DIRECTORS' REPORT ON THE OPERATIONS OF

TOYA S.A. GROUP

IN 2013

Contents

1. PROFILE OF THE PARENT COMPANY

1.1 General Information – the Parent Company

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

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

The duration of the Parent Company is unlimited.

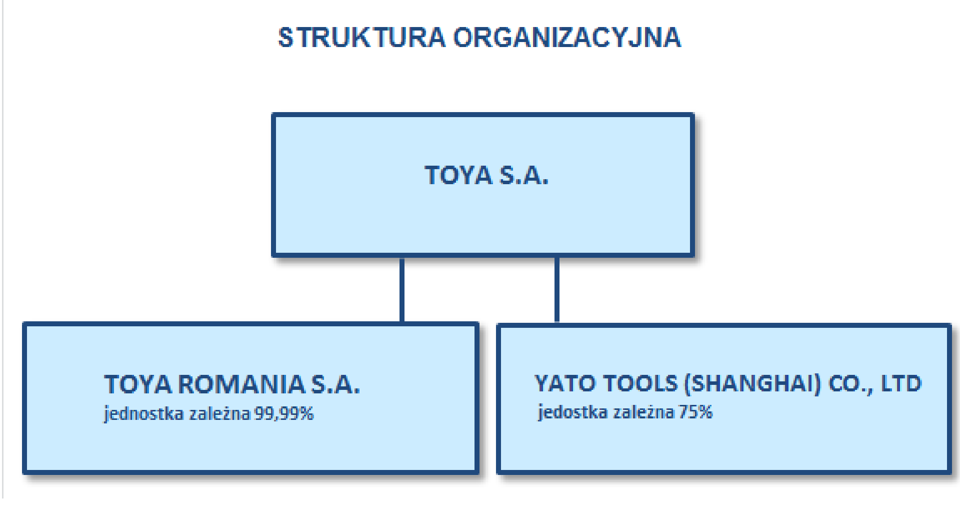
As at the date of submission of the annual report, the Parent Company has 1 branch located outside the registered office, in Nadarzyn.

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

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

1.2 Organisation of TOYA S.A. Capital Group

As at 31 December 2013, the Group comprised the following entities:



Struktura organizacyjna	Organisational structure
jednostka zależna	subsidy

Particulars of entities comprising the Capital Group (as at 31 December 2013 and as at the date of publication of the report on operations of the Capital Group):

Entity name	Registered office	Business profile	Type of equity link	% of shares and votes held	Link establishment date	Method of consolidation / recognition as at the end of the reporting period
TOYA S.A.	Wrocław, Poland	Distribution of tools and power tools	Parent Company	Not applicable	Not applicable	Not applicable
Toya Romania S.A.	Bucharest, Romania	Distribution of tools and power tools	Subsidiary	99.99	November 2003	Full consolidation method
Yato Tools (Shanghai) Co., Ltd (*)	Shanghai, China	Distribution of tools and power tools	Subsidiary	75.00	January 2013	Full consolidation method

(*) In June 2008, the Parent Company and Saame Tools (Shanghai) Import & Export Co., Ltd China established a joint venture under the name Yato China Trading Co., Ltd. The Parent Company acquired 51% of the shares in the share capital, the remaining 49% was acquired by Saame Tools (Shanghai) Import & Export Co., Ltd China. On 2 January 2013, TOYA S.A. increased the share capital in Yato China Co., Ltd. As a result of this transaction, the Parent Company increased its share in Yato China from 51% to 75%. At the same time, changes were introduced to Yato China's Articles of Association, whereby TOYA S.A. gained the right to nominate the majority of members of Yato China's Management Board. As a result, on 2 January 2013, TOYA S.A. took control over Yato China. In April 2013, the name of the company was changed to Yato Tools (Shanghai) Co., Ltd.

On 19 June 2013, the company Toya Golf & Country Club Sp. z o.o. was deleted from the court register as a result of liquidation. Parent Entity held 100% shares in the company – the company did not conduct an active business.

1.3 The Parent Company's Management Board and Supervisory Board

During 2013, the Management Board consisted of the following members:

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

During 2013, there were no changes in composition of the Management Board.

As at 31 December 2013, the Supervisory Board of the Company was comprised of the following members:

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

On 18 December 2013, the Parent Company received the resignation of Piotr Wojciechowski from the position of Member of the Supervisory Board of the Company and Member of the Audit Committee, effective from31 December 2013, and therefore as at the date of publication of the annual report, the Supervisory Board is composed of:

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

1.4 Share capital

As at 31 December 2013, and as at the date of publication of this report, the share capital amounts to PLN 7,540,237.50 and comprises 75,402,375 shares of par value of PLN 0.1 each.

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

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. Persons entitled to subscribe for series F shares were exclusively the Supervisory Board Members listed in Resolution No 10 of the Ordinary General Shareholders' Meeting dated 23 May 2011 concerning the remuneration of the Company's Supervisory Board or entities indicated by them, if the subscription right is transferred by an entitled Member of the Supervisory Board under the terms of the aforementioned resolution in writing.

On 17 April 2013, the capital increase was registered with the National Court Register.

1.5 Own shares

In 2013, the Parent Company did not acquire its own shares.

1.6 Shareholders

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

Name	Status	Series of shares	Number of shares	Type of shares	Par value per share (PLN)	Par value of the shares (PLN)	Structure (%)
Jan Szmidt	natural person	A	28,170,647	ordinary bearer	0.1	2,817,064.70	37.4%
Tomasz Koprowski	natural person	A	14,644,030	ordinary bearer	0.1	1,464,403.00	19.4%
Romuald Szałagan	natural person	A	10,938,874	ordinary bearer	0.1	1,093,887.40	14.5%
Generali OFE(*)	legal person	C	6,038,147	ordinary bearer	0.1	603,814.70	8.0%
Piotr Wojciechowski	natural person	B	5,044,878	ordinary bearer	0.1	504,487.80	6.7%
Other – share below 5%	not applicable	C, D, E, F	10,565,799	ordinary bearer	0.1	1,056,579.90	14.0%
TOTAL:			**75,402,375**			**7,540,237.50**	**100%**

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

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

	Number of shares	Share (%)	Number of votes	Share (%)
Jan Szmidt	28,170,647	37.4%	28,170,647	37.4%
Tomasz Koprowski	14,644,030	19.4%	14,644,030	19.4%
Romuald Szałagan	10,938,874	14.5%	10,938,874	14.5%
Generali OFE (*)	6,038,147	8.0%	6,038,147	8.0%
Piotr Wojciechowski	5,044,878	6.7%	5,044,878	6.7%

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

Since the submission of the last quarterly report (i.e. 24 February 2014), the Parent Company has not received notification from the shareholders about any changes in the ownership structure of significant blocks of shares.

1.7 Shares held by managers and supervisors

1.7.1 Shares held by members of the Parent Company's Management Board

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

	Number of shares	Par value of the shares (PLN)	Number of votes	Share (%)
Grzegorz Pinkosz	51 006 (*)	5,101	51 006	0.07%
Dariusz Hajek	44 903 (**)	4,490	44 903	0.06%
TOTAL members of the Management Board	**95,909**	**9,591**	**95,909**	**0.13%**

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

Members of the Management Board participate in the Incentive Scheme described in note 16.2 of the consolidated financial statements and in item 1.7.4 below. As a part of this Scheme, Members of the Management Board are awarded subscription warrants which entitle them to acquire the Company's shares in the case of fulfilling the conditions described in detail in the Scheme. In 2013, no warrants were awarded within the Scheme.

1.7.2 Shares held by members of the Parent Company's Supervisory Board

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

	Number of shares	Par value of the shares (PLN)	Number of votes	Share (%)
Jan Szmidt	28,170,647	2,817,065	28,170,647	37.4%
Tomasz Koprowski	14,644,030	1,464,403	14,644,030	19.4%
Romuald Szałagan	10,938,874	1,093,887	10,938,874	14.5%
Piotr Mondalski	170 097	17,010	170 097	0.2%
Grzegorz Maciąg	100 534	10,053	100 534	0.1%
TOTAL Members of the Supervisory Board	**54,024,182**	**5,402,418**	**54,024,182**	**71.6%**

As at 31 December 2013, the Supervisory Board was also composed of Piotr Wojciechowski who held 5,044,878 shares. Due to the resignation described in item 1.3, the above table includes members of the Supervisory Board as at the date of publication of this report, i.e. 2 April 2014.

1.7.3 Share option scheme for the Parent Company's Supervisory Board

By virtue of Resolution No 10 of 23 May 2011, the Ordinary General Shareholders' Meeting adopted the rules of remuneration of the Supervisory Board members of the Parent Company. Pursuant to the approved scheme, three members of the Parent Company's Supervisory Board, appointed by the Shareholders' Meeting of the Parent Company on 14 February 2011, are entitled to remuneration for serving as members of the Supervisory Board during a three-year term (2011–2013) in the form of shares in the Group's parent company. Pursuant 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 Shareholders' Meeting which approves 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 remuneration in the form of the right to acquire shares in the Parent Company in the total number equal to 0.75% of all shares registered on the date when the offer to acquire the Company shares is made, of which Piotr Mondalski is entitled to acquire 0.35% of such shares, whereas the remaining two Supervisory Board members are each entitled to acquire 0.2% of the shares. The shares will be acquired in three tranches, with the first and second tranches already executed (see note 1.4). The subsequent tranche will be realised between 1 December 2013 and 30 April 2014. If the offered shares are not acquired by the eligible persons as stated above, they will be offered to these Members of the Supervisory Board in subsequent tranches. The entitled members of the Supervisory Board may indicate another entity to acquire the shares.

b) The four other members of the Supervisory Board (who are the Company 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 par value (i.e. PLN 0.1).

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

Detailed information concerning valuation and recognition in the consolidated financial statements is presented in item 16.1 of the consolidated financial statements.

1.7.4 Information about the employee share ownership plan control system

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

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

a) growth of the Group's consolidated net profit for the financial years 2011–2014 by at least 22% per annum. Upon fulfilment of this condition, eligible persons would be granted the right to acquire 100% of shares under the incentive scheme for year 2011 and 75% of the shares under the incentive scheme for years 2012-2014;

b) the average price of shares of TOYA S.A. from the last 40 exchange sessions in the year remaining in such a relation to WIG at the end of the year in each two subsequent years of the Scheme that the percentage increase or decrease of the Company's average share price in relation to the percentage increase or decrease in WIG will be accordingly higher or lower by at least one percentage point in favour of the Company's share price. Upon fulfilment of this condition, eligible persons will be granted the right to acquire 25% of the shares under the incentive scheme for years 2012–2014;

c) failure to 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.

As at 31 December 2013, there are 22 eligible persons which may be granted with 778,768 share options in total. Moreover, 188,947 share options were granted and exercised within the first tranche of the scheme. The second tranche of the Scheme was not executed.

Detailed information concerning valuation and recognition in the consolidated financial statements is presented in note 16.2 of the consolidated financial statements.

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

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

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

Remuneration of the Management Board:

Name and surname	Position	Gross remuneration (PLN '000)	Cost of share options recognised in the financial result (PLN '000) (*)	Dividend paid from profit in PLN '000	TOTAL in PLN '000
2013					
Grzegorz Pinkosz	President of the Management Board	200	136	7	343
Dariusz Hajek	Vice-President of the Management Board	200	136	6	342
2012					
Grzegorz Pinkosz	President of the Management Board	200	261	-	461
Dariusz Hajek	Vice-President of the Management Board	200	261	-	461

Remuneration of the Supervisory Board:

Name and surname	Position	Gross remuneration for position held (PLN '000)	Cost of share options recognised in the financial result (PLN '000) (*)	Dividend paid from profit in PLN '000	TOTAL in PLN '000
2013					
Piotr Mondalski	President of the Supervisory Board	77	7	24	108
Jan Szmidt	Vice-President of the Supervisory Board	-	-	3,944	3,944
Tomasz Koprowski	Member of the Supervisory Board	-	-	2,050	2,050
Romuald Szałagan	Member of the Supervisory Board	-	-	1,531	1,531
Piotr Wojciechowski	Member of the Supervisory Board until 31 December 2013	-	-	706	706
Dariusz Górka	Member of the Supervisory Board	77	4	-	81
Grzegorz Maciąg	Member of the Supervisory Board	77	4	14	95
2012					
Piotr Mondalski	President of the Supervisory Board	-	286	-	286
Jan Szmidt	Vice-President of the Supervisory Board	-	-	-	-
Tomasz Koprowski	Member of the Supervisory Board	-	-	-	-
Romuald Szałagan	Member of the Supervisory Board	-	-	-	-
Piotr Wojciechowski	Member of the Supervisory Board	-	-	-	-
Dariusz Górka	Member of the Supervisory Board	-	163	-	163
Grzegorz Maciąg	Member of the Supervisory Board	-	163	-	163

(*) The cost of awarded share options, reflected in the tables above, relates to the cost recognised in the financial result for 2013 and 2012, resulting from the valuation of the share option scheme for the members of the Supervisory Board (for details see note 1.6.3) and the Management Board (for details see note 1.6.4).

In 2013, in relation with exercised options, Members of the Supervisory Board received the following numbers of shares:

Name and surname	Position	2013 Number of acquired shares	2013 Par value of acquired shares in PLN '000	2013 Value of acquired shares according to valuation as at the date of becoming eligible in PLN '000
Piotr Mondalski	President of the Supervisory Board	88 000	9	300
Grzegorz Maciąg	Member of the Supervisory Board	50 393	5	172

In 2013, no shares were granted to Members of the Management Board.

As at 31 December 2013, no agreements have been concluded between the Company and its management staff providing for compensation in case of resignation or dismissal of a member of management staff from his/her position without a valid reason or if his/her dismissal results from a merger of the Company by way of acquisition.

1.10 Changes in the basic Group management methods

On 2 January 2013, the Parent Company increased the capital of Yato Tools (Shanghai) Co., Ltd. As a result of this transaction, the Parent Company increased its share in Yato Tools from 51% to 75%. At the same time, changes were introduced to Yato Tools's Articles of Association, whereby TOYA S.A. gained the right to nominate the majority of members of Yato Tools's Management Board. As a result, on 2 January 2013, TOYA S.A. took control over Yato Tools and as of that day, the entity will become fully consolidated.

Apart from the above, there were no changes in the methods of managing the Group in 2013.

2. THE MOST SIGNIFICANT EVENTS OF 2013

Taking control over the company Yato Tools (Shanghai) Co., Ltd.

On 2 January 2013, TOYA S.A. increased the capital of the company Yato Tools (Shanghai) Co., Ltd. As a result of this transaction, the Parent Company increased its share in Yato Tools from 51% to 75%. At the same time, changes were introduced to Yato Tools's Articles of Association, whereby TOYA S.A. gained the right to nominate the majority of members of Yato Tools's Management Board. As a result, on 2 January 2013, TOYA S.A. took control over Yato Tools and as of that day, the entity became fully consolidated.

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

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

Adoption of a resolution concerning the dividend policy

On 25 March 2013, the Company's Management Board resolved to approve the Company's dividend policy. According to the adopted resolution, the Management Board of the Company is planning consequent payment of dividend in subsequent years at 40–60% of generated net profit.

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

Increase in capital

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

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. Persons entitled to subscribe for series F shares were exclusively the Supervisory Board Members listed in Resolution No 10 of the Ordinary General Shareholders' Meeting dated 23 May 2011 concerning the remuneration of the Company's Supervisory Board or entities indicated by them, if the subscription right is transferred by an entitled Member of the Supervisory Board under the terms of the aforementioned resolution in writing.

On 17 April 2013, the capital increase was registered with the National Court Register.

Payment of dividend

On 25 June 2013, the Parent Company's General Shareholders' Meeting approved the financial statements of TOYA S.A. for 2012, and resolved to distribute the profit earned by the company in 2012 in the amount of PLN 16,965 by allocating:

– PLN 10,556 thousand for payment of dividend,

– PLN 6,409 thousand to the supplementary capital.

Dividend in the amount of PLN 0.14 per share was paid on 24 July 2013.

Notification from shareholders acting under Agreement on joint control – acquisition of a stake of shares

On 20 September 2013, Maria Szmidt acquired in a block trade OTC transaction 828,179 shares of TOYA S.A. (hereinafter referred to as the Company) entitling to 828,179 votes at the Company's General Shareholders' Meeting, which constitutes a 1.10% share in the share capital of the Company and a 1.10% share in the overall number of votes at the Company's General Shareholders' Meeting. Maria Szmidt is in implied agreement, referred to in Art. 87(1)(4) of the Act on the Offering, with Jan Szmidt, holding 28,170,647 shares of the Company entitling to 28,170,647 votes at the Company's General Shareholders' Meeting, which constitutes a 37.36% share in the overall number of votes and a 37.36% share in the share capital of the Company.

In relation with the acquisition of shares by Maria Szmidt, the Company's shareholders acting in the Agreement held
as at 20 September and 31 December 2013 a total of 66,546,129 shares entitling to 66,546,129 votes in the overall number of votes in the Company, which constitutes an 88.25% share in the share capital of the Company, and an 88.25% share in the overall number of votes at the General Shareholders' Meeting of TOYA S.A.

Notification from a shareholder acting under Agreement on joint control – withdrawal from the Agreement

On 6 December 2013, Piotr Wojciechowski and Elżbieta Wojciechowska submitted notifications on the withdrawal from the Agreement on joint control on 30-day notice, i.e. effective on 5 January 2014.

Therefore, as of 6 January 2014, the Company's shareholders:

1. Jan Szmidt
2. Tomasz Koprowski
3. Romuald Szałagan
4. Beata Szmidt
5. Beata Szałagan
6. Wioletta Koprowska

7. Maria Szmidt

as acting under the Agreement hold a total of 60,922,679 shares entitling to 60,922,679 votes in the overall number of votes in the Company, which constitutes an 80.80% share in the share capital of the Company, and an 80.80% share in the overall number of votes at the General Shareholders' Meeting of TOYA S.A.

3. ORGANISATIONAL AND EQUITY LINKS WITH OTHER ENTITIES

3.1 Equity links

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

3.2 Organisational links

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

- Toya Development Sp. z o.o. S.K. (formerly: 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. S.K.A. – entity jointly controlled by the shareholders jointly controlling TOYA S.A.

4. MAJOR R&D ACHIEVEMENTS

In 2013, the Parent Company continued works related with the development and improvement of products. Fulfilling the issue objectives and taking care of its competitive position on the market, the Company conducted R&D works increasing the innovation level of the Group's current commercial offer.

The main purpose of R&D works was to design and implement technological innovations in the scope of products and their commercialisation.

The Parent Company develops new products using the experience gained and specialist knowledge of its designers. The directions of development of TOYA S.A. products are dictated by a balanced assessment of market potential, the current development level of technologies available on the market, cost or revenue effectiveness of the implemented changes. This process uses data regarding in-depth analyses of the needs of the customers – the users of tools and power tools in the commercial offer of the Company.

Technological innovations introduced by the Group in 2013 concerned mainly the so-called improved product and resulted in the elaboration and reservation of new industrial designs.

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

As a result of the conducted R&D works, last year the Parent Company registered in the EU (OHIM) new industrial designs in the 8.04 and 8.05 class (according to Locarno classification). Product innovations have already been commercialised and introduced to the current commercial offer of TOYA S.A..

5. FACTORS AND EVENTS AFFECTING FINANCIAL RESULTS

5.1 Basic economic and financial values; factors and events affecting the Group's operations in 2013.

On 2 January 2013, TOYA S.A. increased the capital of the company Yato Tools (Shanghai) Co., Ltd. As a result of this transaction, the Parent Company increased its share in Yato Tools from 51% to 75%. At the same time, changes were introduced to Yato Tools's Articles of Association, whereby TOYA S.A. gained the right to nominate the majority of members of Yato Tools's Management Board. As a result, on 2 January 2013, TOYA S.A. took control over Yato Tools and as of that day, the entity became fully consolidated.

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

	For 12 months ended 31 December	
	2013	**2012**
Sales revenue	242,710	201,247
Gross sales profit	83,258	66,784
Operating profit	32,991	26,034
Profit before tax	32,100	22,439
Net profit	25,666	17,643

In 2013, sales revenues amounted to PLN 242,710 thousand and exceeded the level of revenues achieved in 2012 by PLN 41,463 thousand, i.e. by 20.6%. An increase in gross profit on sales by PLN 16,474 thousand in 2013 as compared to 2012 resulted from higher sales, lower costs associated with the purchase of goods and increased gross margin on goods sold by 1.1 percentage points.

Net profit in 2013 amounted to PLN 25,666 thousand and was PLN 8,023 thousand, i.e. 45.5%, higher than in 2012. Operating profit in 2013 in the amount of PLN 32,991 thousand exceeded that achieved in 2012 by 26.7%.

In order to raise the necessary working capital, the Group uses mainly short-term bank loans. Given the significant impact of financial costs associated with these loans on the financial result, the Group negotiates the terms of loan agreements on a yearly basis so as to maximally reduce the corresponding costs. The decrease in inventories in 2013 as compared to the end of the previous year resulted in significantly lower borrowing needs of the Group and triggered lower financial costs than in 2012.

Profitability ratios

	For the period ended 31 December	
	2013	**2012**
Sales profitability	34.3%	33.2%
Operating profit margin	13.6%	12.9%
Pre-tax profit margin	13.2%	11.1%
Net profit margin	10.6%	8.8%

Key:

Sales profit margin – the ratio of gross profit to sales revenues
Operating profit margin – the ratio of operating profit to sales revenues

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

Net profit margin – the ratio of net profit to sales revenues

Net profit margin reached a very good two-digit level of 10.6% in 2013.

For TOYA S.A. Group, the sales profit margin is the key indicator of the Group's market competitiveness, which has decisive impact on its financial position. Analysis of this ratio for 2013 shows that the sales profit margin in this period increased by 1.1 percentage points as compared to 2012.

Profit margins at the level of the operating profit, pre-tax profit and net profit show an upward trend in 2013 as compared to the previous year. This is mainly related with a rise in sales.

Cash flows of the Group (PLN '000)

	For 12 months ended 31 December	
	2013	**2012**
Cash flows from operating activities	36,512	24,851
Cash flows from investment activities	209	(2 318)
Cash flows from financial activities	(35 898)	(21 913)
Change in net cash	**823**	**620**
Cash and cash equivalents at the beginning of the period	4,213	3,731
Cash and cash equivalents at the end of the period	5,021	4,213

In 2013, TOYA S.A. disclosed positive operating cash flows which amounted to PLN 36.5 million. Due to the optimisation of the order and purchase process and with a simultaneous rise in sales, the Group reduced its inventories by PLN 10.7 million. Short-term trade and other receivables rose by PLN 6.9 million in relation with increased sales and the change in consolidation method of Yato Tools to the full method.

In 2013, the Group did not undertake investment activities. Cash outflows during that period were mainly connected with the purchase of exhibition shelves. Due to acquisition of Yato Tools the value of cash and cash equivalents of the Group increased by PLN 2,578 thousand.

In 2013, the Group generated negative cash flows from financial activity, primarily due to the reduction of its credit exposure in the amount of PLN 24 million in comparison with 2013 and PLN 10.6 million of dividends paid.

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

Liquidity ratios

	31.12.2013	**31.12.2012**
Current ratio	3.25	2.67
Quick ratio	1.11	0.73

Key:

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

The value of the current liquidity ratio increased to 3.25 as at 31 December 2013 in relation to 2.67 as at 31 December 2012. Therefore, a higher level of the current liquidity ratio suggests a lower growth rate of liabilities in relation to the growth rate of the current assets. The value of the quick liquidity ratio increased to 1.11 as at 31 December 2013 in relation to 0.73 as at 31 December 2012. It is notable that this ratio has achieved a very good level.

5.2 The structure of assets and liabilities

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

	31.12.2013	31.12.2012
Non-current assets	25,401	24,141
Intangible assets	1,491	898
Property, plant and equipment	17,637	16,558
Equity-accounted investments in jointly-controlled entities	-	1,479
Current assets	138,386	128,954
Inventory	91,144	93,643
Trade and other receivables	42,221	31,089

% asset structure of TOYA S.A. Capital Group

	31.12.2013	31.12.2012
Non-current assets / Assets	16%	16%
Intangible assets / Assets	1%	1%
Property, plant and equipment / Assets	11%	11%
Equity-accounted investments in jointly-controlled entities / Assets	0%	1%
Current assets / Assets	84%	84%
Inventories / Assets	56%	61%
Trade and other receivables / Assets	26%	20%

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

	31.12.2013	31.12.2012
Equity per shareholders of the parent company	119,057	104,601
Trade and other payables	32,460	18,787
Short-term liabilities	42,592	48,355
Long-term liabilities	164	139

% liability structure of TOYA S.A. Capital Group

	31.12.2013	31.12.2012
Equity per shareholders of the parent company / Liabilities	73%	68%
Short-term payables / Liabilities	26%	32%
Long-term payables / Liabilities	0%	0%
Short-term liabilities / Payables	100%	100%
Long-term liabilities / Payables	0%	0%

Ratios of return on equity, assets and current assets

	For 12 months ended 31 December	
	2013	2012
Return on assets (ROA)	16%	12%
Return on equity (ROE)	21%	17%
Return on current assets	19%	14%

Key:

Return on assets ROA) – the ratio of net profit to total assets as at the end of the period

Equity ratio (ROE) – the ratio of net profit to equity as at the end of the period

Return on current assets – the ratio of net profit to current assets as at the end of the period

As at 31 December 2013, the Group's property, plant and equipment constitute 11% of total assets used in the Group's operations. Property, plant and equipment comprise primarily land, buildings and structures necessary for the Parent Company's commercial activity.

As at 31 December 2013, the Group does not have investments in jointly controlled entities, appraised using the equity method, which in 2012 included shares in Yato Tools (former Yato China Trading) with value amounting to PLN 1,479 thousand. This is related with the assumption of control over Yato Tools. As at 2 January 2013, the entity became fully consolidated.

The structure of current assets used in the operations of TOYA S.A. Capital Group, which as at 31 December 2013 constitute 84% of total assets, includes primarily inventories and trade and other receivables, which is typical to the business activity conducted by TOYA S.A. and its Capital Group. Both these items constituted, in total, 96% of current assets as at 31 December 2013 and 97% as at 31 December 2012.

TOYA S.A. Capital Group conducts efficient warehouse management by adjusting the stock levels to the customers' demand. In 2013, the Group decreased its inventories by 2.7% as compared to the end of 2012, in spite of increased sales and the change of consolidation method of Yato Tools to the full method.

Equity structure and debt ratios

	31.12.2013	31.12.2012
Total debt ratio	26%	32%
Equity debt ratio	35%	46%
Long-term debt ratio	0%	0%
Short-term debt ratio	26%	32%
The ratio of coverage of non-current assets with equity and long-term liabilities	477%	434%

Key:

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

As at 31 December 2013, the main item in the Group's equity was retained earnings totalling PLN 86,119 thousand. The Group's share capital as at 31 December 2013 was increased compared to 31 December 2012 by PLN 19 thousand due to the issue of 188,786 series F shares and amounted to PLN 7,540 thousand.

The main sources of financing operating activities, in particular current assets, include equity and short-term financing – primarily from bank loans. As at 31 December 2013, the Group financed 74% of its operations from equity. As at this date, the Group's short-term liabilities due to loans, borrowings and other debt instruments amounted to PLN 7,286 thousand. The long-term debt ratio as at 31 December 2013 amounts to 0%.

Group management effectiveness ratios.

	For 12 months ended 31 December 2013	2012
Inventories turnover period (days)	135	168
Receivables inflow period (days)	63	56
Liabilities repayment period (days)	48	34

Key:

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

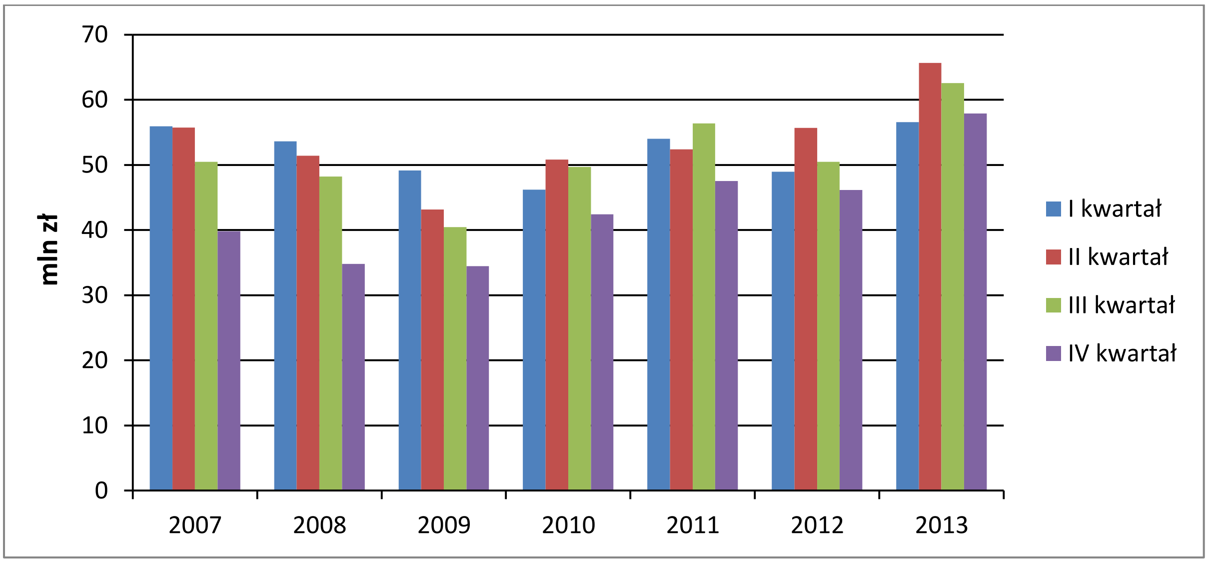
Receivables inflow period (days) – the ratio of short-term trade and other receivables as at the end of the period, multiplied by 360 days, to revenue from sales

Liabilities repayment period (days) – the ratio of trade and other liabilities as at the end of the period, multiplied by 360 days, to revenue from sales

In 2013, the liabilities repayment period was shorter than the receivables inflow period. This means that the credit terms the Group extended to its customers were longer than those received from its suppliers. It implies higher demand for financing working capital, which is typical of the industry in which the Group conducts its commercial activity. In 2013, the inventories turnover period decreased to 135 days due to the decrease in inventories and increase in sales. Importantly, the Group conducts activity associated with selection of offer appropriately to the customer's needs, increasing the efficiency of the entire sales group as well as continuous improvement of logistics processes.

SEASONALITY

The fourth quarter of the year is usually characterised by a lower level of sales and net profit as compared to previous quarters (in Q4 2013, sales revenue amounted to PLN 57,910 thousand, which accounted for 24% of the annual sales revenue, while the net profit during this quarter amounted to PLN 4,142 thousand, making up 16% of the net profit for 2013). The main reasons for seasonality in sales are climate factors (lower demand for the Group's goods in winter), lower likelihood for customers to stock up on the goods at the end of the year due to the obligatory inventory counts as well as lower activity in industries making use of hand and power tools. The Capital Group counters seasonality mainly by expanding its product range.



kwartał	quarter

5.3 External and internal factors crucial for the Group's development and analysis of the Group's development perspectives in 2014, taking into account the Group's market strategy components

Macroeconomic situation
The Group's economic standing is connected with the macroeconomic situation in Europe and GDP growth rate, which has considerable impact on demand for goods sold by the Group. As Polish economy is strictly interconnected with the global economy, the global economic situation can also impact the economic situation in Poland and the volume of purchases made by domestic customers. The destabilised situation of Poland's eastern partners may periodically decrease the rate of the Company's expansion on foreign markets and force it to search for partners in other parts of Europe. Additional factors, such as the government's economic policy, decisions made by the National Bank of Poland and the Monetary Policy Council, which affect money supply, interest rates and currency exchange rates, the tax system, inflation and unemployment rate, can also affect, in the Company's opinion, internal demand and the Company's development.

Competition
The Polish market for distribution of industrial goods, which is the Group's main field of operation, is relatively highly dispersed in spite of the presence of several market leaders. Entities currently competing with the Group can take additional actions to intensify their development through aggressive pricing policy aimed at current, target or potential customers. Such actions may impede and slow down further increase in market share. The activity of the competition can thus have a negative effect on the Group's financial standing. The Group shall be monitoring the market and its environment, taking measures in order to maintain and develop competitive advantage.

Changes in FX markets
The Group's strict link with foreign suppliers and settlements made primarily in USD make the Group's financial results sensitive to changes in FX rates. The Group updates prices periodically as the market develops and thus margins can be subject to periodical fluctuations.
A part of the Group's sales revenues comes from export activity based on prices set in foreign currencies – USD and EUR – which to some extent protects the Company from adverse movements in exchange rates. However, due to the fact that the main currency used in trade with foreign customers is EUR, it is possible that in the future, FX fluctuations may still have negative impact on the Company's financial performance.

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

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

Interpretation and application of legal regulations
Changes in legislation and diverse interpretations of the law impede the Group's operations. Changes in legislation, in particular in tax, customs, labour and social insurance law, may have negative consequences for the Company's activity. Frequent changes in the interpretation of the tax law and lack of uniform practices of fiscal authorities and courts in the application of tax legislation, are particularly burdensome. This may involve the risk of third-party claims and proceedings of various state authorities. Moreover, because of their complexity and inconsistent taxation practices, interpretations are often the subject of disputes with tax authorities. The Parent Company exercises due care to ensure that these transactions are compliant with legislation – in particular with the tax law. In spite of that, the risk of third-party claims, possible disputes with

tax authorities or proceedings of various state authorities cannot be ruled out. Such claims, disputes or proceedings, as well as cases when fiscal authorities or courts and the Parent Company adopt different interpretations of tax regulations and different tax qualification of events and transactions in which the Parent Company participated, may have adverse impact on the Group's financial performance.

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

The Group's development prospects for 2014

For a long time, the Group has been performing development activities aimed in different directions. They aim at strengthening the market position and searching for new attractive possibilities. The most important of the actions currently performed are:

- Developing the export channel
  The Group has been building its strong position in the export channel for many years, and it currently amounts to 1/3 of the total sales conducted. Sales in that channel have been systematically rising for many years and there is still high potential for growth in that scope. However, the lack of political stabilisation in the east of Europe, where the Company has several significant customers, may cause this increase to slow down in the next several months.
- Expanding the product offer
  The Group's sound financial result and its ongoing development would not be possible without the constant expansion of the product offer which already includes 8,000 items. This process is executed primarily through the strengthening and constant development of the Product Managers team who possess very broad knowledge of the product, techniques of shaping product image, know customers' customs and the developing trends. This team, which is constantly managing the NDP (New Product Development) process, will be expanded because good matching of the offer to customer needs is key to achieving better financial results. Expanding the product range is one of the most important elements of strengthening the competitive position on the market.
- Developing the capital group
  At the beginning of the year, the Parent Company increased the capital in a subsidiary, Yato Tools, and gained control over it. At the same time, the company changed its name to one which will be more distinguishable on that market. These changes received positive reception from the customers, which led to the Group strengthening its presence on that market. The Parent Company still sees great potential in the development of that subsidiary, both on the local market and as an important exporter to customers located in many countries of the world.
- Developing on-line stores
  Last year, the Group finished building the www.toya24.pl and www.toyaoutlet.pl on-line stores. These projects develop rapidly in spite of a modest impact on the financial result to date. Nevertheless, the Group will consistently develop this distribution channel as in several years it will become an important means of support for the traditional sales model.
- Capital investments
  The Group is still monitoring the market in search for an attractive acquisition target and in the case a project which gives the Company added value appears, the Company will pursue it.
- Supporting IT systems
  - The Group's dynamic development is not possible without the support of IT systems. The Parent Company has a modern SAP R3 IT system, whose hardware and software will be modernised shortly to offer additional functionalities and possibilities.
  - Implementation of the mobile CRM module which is a perfect assistance tool for commercial departments is a very important element of implementing the strategy of constant customer service improvement. The implementation of this state-of-the-art solution will be of strong assistance of the IT system to the business processes.

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

The Parent Company's Management Board did not publish forecasts of the Group's performance for 2013.

7. MAIN RISKS AND HAZARDS

7.1 Financial risks

The main financial risks include:
- FX risk,
- interest rate risk,
- liquidity risk.

The abovementioned financial risks and risk management are discussed in item 8.

7.2 Non-financial risks:

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

The above risks have been described in item 5.3.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

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

8.2 Objectives and methods of financial risk management

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

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

26% of the Group's activity is financed from external capital. Loan agreements require the Parent Company to maintain its capitalisation ratios at an agreed level throughout the lending period. If this requirement is not met, the bank has the right to terminate the agreements.

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

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

10. ASSESSMENT OF THE ABILITY TO CARRY OUT INVESTMENT OBJECTIVES

In the opinion of the Parent Company's Management Board, there are no threats to implementation of investment objectives. The activities planned for 2014 have been described in item 5.3. Apart from funds generated by operations, the Group has secured its external funding in the form of credit limits, pursuant to the agreements discussed in item 15.

11. MAIN COMMODITY GROUPS

11.1 Commodity groups

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

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

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

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

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

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

Revenues from sales of YATO branded products accounted for 51% of the Group's revenues in 2013 (42% in 2012).

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

Revenues from sales of VOREL branded products accounted for 33% of the Group's revenues in 2013 (41% in 2012).

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

Revenues from sales of FLO branded products accounted for 5% of the Group's revenues in 2013 (7% in 2012).

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

Revenues from sales of POWER UP branded products accounted for 3% of the Group's revenues in 2013 (4% in 2012).

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

Revenues from sales of FALA branded products accounted for 1% of the Group's revenues in 2013 (2% in 2012).

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

Revenues from sales of STHOR branded products accounted for 2% of the Group's revenues in 2013 and 2012

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

Revenues from sales of LUND branded products accounted for 1% of the Group's revenues in 2013 and 2012

The latest brand, established in **2012**, under which the Group sells promotional and advertising items, is **TOYA GIFTS**. The promotional gadgets offer, dedicated to the advertisement market, includes tools, torches, watches, bags, pendants and many more. TOYA GIFTS articles are distributed by advertising agencies. These products do not have the producer's labelling, they are prepared for the printing of the customer's logo.

Revenues from sales of TOYA GIFTS branded products accounted for less than 1% of the Group's revenues in 2013 and 2012.

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

Revenues from sales of GAV branded products accounted for 1% of the Group's revenues in 2013 and 2012.

11.2 Sales according to product groups

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

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

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

Sales revenue	**for 12 months ended 31 December**			
	2013		**2012**	
	PLN '000	%	PLN '000	%
YATO	123,848	51%	83,962	42%
VOREL	79,574	33%	81,594	41%
FLO	11,264	5%	13,496	7%
POWER UP	7,394	3%	7,620	4%
STOHR	5,281	2%	4,817	2%
FALA	3,397	1%	4,362	2%
LUND	2,616	1%	3,002	1%
other	9,336	4%	2,394	1%
TOTAL	**242,710**		**201,247**	

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

Sales profitability	**for 12 months ended 31 December**	
[%]	**2013**	**2012**
YATO	39%	39%
VOREL	29%	30%
FLO	31%	29%
POWER UP	22%	29%
STOHR	25%	24%
FALA	28%	19%
LUND	15%	24%
other	45%	25%
Weighted average	**34%**	**33%**

12. MAIN SELLING MARKETS

12.1 Sales structure

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

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

b) export.

The largest portion of sales is generated by TOYA S.A. Capital Group through the wholesale distribution channel in Poland, Romania and China (46% share of the segment "Trading activity – the wholesale market" in sales revenues for 2013). At the same time, this channel is the most profitable one (in 2013, its profitability stood at 38%). The Group's distribution channel with the second highest share in sales is the segment "Trading activity – export". In 2013, its share in sales amounted to 33% with 34% profitability. Distribution through retail chains on local markets (Poland and Romania) has the lowest share in sales revenues, which in 2013 reached the level of 20%, with a profit margin of 25%.

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

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

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

Group's sales revenues	for 12 months ended 31 December			
	2013		2012	
	PLN '000	%	PLN '000	%
Trading activity – the wholesale market (*)	112,804	46%	92,138	46%
Trading activity – export	80,932	33%	65,707	33%
Trading activity – retail networks (*)	47,628	20%	43,098	21%
Trading activity – other	1,346	1%	304	0%
Total	**242,710**		**201,247**	

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

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

Sales profitability [%]	for 12 months ended 31 December 2013	2012
Trading activity – the wholesale market	38%	38%
Trading activity – export	34%	31%
Trading activity – retail networks	25%	27%
Trading activity – other	32%	37%
Weighted average	**34%**	**33%**

Taking into account the Capital Group's main operations only, almost a half of sales revenues generated in 2013 were attributable to the wholesale segment. Data from previous years reveal greater domination of this segment for the benefit of the export and retail networks segments.

12.1.1 Wholesale market – sales in Poland

TOYA S.A. has been present in Poland for more than 20 years. During this time, it has been systematically strengthening its market position. The highest sales in Poland take place through traditional distribution channels, i.e. through distributors, wholesalers and stores. In 2013, TOYA S.A. cooperated with around a dozen authorised distributors, and this network will be constantly developed. The Group also cooperates with several dozen wholesale customers in all regions, meeting the rising demand for its products, in order to increase its margins and to promote its own brands. The Group employs several dozen sales representatives – assistants of partners on the wholesale market – and is planning further development of this distribution channel.

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

Sales revenue	for 12 months ended 31 December			
	2013		2012	
	PLN '000	%	PLN '000	%
Authorised distributors	60,093	72%	45,055	59%
Wholesalers and stores	23,861	28%	31,708	41%
Total	**83,954**		**76,763**	

12.1.2 Retail networks – sales in Poland

Domestic sale to retail networks constitutes approx. 20% of the Group's sales revenues. TOYA S.A. cooperates with more than 10 large networks in Poland. The Parent Company sells industrial goods on the basis of its customers' orders for specific quantities of products to be delivered on specific dates. Upon acceptance, these orders give rise to typical contractual obligations. In this channel, the Company cooperates with customers with established market positions, reliable and financially transparent and with a sound payment history. One exception in 2013 was the company Nomi S.A. which is one of the most important network customers. At the request of that company, on 11 December 2013, the District Court in Kielce issued a decision on the bankruptcy of NOMI S.A. and indicated that the bankruptcy proceedings will be open to arrangements. At the same time, the Court decided to leave the administration of the assets to the bankrupt and set a deadline for submitting claims for 2 months from the date of announcement, i.e. to 21 March 2014. In March 2014, the Parent Company submitted the required documents to the court. On the basis of its best knowledge as at the date of preparation of the report, the Group created a write-down for that event on the receivables of that entity in the amount of PLN 90 thousand. This write-down is subject to change, in particular, in the event the arrangement is not approved by the Court.

12.1.3 The Group's export sales and foreign activity

Export sales – TOYA S.A.

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

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

Sales revenue	for 12 months ended 31 December 2013		2012	
	PLN '000	%	PLN '000	%
Russia	18,449	27%	21,012	32%
Baltic countries	11,484	17%	11,329	17%
Ukraine	9,049	13%	5,888	9%
Germany	7,094	10%	3,731	6%
Czech Republic	5,358	8%	4,272	7%
Hungary	4,839	7%	5,366	8%
Belarus	4,378	6%	2,138	3%
the Balkans	2,140	3%	6,910	11%
Moldova	1,737	3%	473	1%
Italy	839	1%	1,295	2%
Spain	558	1%	655	1%
Other	2,391	4%	2,638	3%
Total	**68,316**		**65,707**	

Toya Romania S.A.

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

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

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

Sales revenue	for 12 months ended 31 December 2013		2012	
	PLN '000		PLN '000	%
Wholesalers and stores	16,521	96%	15,375	92%
RETAIL NETWORKS	655	4%	1,414	8%
Total	**17,176**		**16,789**	

Yato Tools (Shanghai) Co., Ltd.

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

So far, the distribution network on the Chinese market covers 19 out of 33 autonomic administrative units (22 provinces, 5 autonomic regions, 4 separated cities and 2 special regions), handled by one or more distributors depending on the local conditions, the population density and traditional forms of trade.

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

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

The structure and volume of sales revenues of Yato Tools, broken down by distribution channels

Sales revenue	for 12 months ended 31 December			
	2013		2012	
	PLN '000	%	PLN '000	%
Distributors/ Wholesalers	12,329	27%	10,352	32%
Export (excl. TOYA S.A. Polska)	12,616	28%	7,993	24%
TOYA S.A. Polska	20,513	45%	14,413	44%
TOTAL	**45,458**		**32,758**	

The structure and volume of revenues from the Yato Tools's export sales

Sales revenue	for 12 months ended 31 December			
	2013		2012	
	PLN '000	%	PLN '000	%
Angola	1,920	15%	0	0%
Thailand	1,781	14%	205	3%
Algeria	1,070	9%	1,095	14%
Arab countries	1,040	8%	1,432	18%
South Africa	1,007	8%	1,558	20%
Singapore/Malaysia	936	7%	1,398	17%
Azerbaijan	755	6%	409	5%
Israel	606	5%	292	4%
Iraq	544	4%	-	0%
Bangladesh	469	4%	116	1%
Chile	385	3%	-	0%
Australia	317	3%	334	4%
Other	1,786	14%	1,154	14%
	12,616		**7,993**	

12.1.4 On-line store – sales in Poland

In 2013, TOYA S.A. continued to modernise its on-line store which is currently running at the website www.toya24.pl. As this store has not been operating for long, the share of this distribution channel in the Group's sales is not significant yet. The Group is planning dynamic development of this distribution channel in the upcoming period.
Another idea implemented by the Parent Company is the simultaneous launch of an on-line sale store at www.toyaoutlet.pl. This store is aimed at users looking for a wide range of quality tools at attractive prices related with e.g. a sale of short series or phased out products.

12.2 Suppliers

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

13. CONCLUDED AGREEMENTS IMPORTANT TO THE GROUP'S OPERATIONS

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

According to this criterion, the following business agreements concluded in 2013 were deemed to be important:

- Distribution Agreement concluded with KLIMAR – M. KLITYŃSKI, N. KLITYŃSKI Spółka Jawna with its registered office in Wrocław, concluded on 1 April 2013
- Distribution Agreement concluded with TOYA STANMAR Sp. z o.o. with its registered office in Tarnobrzeg, entered into force on 1 June 2013

The table below includes insurance policies of the Parent Company.

No	Insurance period	Insurer	Object of insurance	Total sum insured
1.	1 July 2013 – 30 June 2014	Generali T.U. S.A. in Warsaw / Ergo HESTIA S.A. Branch in Wrocław, with its registered office in Sopot	Insurance against all risks of physical loss or damage of property	PLN 98 million
2.	2 August 2013 – 1 August 2014	ERGO HESTIA S.A. with its registered office in Sopot	Motor insurance of the vehicle fleet	The market value of the vehicles (according to Info Export)
3.	1 July 2013 – 30 June 2014	Generali T.U. S.A. in Warsaw / Ergo HESTIA S.A. Branch in Wrocław, with its registered office in Sopot	Civil liability insurance due to owned property and conducted activity	PLN 2 million
4.	20 September 2013 – 19 September 2014	TUiR Allianz S.A. with its registered office in Warsaw	Civil liability insurance of members of companies' bodies	PLN 10 million
5.	1 May 2013 – 31 May 2014	TU Euler Hermes S.A. with its registered office in Warsaw	Insurance of the trade credit risk on certain agreements	a maximum of 40 times the contribution paid for a given insurance year
6.	1 March 2014 – 28 February 2015	AIG Europe Limited sp. z o.o. Branch in Poland with its registered office in Warsaw	Insurance of property in CARGO transport	Liability limit per 1 vehicle: USD 350,000 (road transport) USD 2,000,000 (maritime transport)

Moreover, item 16 describes loan agreements.

14. THE ENTITY AUDITING THE FINANCIAL STATEMENTS

The entity authorised to audit and review individual and consolidated statements is PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, Al. Armii Ludowej 14, 00-638 Warsaw.
The agreement on audit and review was concluded on 10 July 2013, and it covers semi-annual review and annual review of the individual and consolidated financial statements for 2013.

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

	2013	2012
Audit of annual financial statements (individual and consolidated)	120	120
Review of semi-annual financial statements	60	60
TOTAL	**180**	**180**

15. RELATED PARTY TRANSACTIONS

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

In 2013, TOYA S.A. did not conclude any transactions with related entities which were atypical or divergent from the arm's length basis, whose character and terms did not follow from the current operations and whose value exceeded the PLN equivalent of EUR 500 thousand.

16. EXTENDED LOANS AND BORROWINGS

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

Object and value of agreement	Bank / person acquiring the bonds / granting the borrowing	Loan amount as per agreement as at 31 December 2013	Amount outstanding as at 31 December 2013	Amount outstanding as at 31 December 2012	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	20,000	1,171	2,897	WIBOR 1M + bank's margin EURIBOR/LIBOR 1M + bank's margin	5 March 2015	Change of margin
2. Overdraft facility agreement No BDK/KR-RB/000054601/0641/10 of 22 December 2010	Citi Handlowy with its registered office in Warsaw	25,000	1,704	12,678	WIBOR 1M + bank's margin	19 December 2014	
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	1,077	12,163	WIBOR 3M + bank's margin	24 September 2014	
4. Loan agreement of 20 December 2012 (*)	Citybank (China) Co.Ltd., branch in Shanghai	4,518	3,334	-	8.03%	20 November 2014	
Total liabilities, of which:		**84,518**	**7,286**	**27,738**			
– short-term portion		84,518	7,286	27,738			
– long-term portion		-	-	-			

(*) the amount of credit limit is denominated in CNY and was translated to PLN according to the average NBP rate as at 31 December 2013

17. EXTENDED LOANS AND BORROWINGS

In 2013, the Group did not extend any borrowings or loans.

18. GUARANTEES AND SURETIES GRANTED CONTINGENT LIABILITIES AND ASSETS

In 2013, the Parent Company granted the following guarantees:

No	Counterparty	Type of guarantee	Subject matter and value	Date of expiry
1	Citi Handlowy	Guarantee of repayment of loan liabilities by Yato Tools (Shanghai) Co. Ltd. (*)	Bank guarantee of USD 1,500 thousand	31 December 2014
2	Citi Handlowy	Guarantee of payment for the lease of warehouses in Nadarzyn	Bank guarantee of EUR 233,885 thousand	28 February 2014

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

On 29 November 2012, the Parent Company and TOYA Development Sp. z o.o. Spółka Komandytowa (former 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 Shareholders' Meeting of TOYA Development S.K. by TOYA S.A., which at that time was the company's general partner. The real property in question comprises land with the expenditure incurred thereon. The contributed real property had a legal defect, i.e. on 6 April 2011, TOYA S.A. was not its owner since, pursuant to a decision of the Head of Wisznia Mała Municipality of 7 May 2007, this plot of land became the property of Trzebnicki Poviat on 8 June 2007. TOYA S.A. is entitled to pursue claims against Trzebnicki Poviat due to expropriation of the abovementioned real property and the expenditure incurred thereon. Had the legal defect of the in-kind contribution not existed and had the transfer of ownership of the real property been effective, TOYA Development Sp. z o.o. S.K. 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 S.K. compensation equal to the compensation obtained from the Trzebnicki Poviat. The right to compensation will arise provided that TOYA S.A. receives compensation from the Trzebnicki Poviat and in the amount obtained from the Trzebnicki Poviat. As at 31 December 2013, the contingent liability includes compensation due to the incurred expenditure, whose revaluated value is estimated at net PLN 2.5 million. At the same time, as at 31 December 2013, the Group has a contingent asset due to compensation for the incurred expenditure from the Trzebnicki Poviat in the same amount, i.e. approx. net of PLN 2.5 million. After the year's end, on 24 January 2014, TOYA S.A. filed a lawsuit in the Regional Court in Wrocław against the Trzebnicki Poviat for the repayment of the disputed amount. Currently, the case is pending for the appointment by the Court of the date of the first hearing.

19. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

19.1 Disputes

On 24 January 2014, TOYA S.A. filed a lawsuit in the Regional Court in Wrocław against the Trzebnicki Poviat for the repayment of the disputed amount, described in note 18 21. Currently, the case is pending for the appointment by the Court of the date of the first hearing.

19.2 Annexe to a significant agreement

On 24 February 2014, TOYA S.A. and Raiffeisen Bank Polska S.A. with its registered office in Warsaw concluded Annexe No 21 to the Debt Limit Facility Agreement No CRD/L/11381/02 of 2 October 2002. On the basis of the annexe, the agreement was extended until 5 March 2015.
Loan margin was reduced in comparison with prior conditions.

19.3 Resolution on share increase

On 27 March 2014, the Management Board of TOYA S.A. adopted a resolution concerning an increase of the share capital by issuing G series shares within authorised capital and a resolution concerning the exclusion of subscription right for new G series shares by existing shareholders.
The share capital will be increased from PLN 7,540,237.50 to PLN 7,553,621, i.e. by PLN 13,383.50, by way of issue of 133,835 ordinary bearer series G shares.

The aim of the share capital increase is to offer the shares to the Members of the Parent Company's Supervisory Board as part of a private subscription. Persons entitled to subscribe for series G shares will be exclusively the Parent Company Supervisory Board Members listed in Resolution No 10 of the Ordinary General Shareholders' Meeting dated 23 May 2011 concerning repealing Resolution No 12 of the Extraordinary General Shareholders' Meeting of TOYA S.A. with its registered office in Wrocław of 14 February 2011 and concerning the remuneration of the Company's Supervisory Board. The right to subscribe for the shares may be transferred by an eligible Member of the Supervisory Board to a third party or parties indicated to the Parent Company in writing.

30 June 2014 is the deadline for exercising the right to subscribe for series G shares and concluding an agreement on subscription for these shares.

20. STATEMENT ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

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

The Company adopted the principles of corporate governance set out in the document entitled "Good Practices of Companies Listed on the Warsaw Stock Exchange", the content of which is available at the website www.corp-gov.gpw.pl.
This statement concerning application of the principles of corporate governance, included in the Annual Report for the financial year 2013, refers to the principles of corporate governance applicable from 1 January 2013.

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

In 2013, the Parent Company observed the principles of corporate governance specified in the document entitled "Good Practices of Companies Listed on the Warsaw Stock Exchange", except for the principles listed below.

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

- Enable on-line broadcasts of General Shareholders' Meetings over the Internet, record General Shareholders' Meetings, and publish the recordings on the company website

- In 2013, the Parent Company did not broadcast General Shareholders' Meetings over the Internet. In the opinion of the Management Board, non-compliance with the principle to this extent does not pose a risk, since the Parent Company publishes news in the form of current reports and makes available on its website all the legally required information and documents, thus enabling the investors to become familiar with the matters discussed during the General Shareholders' Meeting. Due to the shareholding structure, this solution would result in costs disproportionate to the effects. The Parent Company will consider fulfilling this recommendation in the future.

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

- This principle was not observed with regard to remuneration of members of the Supervisory Board since in accordance with the Company's current Articles of Association, remuneration of the members of the Supervisory Board is determined by the General Shareholders' Meeting. By way of resolution dated 23 May 2011, the General Shareholders' Meeting determined the principles of remuneration of the Supervisory Board members for a three-year term of office. According to the Articles of Association, remuneration of Management Board Members is determined by the Supervisory Board. The Company has no documents specifying the principles of shaping the remuneration policy. The amount of remuneration of the Company's bodies is presented in annual reports.

- The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business.

- In the opinion of the Company's Management Board, the main criterion for electing members of the Management Board or the Supervisory Board is the candidate's experience and competencies for the applied position. The Parent Company declares that it will consider the subject recommendation and possibly comply with corporate governance in this respect.

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

B. <u>With regard to good practices applied by management boards of listed companies:</u>

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

- In accordance with the provisions of the Code of Commercial Partnerships and Companies, the general meeting takes place in the presence of a notary public who prepares minutes from the proceedings. In the view of the Company, it is a sufficient way of recording the proceedings of the general meeting. The binding provisions of law sufficiently regulate the performance of information requirements of public companies in the scope of the transparency of matters under proceedings of the General Shareholders' Meeting. The information was announced in the current report regarding the non-observance of the abovementioned principle of corporate governance dated 4 June 2013.

- <u>The Parent Company ensures operation of its website, also in English, at least in the scope indicated in part 2 item 1.</u>

- TOYA S.A. is gradually implementing its website, including in English – in the scope indicated in part 2 item 1.

C. <u>With regard to good practices implemented by the shareholders</u>

- <u>The Parent Company should enable its shareholders to participate in the general meeting using electronic means of communication in the following manner:</u>

  <u>1) real-time transmission of the general meeting,</u>

  <u>2) two-way real-time communication which allows the shareholders to speak during the general meeting while being present at a location other than the location of the meeting,</u>

  <u>3) exercising the voting right during the general meeting, in person or through a proxy.</u>

- The Parent Company did not implement these principles in 2013. TOYA S.A. is considering gradual implementation of appropriate corporate mechanisms, in particular additional organisational and technical means, allowing for application of the principles of corporate governance in the abovementioned scope.

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

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

The books of account are kept by the Company and its subsidiaries in the SAP R3 IT system. Access to information resources of the IT system is restricted by appropriate rights of authorised employees solely in the scope of their duties.

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

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

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

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

The table below presents the ownership structure and percentage stakes held in the Company as at 31 December 2013:

Name	Status	Series of shares	Number of shares	Type of shares	Par value per share (PLN)	Par value of the shares (PLN)	Structure (%)
Jan Szmidt	natural person	A	28,170,647	ordinary bearer	0.1	2,817,064.70	37.4%
Tomasz Koprowski	natural person	A	14,644,030	ordinary bearer	0.1	1,464,403.00	19.4%
Romuald Szałagan	natural person	A	10,938,874	ordinary bearer	0.1	1,093,887.40	14.5%
Generali OFE(*)	legal person	C	6,038,147	ordinary bearer	0.1	603,814.70	8.0%
Piotr Wojciechowski	natural person	B	5,044,878	ordinary bearer	0.1	504,487.80	6.7%
Other – share below 5%	not applicable	C, D, E, F	10,565,799	ordinary bearer	0.1	1,056,579.90	14.0%
TOTAL:			**75,402,375**			**7,540,237.50**	**100%**

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

20.5 Holders of any securities which provide special control rights

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

20.6 Restrictions regarding the exercise of voting rights

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

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

In 2013, there were no such limitations.

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

Pursuant to the Articles of Association, the Management Board comprises one to seven members, including the President of the Management Board and, in the case of a Management Board comprising several members, the Vice-President of the Management Board. The number of Management Board members for a given term is specified by the Supervisory Board. Members of the Management Board are appointed for a joint, three-year term of office, while mandates of the Management Board members expire no later than on the day of the General Shareholders' Meeting which approves the financial statements for the last full financial year of the term of office.
Members of the Management Board of TOYA S.A. are appointed and dismissed by the Supervisory Board.
Members of the Management Board can be dismissed at any time, without detriment to their claims from the work relationship or a different legal relationship which is the basis for holding the office of a Management Board Member.
The Management Board's competencies relate to all matters of the Company not restricted to the competencies of the General Shareholders' Meeting or the Supervisory Board.
The Management Board operates on the basis of the Regulations approved by the Supervisory Board, as specified in the Articles of Association of TOYA S.A. The Regulations also specify detailed competencies of the Management Board. The Management Board handles the affairs of the Company, manages its assets and represents the Company before third parties.
The following corporate documents, including a description of principles concerning appointment and dismissal of managers and their entitlements, in particular the right to decide on issuance or redemption of shares, are available on the website www.yato.pl in the Investor Relations tab.

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

20.9 Principles of introducing amendments to the articles of association

Amendments to the Articles of Association of the Company, including increases or decreases in the share capital, are introduced in accordance with the provisions of the Commercial Companies Code and are the sole competence of the Company's General Shareholders' Meeting.

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

The General Shareholders' Meetings of TOYA S.A. (the Company) take place in accordance with the provisions of the Commercial Companies Code, the Articles of Association of the Company as well as provisions of the Regulations, while taking into account other generally applicable provisions of law. Subject to cases specified in the Commercial Companies Code, if the General Shareholders' Meeting was convened correctly, it is valid and

capable of adopting resolutions regardless of the number of shares represented at the meeting. The General Shareholders' Meeting of the Company is convened by an announcement published on the Company's website and in a manner specified for transmitting current information, according to generally applicable regulations. The announcement should be made at least twenty-six days before the date of the General Shareholders' Meeting. The announcement about the General Shareholders' Meeting of the Company should include at least:
1) the date, time and place of the General Shareholders' Meeting as well as a detailed agenda,
2) a precise description of procedures regarding participation in the General Shareholders' Meeting and executing
the voting right, in particular information about:
- a) the shareholder's right to demand specific issues to be included in the agenda,
- b) the shareholder's right to submit draft resolutions regarding issues on the General Shareholders' Meeting's agenda or issues which are to be included in the agenda before the date of the General Shareholders' Meeting,
- c) the shareholder's right to submit draft resolutions regarding issues on the General Shareholders' Meeting's agenda during the General Shareholders' Meeting,
- d) the manner of exercising the voting right via proxy, including, in particular, information about forms used in voting through a proxy and the manner of notifying the Company about appointment of a proxy using electronic means of communication,
- e) the possibility and the manner of participating in the General Shareholders' Meeting using electronic means of communication,
- f) the manner of voicing opinions during the General Shareholders' Meeting, using electronic means of communication,
- g) the manner of exercising the voting right by correspondence or using electronic means of communication,

3) the date of registration of participation in the General Shareholders' Meeting,
4) information that the right to participate in the General Shareholders' Meeting only applies to persons who are shareholders of the Company on the date of registering their participation in the General Shareholders' Meeting,
5) information on where and how the person entitled to participate in the General Shareholders' Meeting can obtain the full text of documentation to be presented to the General Shareholders' Meeting as well as draft resolutions,
6) address of the website on which information concerning the General Shareholders' Meeting will be made available.

The right to participate in the General Shareholders' Meeting of the Company applies exclusively to persons who are shareholders of the Company sixteen days before the date of the General Shareholders' Meeting (the date of registering participation in the General Shareholders' Meeting). The shareholder or their proxy are hereinafter also referred to as the Participants of the General Shareholders' Meeting (the Participant or Participants). The General Shareholders' Meeting can be attended by shareholders who submitted, to the entity keeping the securities account, a request for issue of a registered certificate of the right to participate in the General Shareholders' Meeting no earlier than after the announcement on the General Shareholders' Meeting being convened and no later than on the first business day following the date of registration for the General Shareholders' Meeting. The Company determines the list of shareholders entitled to participate in the General Shareholders' Meeting on the basis of the list prepared by the entity maintaining the depository of securities, in accordance with the provisions on trade in financial instruments, submitted to the Company no later than a week before the date of the General Shareholders' Meeting.

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

Upon arrival at the General Shareholders' Meeting, each shareholder on the list of shareholders entitled to participate in the General Shareholders' Meeting reports their attendance (at the shareholder registration point) to the shareholder service team and is entered onto the attendance list. Preparing the attendance list of the General Shareholders' Meeting Participants involves the following tasks:
1) verification of identity of the shareholder or their proxy (if the shareholder is represented by a proxy, this fact must be indicated on the attendance list),
2) providing the number of shares held by the reporting Participant,

3) specifying the number of votes to which the reporting Participant is entitled,
4) the Participant placing a signature on the attendance list,
5) issuing a voting card, voting instructions and other materials for the meeting to the Participant.

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

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

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

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

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

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

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

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

Duties and rights of the Chairperson of the General Shareholders' Meeting, apart from those listed in the Regulations of the General Shareholders' Meeting, include in particular:
1) declaring correctness of the manner in which the General Shareholders' Meeting was convened and the ability to adopt resolutions,

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

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

Every Participant of the General Shareholders' Meeting is entitled to submit a motion regarding formal issues. Motions regarding formal issues are motions regarding the manner of holding the meeting and voting, in particular motions for:
1) postponement or closure of discussion,
2) breaks in the meeting,
3) the voting order of motions submitted under a given item of the agenda,
4) closure of the list of candidates upon elections.

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

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

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

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

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

Questions asked in relation with the General Shareholders' Meeting along with answers are published by the Company on its website, immediately after the end of the General Shareholders' Meeting.

Resolutions cannot be adopted with respect to issues not covered by the agenda unless the entire share capital is represented at the General Shareholders' Meeting and none of the attendants object to adoption of the resolution. The General Shareholders' Meeting can adopt, at any time, a resolution on convening an Extraordinary General Shareholders' Meeting, resolutions regarding the announced agenda and resolutions of organisational nature, which include:
1) a resolution on changing the order of individual discussed items on the agenda,
2) a resolution on removing individual issues from the agenda,
3) a resolution on the method of voting,
4) a resolution on breaks in the meeting.

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

A resolution is deemed adopted if its adoption was voted for by shareholders representing the majority of votes required according to the provisions of the Commercial Companies Code or the Articles of Association. If amendments were suggested for a draft resolution, these suggestions, subject to § 8 paragraph 2 of the Regulations of the General Shareholders' Meeting, are put to vote in the order determined by the Chairperson and subsequently, a vote is held on the entire draft resolution, together with adopted improvements.

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

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

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

A candidate for an independent member of the Supervisory Board submits their agreement to be appointed member of the supervisory board and a curriculum vitae, as well as a written declaration of meeting the independence criteria referred to in the Company's Articles of Association. Every Participant of the General

Shareholders' Meeting is entitled to put forward candidatures for a member of the Supervisory Board. The candidature put forward is accompanied by a justification and a short curriculum vitae of the candidate, which covers in particular their education and hitherto work experience.

The candidate put forward is added to the list of candidates after declaring acceptance of the candidature and compliance with the criteria, adopted by the Company, necessary to be recognised as an independent member of the Supervisory Board, as well as submitting other declarations, if any, required by generally applicable provisions. A candidate who is absent at the General Shareholders' Meeting is entered onto the list of candidates after the person who proposes them presents:
1) the candidate's written agreement along with a declaration of compliance with
the independence requirements, or
2) a written declaration concerning the candidate being put forth with respect to consent
to candidature and compliance with the independence criteria and
3) the candidate's other declarations required by the provisions of the law, submitted
in the appropriate form.

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

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

A special voting procedure is ordered by the Chairperson of the General Shareholders' Meeting in the case of group elections to the Supervisory Board. Upon the motion of shareholders representing at least one fifth of the share capital, the Supervisory Board should be elected by way of voting in separate groups even if the Articles of Association provide for a different manner of appointment of the Supervisory Board. During a group ballot, one share corresponds to one vote. Groups of shareholders are created at the General Shareholders' Meeting in order to elect members of the Supervisory board, provided that the number of created groups corresponds to the number of posts to be appointed in the Supervisory Board. A shareholder can only be a member of one voting group. The minimum number of shares needed for creating a group is established by dividing the number of shares represented at the General Shareholders' Meeting by the number of mandates to be appointed in the Supervisory Board. The group of shareholders is entitled to elect the number of members of the Supervisory Board equal to the number of times the shares represented by it exceed the calculated minimum. Groups of shareholders can merge in order to make optimal use of jointly held shares to elect members of the Supervisory Board. For each group, the Chairperson orders a separate attendance list to be prepared. Each group holds a vote for the chairperson of the meeting of a given group, who will ensure organisation of the ballot within the group, i.e. proposing candidates, holding ballots and minutes from the group's meeting being drawn up by the notary public. Each of the established groups is provided with a separate room to hold the elections unless this is impossible for organisational reasons. In such a case, groups take turns and use a single room. Each group holds the ballot before the notary public who draws up the minutes; the order is determined by the Chairperson of the General Shareholders' Meeting. After holding a group ballot, the chairperson of the group delivers written results of secret ballots held in groups to the Chairperson of the General Shareholders' Meeting. The Chairperson of the General Shareholders' Meeting announces the composition of the Supervisory Board after collecting all results of group ballots.

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

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

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

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

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

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

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

MANAGEMENT BOARD

The composition of the Management Board as at 31 December 2013 was as follows:

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

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

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

Detailed principles of operation of the Management Board are specified in the Regulations of the Management Board, published on the website www.yato.pl.

SUPERVISORY BOARD

As at 31 December 2013, the composition of the Supervisory Board was as follows:

- Piotr Mondalski – President of the Supervisory Board – since 14 February 2011
- Jan Szmidt – Vice-President of the Supervisory Board – since 14 February 2011 (Member of the Supervisory Board since 13 January 2011)
- Tomasz Koprowski – Member of the Supervisory Board – since 14 February 2011
- Romuald Szałagan – Member of the Supervisory Board – since 14 February 2011
- Piotr Wojciechowski – Member of the Supervisory Board – from 13 January 2011 to 31 December 2013

  in accordance with the information published on 18 December 2013 in current report No 34/2013, on 18 December 2013, the Management Board of TOYA S.A. received a letter on the resignation of Piotr Wojciechowski from the position of Member of the Supervisory Board of the Company and Member of the Audit Committee, effective from 31 December 2013
- Grzegorz Maciąg – Member of the Supervisory Board – since 14 February 2011
- Dariusz Górka – Member of the Supervisory Board – since 14 February 2011

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

- Piotr Wojciechowski (until 31 December 2013 – details above and in current report No 34/2013)
- Jan Szmidt (since 6 March 2014)
- Dariusz Górka
- Grzegorz Maciąg

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

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

- monitoring the Company's financial reporting process and performing financial revision tasks, among others by monitoring the process of preparation of the financial statements and monitoring reliability of the financial information presented by the Company;

- monitoring the effectiveness of internal control systems, internal audit (if appointed) and risk management through, among others, reviewing, at least once a year, the internal control and risk management procedures in order to ensure compliance with the provisions and internal regulations, as well as assessment of compliance with risk management principles and presenting recommendations in this scope;

- monitoring performance of financial revision tasks, among other through monitoring independence of the auditor with respect to audit conducted by them and discussion of the audit process with the auditor;

- monitoring the independence of the registered auditor and the company authorised to audit financial statements, including rendering services other than financial review activities.

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

Wrocław, 2 April 2014