | 3,447 |
| Value of goods and materials sold | 134,463 | 137,486 |
| **Total costs by type and value of goods and materials sold** | **173,422** | **176,210** |
| | | |
| Selling costs | 27,481 | 27,463 |
| Administrative expenses | 11,478 | 11,261 |
| **Cost of products and goods sold** | **134,463** | **137,486** |

## 25. Cost of employee benefits

| | 12 months ended 31 December | |
|---|---|---|
| | **2012** | **2011** |
| Payroll | 12,652 | 12,120 |
| Cost of share options | 1,849 | 1,175 |
| Cost of social insurance | 2,449 | 2,093 |
| Cost of retirement benefits | - | 15 |
| Cost of other employee benefits | 235 | 262 |
| **Total cost of employee benefits** | **17,185** | **15,665** |

## 26. Other operating income and expenses

| | 12 months ended 31 December | |
|---|---|---|
| | 2012 | 2011 |
| Gains on sale of property, plant and equipment | 28 | - |
| Net currency exchange gains related to operating activities | - | 1,391 |
| Revenues from other sales | 268 | 23 |
| Compensations received under automobile insurance agreements or from business partners | 71 | 208 |
| Notes – settlements with suppliers | 110 | - |
| Liabilities write-off | 184 | - |
| Other operating income | 59 | 103 |
| **Total other operating income** | **720** | **1,725** |

| | 12 months ended 31 December | |
|---|---|---|
| | 2012 | 2011 |
| Loss on sale of property, plant and equipment | - | 52 |
| Net currency exchange losses related to operating activities | 2,044 | - |
| Cost of other sales | 309 | - |
| Penalties and fines paid | 24 | 100 |
| Court and debt recovery fees | 13 | 122 |
| Interest paid to the state budget and to counterparties | 2 | 7 |
| Write-off of overpayments / advances to suppliers | - | 120 |
| Credit notes – settlements with suppliers | - | 53 |
| Write-off of receivables | 77 | 67 |
| Other | 42 | 95 |
| **Total other operating expense** | **2,511** | **616** |

## 27. Financial income and costs

| | 12 months ended 31 December | |
|---|---|---|
| | 2012 | 2011 |
| Interest on cash in bank accounts | 37 | 90 |
| **Total financial income** | **37** | **90** |

| | 12 months ended 31 December | |
|---|---|---|
| | 2012 | 2011 |
| Interest and commissions on loans and borrowings | 2,812 | 3,975 |
| Other interest | 560 | - |
| Interest on finance lease liabilities | 19 | 19 |
| **Total financial costs** | **3,391** | **3,994** |

## 28. Income tax

### Tax expense

The reporting periods presented in these financial statements cover the following tax periods:
- from 1 January 2012 to 31 December 2012,
- from 1 January 2011 to 31 December 2011.

| | 12 months ended 31 December | |
|---|---|---|
| | **2012** | **2011** |
| Current income tax | 5,349 | 6,354 |
| Deferred income tax | (553) | (231) |
| Total income tax | **4,796** | **6,123** |

A 19% corporate income tax rate was applicable in all the presented 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:

| | 12 months ended 31 December | |
|---|---|---|
| | **2012** | **2011** |
| Profit before tax | 22,439 | 31,253 |
| Tax rate applicable in the period | 19% | 19% |
| **Tax calculated at the applicable tax rate** | **4,263** | **5,938** |
| Tax effect of the following items: | | |
| - measurement for jointly-controlled entities using the equity method – Yato China | 46 | 10 |
| - permanent tax differences – revenue | (28) | (58) |
| - permanent tax differences – costs | 588 | 312 |
| - temporary tax differences for which no asset was created | (71) | (21) |
| - adjustment of tax from previous years | - | (27) |
| Technology credit | - | (13) |
| Difference between tax rates applicable in other countries (in Romania: 16%) | (34) | (25) |
| Effect of the tax loss of Kryniczno for 9 months of 2010 | - | - |
| Other | 32 | 7 |
| **Income tax recognised in profit or loss** | **4,796** | **6,123** |

Regulations on value added tax, corporate and personal income tax or social security contributions change frequently, and as a consequence it is often not possible to rely on established regulations or legal precedents. The regulations in effect tend to be unclear, thus leading to differences in opinions as to the legal interpretation of fiscal regulations, both between state authorities themselves and between state authorities and entrepreneurs. Tax and other settlements (customs duty or foreign exchange settlements) may be inspected by authorities empowered to impose high penalties, and any additional amounts assessed following an inspection must be paid together with high interest. Consequently, the tax risk in Poland is higher than in other countries where tax systems are more developed. In Poland, there are no formal procedures for the determination of the final amount of tax due. Tax settlements may be inspected for the period of five years. Therefore, the amounts disclosed in the financial statements may change at a later date, following the final determination of their amount by the competent tax authorities.

### Deferred income tax

| | As at 31 December 2012 | | | As at 1 January 2012 | Recognised in profit or loss / equity |
|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Net | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | - | 10 | (10) | (32) | 22 |
| Trade receivables and other receivables | 106 | 44 | 62 | - | 62 |
| **Current assets** | | | | | |
| Inventory | 593 | - | 593 | 498 | 95 |
| Trade receivables and other receivables | 193 | - | 193 | 103 | 90 |
| Cash and cash equivalents | 1 | - | 1 | (3) | 4 |
| **Long-term liabilities** | | | | | |
| Trade and other payables | 261 | - | 261 | 39 | 222 |
| Liabilities from employee benefits | 99 | - | 99 | 80 | 19 |
| Liabilities from loans, borrowings and other debt instruments | 23 | - | 23 | 12 | 11 |
| Liabilities from finance leases | 29 | - | 29 | - | 29 |
| Provisions | 43 | - | 43 | 44 | (1) |
| **Total assets and liabilities** | **1,348** | **54** | **1,294** | **741** | **553** |
| Tax losses | | | | | |
| **Total deferred income tax, of which** | **1,348** | **54** | **1,294** | **741** | **553** |
| - income tax recognised in profit or loss | | | | | 553 |
| - recognised in equity | | | | | - |

Of the above-reported value of deferred tax asset, the amount of PLN 882 thousand concerns items that the Parent Company expects to realise over a period exceeding 12 months.

| | As at 31 December 2011 | | | As at 1 January 2011 | Recognised in profit or loss / equity |
|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Net | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 14 | 45 | (32) | 9 | (41) |
| **Current assets** | | | | | |
| Inventory | 498 | - | 498 | 545 | (47) |
| Trade receivables and other receivables | 103 | - | 103 | 120 | (17) |
| Cash and cash equivalents | - | 3 | (3) | 3 | (6) |
| **Long-term liabilities** | | | | | |
| Trade and other payables | 39 | - | 39 | (8) | 47 |
| Liabilities from employee benefits | 80 | - | 80 | 182 | (102) |
| Liabilities from loans and borrowings | 12 | - | 12 | 45 | (33) |
| Provisions | 44 | - | 44 | 41 | 3 |
| **Total assets and liabilities** | **790** | **48** | **741** | **937** | **(196)** |
| Tax losses | | | | | |
| **Total deferred income tax, of which** | **790** | **48** | **741** | **937** | **(196)** |
| - income tax recognised in profit or loss | | | | | 232 |
| - recognised in equity (*) | | | | | (428) |

(*) Deferred income tax recognised in equity refers to remuneration for Toya S.A.'s withdrawal from general partner position in Toya Development Sp. z o.o. Spółka komandytowo-akcyjna.

## 29. Earnings per share

| | 12 months ended 31 December | |
|---|---|---|
| | **2012** | **2011** |
| Net profit from continuing operations | 17,643 | 25,130 |
| Weighted average number of ordinary shares ('000) | 75,038 | 69,431 |
| **Basic earnings per share from continuing operations (PLN)** | **0.24** | **0.36** |
| Diluted net profit from continuing operations | 17,643 | 25,130 |
| Weighted average number of ordinary shares used for calculating diluted earnings per share ('000) | 75,038 | 69,431 |
| Effect of dilution: | | |
| *Share options* | 287 | 56 |
| Adjusted weighted average number of ordinary shares used for calculating diluted earnings per share ('000) | 75,325 | 69,487 |
| **Diluted earnings per share from continuing operations (PLN)** | **0.24** | **0.36** |

| | 12 months ended 31 December | |
|---|---|---|
| | **2012** | **2011** |
| Net profit on discontinued operations | - | 497 |
| Weighted average number of ordinary shares ('000) | 75,038 | 65,574 |
| **Basic earnings per share from discontinued operations (PLN)** | **0.00** | **0.01** |
| Diluted net profit | - | 497 |
| Adjusted weighted average number of ordinary shares used for calculating diluted earnings per share ('000) | 75,038 | 69,431 |
| Effect of dilution: | | |
| *Share options* | 287 | 56 |
| Adjusted weighted average number of ordinary shares used for calculating diluted earnings per share ('000) | 75,325 | 69,487 |
| **Diluted earnings per share from discontinued operations (PLN)** | **0.00** | **0.01** |

Basic earnings per share were calculated by dividing the net profit attributable to shareholders of the Group by the weighted average number of ordinary shares during the period. Due to public series C share issue in 2011, new shares were included in the calculation of the weighted average number of shares when the cash from the issue was receivable. This date was set to the date when new shares were granted, i.e. 2 August 2011. In 2012, new share issues were taken into account in the calculation from 27 March (series E shares) and 10 September (series D shares) – the date of signing the share acquisition agreements.

The Group has one potential dilutive instrument: share options granted to Supervisory Board members, Management Board members and key employees, described in Note 16. In 2012, share options did not have a material impact on the diluted earnings per share.

## 30. Financial guarantees granted and contingent liabilities

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

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

On 29 November 2012, the Parent Company and TOYA Development Sp. z o.o. Spółka Komandytowo-Akcyjna 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 Meeting of TOYA Development SKA 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 above-mentioned 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 Sp. z o.o. SKA. would be entitled to the claims of Toya S.A. Thus, by way of compensation for the damage resulting from the property's legal defect, TOYA S.A. has undertaken to pay TOYA Development SKA 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. On 31 December 2012, TOYA S.A. received compensation due to expropriation of land in the amount of PLN 333 thousand, which was handed over to TOYA Development SKA after the end date of the reporting period, pursuant to the agreement. As a result, as at 31 December 2012, the contingent liability includes compensation due to the incurred expenditure, whose value is estimated at PLN 2 million.At the same time, as at 31 December 2012, the Parent Company has a contingent asset due to compensation for the incurred expenditure from the Trzebnicki Poviat in the same amount, i.e. approx. PLN 2 million.

## 31. Transactions with related entities

In 2012 and 2011, the Group effected transactions with the following related entities:

- Yato China Trading Co., Ltd – jointly- controlled entity,
- Armada Development S.A. – jointly-controlled entity until 6 April 2011,
- Toya Development Sp. z o.o. S.K.A. – entity jointly controlled by the shareholders jointly controlling TOYA S.A.,
- Toya Development Sp. z o.o. – entity jointly controlled by the shareholders jointly controlling TOYA S.A.,
- Golf Telecom Sp. z o.o. SKA – entity jointly controlled by the shareholders jointly controlling TOYA S.A.,
- Jan Szmidt – jointly-controlling shareholder,
- Tomasz Koprowski – jointly-controlling shareholder,
- Romuald Szałagan – jointly-controlling shareholder,
- Piotr Wojciechowski – jointly-controlling shareholder (since 6 April 2011)
- Grzegorz Pinkosz – President of the Management Board of the Parent Company – member of key management personnel,
- Dariusz Hajek – member of the Management Board of the Parent Company – member of key management personnel,
- Tomasz Suchowierski – member of the Management Board of the Parent Company (until 30 November 2011) – member of key management personnel.
- Piotr Mondalski – President of the Supervisory Board
- Dariusz Górka – Member of the Supervisory Board
- Grzegorz Maciąg – Member of the Supervisory Board

| | Trade and other receivables | Loans advanced and bonds acquired | Trade and other payables | Revenues from sale of goods | Purchase of goods and services | Remuneration for work | Financial costs – interest | Financial income – interest | Dividend paid | Other transactions (*) |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31.12.2012 | | | 1.01.2012–31.12.2012 | | | | | | |
| Jointly-controlled entities | 86 | - | - | 111 | 11,614 | - | - | - | - | - |
| Shareholders | - | - | - | - | - | - | - | - | - | - |
| Entities jointly controlled by controlling shareholders | 4,119 | - | 278 | 215 | 163 | - | - | - | - | - |
| Key management personnel | - | - | - | - | - | 398 | - | - | - | 899 |
| **Total** | **4,205** | **-** | **278 -** | **326** | **11,777** | **398** | **0** | **0** | **0** | **899** |
| | 31.12.2011 | | | 1.01.2011–31.12.2011 | | | | | | |
| Jointly-controlled entities | | - | - | 138 | 10,102 | - | - | - | - | - |
| Shareholders (*) | - | - | - | - | - | 1 | 403 | - | 9,282 | - |
| Entities jointly controlled by controlling shareholders | 4,033 | - | - | 1,096 | - | - | - | - | - | 2,750 |
| Key management personnel | - | - | - | - | - | 916 | - | - | - | |
| **Total** | **5,126** | **-** | **-** | **1,234** | **10,102** | **917** | **403** | **-** | **9,282** | **2,750** |

* Other transactions recognised in 2012 include the value of options granted to and exercised by the members of the Supervisory Board in accordance with the regulations on payroll of the Supervisory Board described in Note 15.1 to the condensed consolidated financial statements, totalling PLN 665 thousand, and the value of options granted to and exercised by the members of the Management Board participating in the Incentive Scheme described in Note 15.2 to the condensed consolidated financial statements, totalling PLN 234 thousand.

** Other transactions recognised in 2011 included PLN 500 thousand of income from provision of an organised part of business – the Kryniczno Branch – for use to Toya Development Sp. z o.o. S.K.A and compensation for withdrawal from the general partner position in the amount of PLN 250 thousand.

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

For information on the guarantee issued by the Group for the benefit of Yato China Trading Co. Ltd see Note 30.

In the years ended 31 December 2012 and 31 December 2011, no receivables from related parties were written down. In connection with the signing of an agreement to defer the payment of amounts due from an entity jointly-controlled by the shareholders controlling the Company (for details see Note 9), the consolidated net profit for 2012 included PLN 560 thousand of costs relating to the valuation of these receivables pursuant to the amortised cost. In 2011, no write-downs of receivables from related entities were recognised.

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

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

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

| | 2012 | 2011 |
|---|---|---|
| Remunerations and benefits under employment contracts | 398 | 1,270 |
| Costs due to share options granted – Supervisory Board | 665 | 1,040 |
| Costs due to share options granted – Management Board | 234 | 64 |

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

## 32. Future contractual commitments

As at 31 December 2012, the Parent Company is not a party to any agreement under which it would be obliged to purchase fixed assets.

As at 31 December 2012, the Parent Company is a party to 3 agreements for works concerning an on-line store platform and implementation of a supply module in SAP, which will constitute intangible assets. The total value of liabilities not included in the statement of financial position and resulting from the agreements signed before the balance sheet date will amount to approximately PLN 436 thousand.

## 33. Operating segments

### Identification of operating and reporting segments

The Management Board of the Parent Company makes decisions related to operations from the perspective of types of activity, distribution channels or geographical coverage. Types of operations are divided into trading activities as well as property development, operation and maintenance of a golf field – the latter classified as discontinued operations. Trading activities are further subdivided based on distribution channels and geographical criteria.

The Group specifies 6 operating and reporting segments for its activities:
trading area – domestic sales to retail networks,
trading area – domestic sales – wholesale,
trading area – exports
trading area – other sales
property development segment (discontinued operations),
golfing business segment (discontinued operations).

As part of the retail networks segment, the Group 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 Parent Company. The other sales comprise sales to entities operating in the advertising segment. This area of sales is a new segment that has been developed by the Group since 2012. As at 31 December 2012, activities in this area do not meet the requirements of a separate report and are, therefore, presented as a other trading activities.

As at 31 December 2011, the property development and golfing business activities were classified as discontinued operations due to the transfer of these activities to the limited joint stock partnership Toya Development Sp. z o.o. S.K.A. (for further details see note 20). These activities still qualified as operating segments, as up until the day of spin-off they had continued their operations, their results had been reviewed by the Management Board of the Parent Company on a regular basis and separate financial information had been available. In 2012, these activities are not presented.

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

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

As at 31 December 2012, the Group’s assets amounted to PLN 153,095 thousand (as at 31 December 2011: PLN 160,243 thousand), while its liabilities amounted to PLN 48,494 thousand (as at 31 December 31: PLN 74,634 thousand) and pertained entirely to trading activities.

The Parent Company has no non-current assets located abroad, although such assets are held by the subsidiary based in Romania. The value of property, plant and equipment located in Romania as at 31 December 2012 is PLN 696 thousand.

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

| | Continuing operations | | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|---|
| **12 months ended 31 December 2012** | ***Trading – EXPORTS*** | ***Trading – WHOLESALE MARKET*** | ***Trading – RETAIL NETWORKS*** | ***Trading – OTHER*** | **Total continuing operations** | ***GOLFING BUSINESS*** | ***PROPERTY DEVELOPMENT*** | **Total discontinued operations** | **Total** |
| **Revenue from sales** | | | | | | | | | |
| Sales to external customers | 65,707 | 92,138 | 43,098 | 304 | 201,247 | | | - | 201,247 |
| **Total segment revenue** | **65,707** | **92,138** | **43,098** | **304** | **201,247** | **-** | **-** | **-** | **201,247** |
| **Cost of sales** | | | | | | | | | |
| Sales to external customers | (45,395) | (57,367) | (31,508) | (193) | (134,463) | | | - | (134,463) |
| **Total cost of sales** | **(45,395)** | **(57,367)** | **(31,508)** | **(193)** | **(134,463)** | **-** | **-** | **-** | **(134,463)** |
| **Gross margin** | **20,312** | **34,771** | **11,590** | **111** | **66,784** | **-** | **-** | **-** | **66,784** |
| **Gross margin** | **31%** | **38%** | **27%** | **37%** | **33%** | **-** | **-** | **-** | **33%** |
| **Gross profit – all operating segments** | | | | | | | | | **66,784** |
| Adjustment for gross profit / (loss) on discontinued operations | | | | | | - | - | - | - |
| **Gross profit** | | | | | | | | | **66,784** |
| Selling costs | | | | | | | | | (27,481) |
| Administrative expenses | | | | | | | | | (11,478) |
| Other operating income | | | | | | | | | 720 |
| Other operating expenses | | | | | | | | | (2,511) |
| **Operating profit** | | | | | | | | | **26,034** |
| Financial income | | | | | | | | | 37 |
| Financial expenses | | | | | | | | | (3,391) |
| Share in the losses of jointly-controlled entities | | | | | | | | | (241) |
| **Profit before tax** | | | | | | | | | **22,439** |
| Income tax | | | | | | | | | (4,796) |
| Net profit from continuing operations | | | | | | | | | 17,643 |
| Net profit on discontinued operations | | | | | | | | | - |
| **Net profit** | | | | | | | | | **17,643** |

| | Continuing operations | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|
| **12 months ended 31 December 2011** | ***Trading – EXPORTS*** | ***Trading – WHOLESALE MARKET*** | ***Trading – RETAIL NETWORKS*** | **Total continuing operations** | ***GOLFING BUSINESS*** | ***PROPERTY DEVELOPMENT*** | **Total discontinued operations** | **Total** |
| **Revenue from sales** | | | | | | | | |
| Sales to external customers | 57,216 | 104,428 | 48,664 | 210,308 | 702 | 174 | 876 | 211,184 |
| **Total segment revenue** | **57,216** | **104,428** | **48,664** | **210,308** | **702** | **174** | **876** | **211,184** |
| **Cost of sales** | | | | | | | | |
| Sales to external customers | (39,064) | (65,121) | (33,301) | (137,486) | (560) | (491) | (1,051) | (138,537) |
| **Total cost of sales** | **(39,064)** | **(65,121)** | **(33,301)** | **(137,486)** | **(560)** | **(491)** | **(1,051)** | **(138,537)** |
| **Gross margin** | **18,152** | **39,307** | **15,363** | **72,822** | **142** | **(317)** | **(175)** | **72,647** |
| **Gross margin** | **32%** | **38%** | **32%** | **35%** | **20%** | **-182%** | **-20%** | **34%** |
| **Gross profit – all operating segments** | | | | | | | | **72,647** |
| Adjustment for gross profit / (loss) on discontinued operations | | | | | (142) | 317 | 175 | 175 |
| **Gross profit** | | | | | | | | **72,822** |
| Selling costs | | | | | | | | (27,463) |
| Administrative expenses | | | | | | | | (11,261) |
| Other operating income | | | | | | | | 1,725 |
| Other operating expenses | | | | | | | | (616) |
| **Operating profit** | | | | | | | | **35,207** |
| Financial income | | | | | | | | 90 |
| Financial expenses | | | | | | | | (3,994) |
| Share in the losses of jointly-controlled entities | | | | | | | | (50) |
| **Profit before tax** | | | | | | | | **31,253** |
| Income tax | | | | | | | | (6,123) |
| Net profit from continuing operations | | | | | | | | 25,130 |
| Net profit on discontinued operations | | | | | | | | 497 |
| **Net profit** | | | | | | | | **25,627** |

## 34. Discontinued operations

In the consolidated financial statements prepared as at 31 December 2011, the assets and liabilities of the Kryniczno Branch are no longer disclosed in the statement of financial position as a result of execution of a spin-off agreement. The transaction took place on 6 April 2011 and on this date the assets and liabilities have been removed from the statement of financial position.

Because of the agreement on provision for use against payment (30 September 2010), until the transfer of ownership of the net assets (6 April 2011), the operating result of the Kryniczno Branch will be limited to the amounts of monthly payments due to TOYA S.A. and its right to share in Toya Development Sp. z o.o. S.K.A.'s profits under the Articles of Association of the limited joint stock partnership.

Results on discontinued operations:

| | **1 January to 6 April (*) 2011** |
|---|---|
| Sales revenue and other operating income | 963 |
| Costs of principal activity and other operating activities | (2,175) |
| **Operating loss** | **(1,212)** |
| Financial income | 122 |
| Financial expenses | (2) |
| Share in the losses of jointly-controlled entities | (469) |
| **Loss before income tax** | **(1,561)** |
| Income tax | (196) |
| **Net loss** | **(1,365)** |
| Liability of TOYA S.A. towards Toya Development Sp. z o.o. S.K.A. related to an increase in net assets of the discontinued operations in the period from 30 September 2010 to 31 December 2010. Decrease of liability of TOYA S.A. towards Toya Development Sp. z o.o. S.K.A. related to a decrease in net assets of the discontinued operations in the period from 1 January 2011 to 31 March 2011. | **1,365** |
| Fee for using the assets of the Kryniczno Branch | **500** |
| **Net profit** | **500** |

(*) Financial data as at the date of spin-off, i.e. as at 6 April 2011, have been determined using accounting data as at 31 March 2011 due to the fact that no significant transactions took place between 31 March and 6 April 2011, which could have an impact on net assets or the net result of discontinued activity.

Discontinued operations constituted separate operating segments – see note 33.

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

### 35.1 Taking control over Yato China Trading Co. Ltd.

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

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

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

According to information available to the Company as at the date of the condensed consolidated quarterly financial statements, the respective fair values of acquired assets and liabilities are the following (amounts converted from CNY to PLN at the exchange rate on the day of taking over the control):

- assets – PLN 21,149 thousand
- liabilities – PLN 14,157 thousand

Following the acquisition of control of Yato China, the previously held equity interest of 51% was measured at fair value. In addition, exchange differences arising from the valuation of the foreign entity accumulated in equity are recognised in profit or loss. A total profit of PLN 430 thousand was recognised in accordance with IFRS 3. This result will be presented in Q1 2013.

According to the information available at the date of the condensed consolidated quarterly financial statements, following the acquisition of control, the goodwill of the company (expressed in CNY) was determined using the proportionate method in accordance with IFRS 3. After translation at the rate prevailing as at the date of acquisition of control, the goodwill of the company was PLN 164 thousand, as per the table below:

| | |
|---|---|
| amount paid | 3,944 |
| fair value of previously held interest | 1,463 |
| TOTAL | 5,407 |
| share in assets, net | 5,243 |
| **goodwill** | **164** |

The value of non-controlling interests was determined based on the proportionate share in the net assets of the acquired entity and amounted to PLN 1,748 thousand.

These values are subject to change due to the fact that the above data on the acquired entity are unaudited and, therefore, not definitive.

### 35.2 Increase in capital

On 18 February 2013, the Management Board of the Parent Company adopted a resolution concerning an increase in the share capital through the issue of series F shares within the authorised capital and a resolution concerning the exclusion of subscription right for new series F shares for the existing shareholders.
The share capital will be increased from PLN 7,521,358.90 to PLN 7,540,237.50, i.e. by PLN 18,878.60, by way of issue of 188,786 ordinary bearer series F shares.

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

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

As at the signing date of these consolidated financial statements, the increase in capital has not been registered with the National Court Register.

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

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

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

### 35.4 Adoption of a resolution concerning the dividend policy

On 25 March 2013, the Parent Company's Management Board resolved to approve the Parent Company's dividend policy.
According to the adopted resolution, the Management Board of the Parent Company is planning consequent payment of dividend in subsequent years at 40–60% of generated net profit. As the first step, at the next Ordinary General Shareholders' Meeting, the Management Board intends to present to the General Meeting a proposal of payment of dividend to the shareholders in the amount of 50% of the net profit generated in 2012.

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

### 35.5 Conclusion of a significant agreement with the distributor

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

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

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

Grzegorz Pinkosz
President of the Management Board

Dariusz Hajek
Vice-President of the Management Board

Iwona Banik
Person responsible for keeping the accounting records

Wrocław, 10 April 2013