



DIRECTORS' REPORT
ON THE OPERATIONS OF
TOYA S.A.
IN 2018

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1. DESCRIPTION OF THE COMPANY

1.1 TOYA S.A. – general profile

TOYA S.A. (hereinafter referred to as the "Company") is a joint-stock company, established on the basis of the Commercial Companies Code. The Company has its 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 Opińska in the Notarial Office in Wrocław (Rep. A No 5945/99). Pursuant to a court decision of 3 December 1999, the Company was entered in the Commercial Register maintained by the District Court for Wrocław-Fabryczna, 6th Commercial Division, under entry No RHB 9053. By virtue of a decision of 4 December 2001, the District Court for Wrocław-Fabryczna, 6th Commercial Division of the National Court Register, decided to enter the Company in the Register of Entrepreneurs, with the reference number KRS 0000066712. The entry in the Register took place on 5 December 2001.

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

Duration of the Company is unlimited.

As at the date of submission of the annual report, TOYA S.A. has 1 branch located outside its registered office, in Nadarzyn.

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

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

1.2 Share capital

As at 31 December 2018, the share capital amounted to PLN 7,504,222.60 and comprises 75,042,226 shares with a par value of PLN 0.1 each.

On 9 April 2018, the District Court for Wrocław – Fabryczna, the 6th Commercial Division of the National Court Register, registered the change to the amount of the Company's share capital consisting of reducing the Company's share capital by the amount of PLN 328,861.5 (from PLN 7,833,084.10 to PLN 7,504,222.60). As a consequence of the above registration of the share capital reduction, 3,288,615 own shares of the Company were redeemed as of 9 April 2018, in accordance with resolution no. 4 of the Extraordinary General Meeting of Shareholders of the Issuer of 27 February 2018, in the matter of redeeming own shares of the Company.

1.3 The Company's Management Board and Supervisory Board

In the period from 1 January 2018 to 31 December 2018 and as of the date of approval of this report, the Management Board of the Company composed of the following members:

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

In the period from 1 January 2018 to 29 August 2018, the Supervisory Board of the Company was composed of the following members:

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

Mr Tomasz Koprowski resigned as a Member of Supervisory Board of the Company, with effect from 29 August 2018. From that date until 20 November 2018, the Supervisory Board was composed of the following members:

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

From 20 November 2018 and as of the day of approval of this report for publication, the Supervisory Board of the Company was composed of the following members:

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

1.4 Own shares

On 9 April 2018, the District Court for Wrocław – Fabryczna, the 6th Commercial Division of the National Court Register, registered the change to the amount of the Company's share capital consisting of reducing the Company's share capital by the amount of PLN 3,288,615. Upon the registration of the change, the share capital amounted to PLN 7,504,222.60 and comprises 75,042,226 A series ordinary bearer shares with a par value of PLN 0.1 each. As a consequence of the above registration of the share capital reduction, 3,288,615 own shares of the Company were redeemed as of 9 April 2018, in accordance with resolution no. 4 of the Extraordinary General Meeting of Shareholders of the Issuer of 27 February 2018, in the matter of redeeming own shares of the Company. Under share purchase offering of 4 September 2017, lasting from 11 to 22 September 2017, the Company purchased **3,288,615** of own shares at the price of **PLN 8.95** per share.

1.5 Shareholders

According to information provided to TOYA S.A. by its shareholders, the Company's ownership structure as of 31 December 2018 was as follows:

Name	Status	Number of shares	Type of shares	Par value per share (PLN)	Par value of the shares (PLN)	Structure (%)
Jan Szmidt	natural person	28,170,647	ordinary bearer	0.1	2,817,064.70	37.54%
Tomasz Koprowski	natural person	11,866,684	ordinary bearer	0.1	1,186,668.40	15.81%
Romuald Szałagan	natural person	9,652,290	ordinary bearer	0.1	965,229.00	12.86%
Rockbridge TFI S.A.	legal person	7,711,798	ordinary bearer	0.1	771,179.80	10.28%
Generali OFE	legal person	5,001,147	ordinary bearer	0.1	500,114.70	6.66%
Other – share below 5%	not applicable	12,639,660	ordinary bearer	0.1	1,263,966.00	16.84%
TOTAL		75,042,226			7,504,222.60	100.00%

According to information provided to TOYA S.A. by its shareholders, shareholders holding directly or indirectly at least 5% of the total number of votes as at 31 December 2018 were:

	Number of shares	Share (%)	Number of votes	Share (%)
Jan Szmidt	28,170,647	37.54%	28,170,647	37.54%
Tomasz Koprowski	11,866,684	15.81%	13,704,424	15.81%
Romuald Szałagan	9,652,290	12.86%	9,652,290	12.86%
Rockbridge TFI S.A.	7,711,798	10.28%	6,705,590	10.28%
Generali OFE	5,001,147	6.66%	5,001,147	6.66%

Since the submission of the last quarterly report (i.e. 8 November 2018), TOYA S.A. has received notification from the following shareholders about changes in the ownership structure of significant blocks of shares:

- ALTUS TFI S.A. notified about decrease of number of owned shares from 7,591,451 (10.12% in the total number of votes) to 379,653 shares (0.51% in the total number of votes),
- Rockbridge TFI S.A. notified about increase of number of owned shares from 2,340,313 (3.12% in the total number of votes) to 7,711,798 shares (10.28% in the total number of votes).

1.6 Shares held by managers and supervisors

1.6.1 Shares held by members of the Company's Management Board

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

	Number of shares	Par value of the shares (PLN)	Number of votes	Share (%)
Grzegorz Pinkosz	146,812	14,681.20	146,812	0.19%
Maciej Lubnauer	61,831	6,183.10	61,831	0.09%
TOTAL members of the Management Board	208,643	20,864.30	208,643	0.28%

1.6.1 Shares held by members of the Company's Supervisory Board

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

	Number of shares	Par value of the shares (PLN)	Number of votes	Share (%)
Jan Szmidt	28,170,647	2,817,064.70	28,170,647	37.54%
Beata Szmidt	3,239,253	323,925.30	3,239,253	4.32%
Grzegorz Maciąg	5,275	527.50	5,275	0.01%
TOTAL members of the Supervisory Board	31,415,175	3,141,518.00	31,415,175	41.87%

1.6.2 Information about the employee share ownership plan control system

In 2018, there were no employee share ownership plans at the Company.

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

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

1.8 Total value of remuneration, rewards and benefits paid or due to managers and supervisorsRemuneration of the Management Board:

Name and surname	Position	Gross remuneration for position held under the employment agreement (PLN '000)
2018		
Grzegorz Pinkosz	President of the Management Board	1,039
Maciej Lubnauer	Vice-President of the Management Board	1,003
2017		
Grzegorz Pinkosz	President of the Management Board	805
Maciej Lubnauer	Vice-President of the Management Board	788

Remuneration of the Supervisory Board:

Name and surname	Position	Gross remuneration for position held (PLN '000)
2018		
Piotr Mondalski	President of the Supervisory Board	180
Jan Szmidt	Vice-President of the Supervisory Board	48
Beata Szmidt (*)	Member of the Supervisory Board	3
Tomasz Koprowski (*)	Member of the Supervisory Board	16
Dariusz Górka	Member of the Supervisory Board	120
Grzegorz Maciąg	Member of the Supervisory Board	120
Michał Kobus	Member of the Supervisory Board	48
Wojciech Papierak	Member of the Supervisory Board	48
2017		
Piotr Mondalski	President of the Supervisory Board	180
Jan Szmidt	Vice-President of the Supervisory Board	114
Tomasz Koprowski	Member of the Supervisory Board	72
Dariusz Górka	Member of the Supervisory Board	120
Grzegorz Maciąg	Member of the Supervisory Board	120
Michał Kobus	Member of the Supervisory Board	24
Wojciech Papierak	Member of the Supervisory Board	24

(*) remuneration for the period of performing duties in Supervisory Board

Remunerations presented in this note include remunerations actually paid in 2018 (including bonuses for the previous periods covered by provisions as at 31 December 2017). Remunerations do not include unpaid bonuses for the year 2018 (covered by provisions as at 31 December 2018).

Certain members of the Management Board and Supervisory Board of TOYA S.A. are also shareholder of TOYA S.A. and received dividend payment in 2018, with regards to shares held as of the date of acquiring the right to the dividend (please refer to point 1.6 and 3.6).

There are no liabilities under the pensions or similar benefits for former managers, supervisors or former members of administrative bodies and the liabilities that are incurred in relations to such pensions at the Company.

1.9 Agreements concluded by and between the Issuer and persons performing management functions, providing for compensation in the event of their resignation or dismissal from the occupied position

As at 31 December 2018, 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.

2. CHANGES IN THE METHODS OF MANAGING THE COMPANY

There were no significant changes in the methods of managing the Company in 2018.

3. THE MOST SIGNIFICANT EVENTS OF 2018

3.1 Extraordinary General Shareholders' Meeting

The Extraordinary General Meeting of Shareholders of TOYA S.A. was held on 27 February 2018, which adopted a resolution on redemption of 3,288,615 of own shares with the nominal value of PLN 0.10 each. Shares were purchased under share buyback offering described in annual consolidated financial statements for 2017. The Extraordinary General Shareholders' Meeting adopted also a resolution to decrease the share capital from PLN 7,833,084.10 to PLN 7,504,222.60 and create separate reserve capital – "reserve capital from decrease of share capital", to which amount resulting from decrease of share capital of TOYA S.A. (PLN 328,861.50) was transferred.

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

Redemption of shares was registered by the National Court Register (KRS) of 9 April 2018.

3.2 Annex to material agreement

On 22 February 2018 TOYA S.A. concluded an annex to the Debt Limit Agreement no. CRD/L/11381/02 of 2 October 2002 with Raiffeisen Bank Polska S.A., with its registered office in Warsaw.

Under the annex in question the final loan repayment date was set for 8 March 2019 and a decrease in the loan costs took place with respect to the current terms and conditions of the agreement.

The other terms and conditions of the Agreement remained intact and do not deviate from the generally applicable terms and conditions with respect to this type of agreements.

3.3 Registration of change in share capital of TOYA S.A. by the court and redemption of own shares

On 9 April 2018, the District Court for Wrocław – Fabryczna, the 6th Commercial Division of the National Court Register, registered the change to the amount of the Company's share capital consisting of reducing the Company's share capital by the amount of PLN 3,288,615. Upon the registration of the change, the share capital amounted to PLN 7,504,222.60 and comprises 75,042,226 A series ordinary bearer shares with a par value of PLN 0.10 each. As a consequence of the above registration of the share capital reduction, 3,288,615 own shares of the Company were redeemed as of 9 April 2018, in accordance with resolution no. 4 of the Extraordinary General Meeting of Shareholders of the Issuer of 27 February 2018, in the matter of redeeming own shares of the Company.

3.4 Registration of changes in the articles of association of TOYA S.A.

On 9 April 2018, District Court for Wrocław – Fabryczna, the 6th Commercial Division of the National Court Register (KRS) registered changes to the Company's Articles of Association, resulting mainly from decrease of the Company's share capital (please refer to point 20.1). Complete and uniform text of the Articles of Association was published in current report no. 13/2018.

3.5 Resolution on approval of financial statements for fiscal year 2018 and distribution of profit

On 26 June 2018, the General Shareholder Meeting of TOYA S.A. adopted a resolution on approving the financial statements of TOYA S.A. for the fiscal year 2017 and approving designation of the net profit for the fiscal year 2017 in the amount of PLN 35,269,846.22 for payment of dividend, which represents PLN 0.47 of dividend per share. The funds for payment of dividend were transferred by the Company subsequent to the end of fiscal year, i.e. on 16 June 2018 and were transferred to shareholders through the Central Securities Repository of Poland (KDPW) on 17 July 2018.

3.6 Payment of a dividend

Fulfilling the provision of the resolution of the Ordinary General Meeting of Shareholders of TOYA S.A. of 26 June 2018, on 16 July 2018 the Company transferred funds for payment of dividend, which funds were distributed to shareholders through the Central Securities Repository of Poland (KDPW) on 17 July 2018.

3.7 Annex to material agreement

On 12 September 2018, TOYA S.A. concluded an annex to the Overdraft Agreement no. K00856/17 of 19 September 2017 with Santander Bank Polska S.A. (previously: Bank Zachodni WBK S.A.), with a registered seat in Warszawa, al. Jana Pawła II 17.

Under the annex in question, the overdraft final repayment date was set on 18 September 2019.

The other terms and conditions of the Agreement remain without any significant changes and do not deviate from the generally applicable terms and conditions with respect to this type of agreements.

3.8 Resignation of the Supervisory Board Member

On 29 August 2018, Mr Tomasz Koprowski resigned from serving the function of the Supervisory Board member with effect on 29 August 2018.

3.9 Extraordinary General Shareholders Meeting

In order to complement the Supervisory Board, the Management Board of the Company has convened an Extraordinary General Shareholders Meeting on 20 November 2018. The Extraordinary General Shareholders Meeting appointed, to the 7-person composition of the Company's Supervisory Board, for a period of a joint 3-year term commenced on 29 June, 2017, a Member of the Supervisory Board in the person of Ms Beata Szmidt.

3.10 Annex to material agreement

On 14 December 2018, TOYA S.A. concluded with Bank Handlowy S.A. with a registered seat in Warsaw an annex no. 13 to Overdraft Agreement No. BDK/KR-RB/000054601/0641/10.

Under the annex in question:

- a) the current amount of the overdraft available was increased from PLN 30,000,000.00 to PLN 40,000,000.00;
- b) the date of the overdraft final repayment was set on 13 December 2019;
- c) the amount of the collateral in the form of a registered pledge upon the object of the pledge in the form of current assets was increased from the highest collateral sum of PLN 14,000,000.00 to PLN 25,000,000.00.

The other terms and conditions of the Agreement remain without any significant changes and do not deviate from the generally applicable terms and conditions with respect to this type of agreements.

3.11 Making decision on entry into negotiations

On 24 December 2018, the Management Board of the Company made a decision to enter into the process of negotiation with the economic zone located in the Zhejiang Province in the People's Republic of China (hereinafter: the Zone) aimed at preparing, drawing up and signing an agreement between the Issuer and the Zone, the subject of which is to enable the Issuer to increase the warehouse storage space by constructing a warehouse (hereinafter: the Project) in the area of the Zone. The performance of the Project is related to an intensive growth of TOYA S.A. Capital Group and thus resulting necessity to ensure high availability of the goods, both to the Issuer and the remaining companies within the Group. For many years, the Group has been successfully managing the chain of supplies made up of suppliers and customers on many continents. The Group adjusts those activities to current needs with a view to ensuring effectiveness with maximum reduction of related costs. At the moment, TOYA S.A. is considering the possibility of implementing the project by a newly formed company dependent on TOYA S.A. The Company would like to stress that for the time being no final arrangements have been made, and the commencement of the above-described negotiations does not mean that the negotiations will end in determining final terms and conditions of the agreement. At the same time, the Issuer stipulates that the implementation of the Project requires obtaining the necessary administrative decisions and formal and legal consents as well as obtaining the desired financing structure for the project.

4. INFORMATION ON THE ISSUER'S ORGANISATIONAL AND EQUITY RELATIONSHIP WITH OTHER ENTITIES AND IDENTIFICATION OF THE ISSUER'S MAJOR DOMESTIC AND FOREIGN INVESTMENTS (SECURITIES, FINANCIAL INSTRUMENTS, INTANGIBLE ASSETS AND INVESTMENT PROPERTIES) INCLUDING CAPITAL INVESTMENTS EXCEPT FOR THE GROUP OF RELATED PARTIES AND THE DESCRIPTION OF FINANCING METHODS

4.1 Equity links

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

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

4.2 Other significant links

As at the date of publication of the report on operations, the Company had personal links with the following entities (this summary includes entities with whom the Company has concluded transactions in 2018):

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

4.3 Major domestic and foreign investments

Beside capital investments described in point 1.2, the Company does not have any other capital investments. In 2018, there were no significant investments in securities, financial instruments, intangible assets and investment properties.

5. MAJOR R&D ACHIEVEMENTS.

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

6. OVERVIEW OF KEY ECONOMIC AND FINANCIAL FIGURES AND DESCRIPTION OF FACTORS AND EVENTS, ESPECIALLY UNTYPICAL, AFFECTING THE COMPANY'S OPERATIONS IN 2018

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

	For 12 months ended 31 December	
	2018	2017
Sales revenue	311,633	287,783
Gross sales profit	104,322	92,146
Operating profit	49,764	44,524
Profit before tax	48,743	44,080
Net profit	39,246	35,378

In 2018, sales revenue amounted to PLN 311,633 thousand and exceeded the level of revenue achieved in 2017 by PLN 23,850 thousand, i.e. by 8.3%. An increase in gross profit on sales by PLN 12,176 thousand in 2018 as compared to 2017 resulted mainly from higher sales volume, especially in traditional channel, export channel and internet store.

The operating profit in 2018 in the amount of PLN 49,764 thousand was higher than that achieved in 2017 by 11.8%. This resulted mainly from higher gross profit.

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

Net profit in 2018 amounted to PLN 39,246 thousand and was by PLN 3,868 thousand, i.e. 10.9%, higher than in 2017.

Profitability ratios of TOYA S.A.

	For 12 months ended 31 December	
	2018	2017
Sales profit margin	33.5%	32.0%
Operating profit margin	16.0%	15.5%
Pre-tax profit margin	15.6%	15.3%
Net profit margin	12.6%	12.3%

Key:

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

Net profit margin reached a very good level of 12.6% in 2018.

For TOYA S.A., the sales profit margin is the key indicator of the Company's market competitiveness and has a decisive impact on its financial position. Analysis of this ratio for 2018 shows that the sales profit margin in this period increased by 1.5 percentage points as compared to 2017.

Profit margins at the level of the operating profit, profit before tax and net profit slightly increased in 2018 as compared to the previous year.

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

	For 12 months ended 31 December	
	2018	2017
Cash flows from operating activities	(13,046)	34,750
Cash flows from investment activities	(2,203)	(1,608)
Cash flows from financial activities	16,405	(32,566)
Change in net cash	1,156	576
Cash and cash equivalents at the beginning of the period	786	213
Cash and cash equivalents at the end of the period	1,943	786

In 2018, TOYA S.A. disclosed negative operating cash flows which amounted to PLN 13,046 thousand. Due to the increased volume of orders and with a simultaneous rise in sales, the Company increased its inventories by PLN 57,059 thousand. Short-term trade and other receivables increased by PLN 3,084 thousand.

In 2018, the Company did not undertake any significant investment activities. Cash outflows during that period were mainly connected with the purchase of exhibition shelves and investments in IT equipment.

In 2018, the Company generated positive cash flows from financial activities in the amount of PLN 16,405 thousand. The main reason for positive cash flows was the increase of the level of credit and loans liabilities by the amount of PLN 53,556 thousand.

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

Liquidity ratios

	31.12.2018	31.12.2017
Current ratio	2.07	3.07
Quick ratio	0.42	0.76

Key:

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

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

The value of the current ratio decreased to 2.07 as at 31 December 2018 in relation to 3.07 as at 31 December 2017. A lower level of the current ratio indicates a higher growth rate of liabilities in relation to the growth rate of the working capital.

The value of the quick ratio amounted to 0.42 as at 31 December 2018 in relation to 0.76 as at 31 December 2017. It is notable that this ratio has still reached a very good level.

TOYA S.A.

Directors' report on the Company's operations for 12 months ended 31 December 2018

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

	31.12.2018	31.12.2017
Non-current assets	45,753	43,454
Intangible assets	2,605	2,291
Property, plant and equipment	19,001	17,242
Investments in subsidiaries	22,631	22,631
Current assets	244,029	182,729
Inventory	194,506	137,447
Trade and other receivables	47,580	44,496

% asset structure of TOYA S.A.

	31.12.2018	31.12.2017
Non-current assets / Assets	16%	19%
Intangible assets / Assets	1%	1%
Property, plant and equipment / Assets	7%	8%
Investments in subsidiaries / Assets	8%	10%
Current assets / Assets	84%	81%
Inventory / Assets	67%	61%
Trade and other receivables / Assets	16%	20%

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

	31.12.2018	31.12.2017
Equity	169,227	165,332
Trade and other payables	26,784	22,432
Short-term liabilities	117,732	59,432
Long-term liabilities	2,823	1,419

% equity and liability structure of TOYA S.A.

	31.12.2018	31.12.2017
Equity / Equity and liabilities	58%	73%
Short-term liabilities / Equity and liabilities	41%	26%
Long-term liabilities / Equity and liabilities	1%	1%
Short-term liabilities / Liabilities	98%	98%
Long-term liabilities / Liabilities	2%	2%

TOYA S.A.

Directors' report on the Company's operations for 12 months ended 31 December 2018

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

	For 12 months ended 31 December	
	2018	2017
Return on assets (ROA)	14%	16%
Return on equity (ROE)	23%	21%
Return on current assets	16%	19%

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 2018, the Company's property, plant and equipment constitute 7% of total assets used in the Company's operations. Property, plant and equipment comprise primarily land, buildings and structures necessary for the Company's commercial activity. There were no material changes in their structure during the analysed period.

As at 31 December 2018, investments in subsidiaries include shares in Toya Romania S.A. totalling PLN 1,885 thousand, in Yato Tools (Shanghai) Co. Ltd. totalling PLN 20,746 thousand. There were no changes in their structure in 2018.

The structure of current assets used in the operations of TOYA S.A., which as at 31 December 2018 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.. Both these items constitute, in total, 99% of current assets involved in the Company's operations as at 31 December 2018 and as at 31 December 2017.

TOYA S.A. conducts efficient warehouse management by adjusting the stock levels to the customers' demand. In 2018, the Company increased its inventories by 42% as compared to the end of 2017, thereby increasing availability of the Company's goods to customers.

Equity structure and debt ratios of TOYA S.A.

	31.12.2018	31.12.2017
Total debt ratio	42%	27%
Equity debt ratio	71%	37%
Long-term debt ratio	1%	1%
Short-term debt ratio	41%	26%
The ratio of coverage of non-current assets with equity and long-term liabilities	376%	384%

Key:

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

Debt to equity ratio – the ratio of long- and short-term liabilities to equity

Long-term debt ratio – the ratio of long-term liabilities to total equity and liabilities

Short-term debt ratio – the ratio of short-term liabilities to total equity and liabilities

The ratio of coverage of non-current assets with equity and long-term liabilities – the ratio of total equity and long-term liabilities to non-current assets

As at 31 December 2018 retained earnings totalling PLN 125,764 thousand were the main item in the equity of TOYA S.A. The Company's share capital as at 31 December 2018 amounted to PLN 7,504 thousand.

TOYA S.A.

Directors' report on the Company's operations for 12 months ended 31 December 2018

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 2018, TOYA S.A. financed 58% of its operations from equity (73% as at 31 December 2017). As at this date, the Company's short-term liabilities due to loans, borrowings and other debt instruments amounted to PLN 82,045 thousand. The long-term debt ratio as at 31 December 2017 amounted to 1%.

TOYA S.A. management effectiveness ratios

	For 12 months ended 31 December	
	2018	2017
Inventories turnover period (days)	225	172
Receivables inflow period (days)	55	56
Liabilities repayment period (days)	31	28

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 2018, the liabilities repayment period was shorter than the receivables inflow period. This means that the credit terms the Company extended to its customers were longer than those received from its suppliers. It implies higher demand for financing of working capital, which is typical of the industry in which the Company conducts its commercial activity. In 2018, the inventories turnover period was increased to 225 days compared to 2017, primarily in relation with the increase in inventories, which were adjusted to match the volume of orders. Importantly, the Company conducts activity associated with selection of offer appropriately to the customer's needs, increasing the efficiency of the entire sales group as well as continuous improvement of logistics processes.

Seasonality

The first and fourth quarter of the year are usually characterised by a lower level of sales and net profit as compared to other quarters. However, year by year this trend becomes less marked owing to the actions taken by TOYA S.A. to prevent seasonality – mainly through increasing the product range. In Q1 and Q4 2018, sales revenue amounted to PLN 159,565 thousand, which accounted for 51% of the annual sales revenue, while in the same periods of 2017, sales revenue accounted for 52% of the total sales revenue for the entire year.

7. INFORMATION ABOUT THE DEVELOPMENT STRATEGY ADOPTED BY THE ISSUER AND ITS GROUP AND ACTIONS TAKEN TO IMPLEMENT THIS STRATEGY, AND A DESCRIPTION OF THE ISSUER'S DEVELOPMENT PROSPECTS IN THE NEXT FINANCIAL YEAR

The has been performing wide range of development activities aimed at strengthening the market position, searching for new attractive possibilities for expansion in industrial products sector. The most important actions are as follows:

- Developing the export channel

The Company is systematically increasing the number of customers and strengthening its position on many local European markets, taking advantage of favourable economic conditions. Eastern Europe countries, Hungary, Czech Republic and Germany remain the largest geographic markets. However taking into consideration expected weakening of the economic growth in Europe, dynamics of expansion on these markets may become weakened.

It should be noted that Great Britain is one of the markets in which the Company operates. However taking into consideration low volume of sales on this market, leaving European Union by Great Britain will not have a material impact on the Company's results.

- Effective products management

Effective management of the Company's brands and products is one of the most important elements of building the competitive advantage on the market. For many years, the Company expands the product range by adding few hundreds of new products every year, as well as expanding and updating the existing product lines. This process requires a broad knowledge about products, customs and traditions of customers and sales trend. It is pursued by the team of Product Managers, who participate in industry trade shows around the world and held numerous meetings with top vendors. These activities are aimed at adapting to increasing expectations of even the most demanding customers from various markets, offering products manufactured according to the latest technology and with modern design. These efforts will be carried on in the coming quarters.

Supply chain management is another key elements of maintaining a competitive advantage on the industrial goods market. The Company has been optimizing the ordering process and transport of goods since many years. Due to the fact the range of products offered by the Company is continuously growing and taking into account necessity to maintain stocks at high level, the Company initiated the process of analysing possibility of optimizing storage capacity.

- Capital investments

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

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

The Company's Management Board did not publish forecasts of the Company's performance for 2018.

9. DESCRIPTION OF MAJOR RISK FACTORS AND THREATS, SPECIFYING THE EXTENT TO WHICH THE ISSUER IS EXPOSED TO THEM

9.1 Financial risks

The main financial risks include:

- foreign exchange risk,
- interest rate risk,
- liquidity risk.

The aforementioned financial risks and risk management are discussed in item 10.

9.2 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 9.3.

9.3 External and internal factors crucial for the Company's development and analysis of the Company's development perspectives

Macroeconomic situation

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

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

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

Most of the Company's business activities are conducted in Poland. Therefore, the government's economic policies, the Polish tax system, unemployment rate and the decisions taken by the National Bank of Poland and the Monetary Policy Council are additional factors affecting the development of the Company.

Competition

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

Changes in FX markets

The Company's strict link with foreign suppliers and settlements made primarily in USD make the Company's financial results sensitive to changes in FX rates. The Management Board carefully monitors the currency situation in global markets and the trends occurring therein, and updates the prices of its goods on a periodical basis. Therefore, the margins can be subject to periodical fluctuations.

It should, however, be stressed that due to the fact that a substantial part of the Company's sales revenue is earned through the export channel based on prices set in foreign currencies, the Company is, to a certain extent, secured against sudden movements in exchange rates. However, this security is not complete and not sufficient, as a result of which FX fluctuations may have negative impact on the Company's financial performance.

Interest rate movements

The Company makes use of external capital funding. An increase in interest rates on the financial market could have negative influence on the servicing costs of funding and could decrease the Company's profitability since the TOYA S.A. entered into loan agreements with floating interest rates in PLN.

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

Interpretation and application of legal regulations

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

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

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

10.2 Objectives and methods of financial risk management

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

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

42% of the Company's activity is financed from external capital. Loan agreements require the Company to maintain its capitalisation ratio at an agreed level throughout the lending period. If this requirement is not met, the bank has the right to terminate the agreements.

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

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

12. ASSESSMENT OF THE ABILITY TO CARRY OUT INVESTMENT OBJECTIVES

In the opinion of the Management Board, there are no threats to the implementation of the Company's investment objectives. The activities planned for 2019 have been described in item 7. Apart from funds generated by its operations, the Company has secured external funding in the form of credit limits, pursuant to the agreements discussed in item **Błąd! Nie można odnaleźć źródła odwołania..**

13. MAIN COMMODITY GROUPS

13.1 Commodity groups

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

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

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



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

The YATO brand sells primarily workshop, construction and gardening tools, such as spanners, sockets, impact sockets, torque wrenches and torque multipliers, screwdrivers and screwdriver bits, pliers and pipe wrenches, electrician tools, hammers, chisels, punches and axes, clamps, vices and supports, cutting and forming tools, hydraulic tools, fastening tools, construction tools, measuring tools, pneumatic tools, special automotive tools and equipment. In 2015, the YATO brand was expanded with the line of power tools that combines excellent technical parameters with product quality. The products were selected taking into account their use in modern construction and automotive industry, as well as market trends in the supported sales channels. The broad selection of products includes tools dedicated to installers from the electrical, hydraulic and HVAC industries,

as well as professional car workshops that are traditionally related to the YATO brand. In 2017, the offer was further extended by products for gastronomy – pots, pans, jugs, containers and utensils, but also by specialized equipment for mechanical food processing (slicers, mixers, mincers), thermal processing (grills, cookers, burners) and large appliances such as refrigerated display cabinets and tables, dedicated for professional use.

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

Revenue from sales of YATO branded products accounted for 57% revenue of TOYA S.A. in 2018 (54% in 2017).



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

Revenue from sales of VOREL branded products accounted for 28% of revenue of TOYA S.A. in 2018 (31% in 2017).



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

Revenue from sales of FLO branded products accounted for 4% of revenue of TOYA S.A. in 2018 (4% in 2017).



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

Revenue from sales of POWER UP branded products accounted for 1% of revenue of TOYA S.A. in 2018 (1% in 2017).



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

Revenue from sales of FALA branded products accounted for 1% of revenue of TOYA S.A. in 2018 (1% in 2017).



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

Revenue from sales of STHOR branded products accounted for 6% of revenue of TOYA S.A. in 2018 (5% in 2017).



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

Revenue from sales of LUND branded products accounted for 1% of revenue of TOYA S.A. in 2018 and 1% in 2017.

13.2 Sales according to product groups

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

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

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

Sales revenue of TOYA S.A.	for 12 months ended 31 December			
	2018		2017	
	PLN '000	%	PLN '000	%
YATO	178,361	57%	156,738	54%
VOREL	87,202	28%	90,595	31%
FLO	11,576	4%	11,944	4%
STHOR	19,764	6%	13,961	5%
POWER UP	867	0%	3,432	1%
FALA	4,466	1%	3,256	1%
LUND	4,553	1%	2,971	1%
Other	4,844	2%	4,886	2%
TOTAL	311,633	100%	287,783	100%

14. MAIN SELLING MARKETS

14.1 Sales structure

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

a) domestically:

- Wholesale market, i.e. distributors, wholesalers and stores;
- Retail networks;
- Other – mainly on-line and stationary store;

b) export.

The largest part of sales is generated by TOYA S.A. through the domestic wholesale distribution channel (41% share of the segment "Wholesale market" in sales revenue for 2018, with a profit margin of 37%). The Company's distribution channel with the second highest share in sales is the segment "Export". In 2018, its share in sales amounted to 37%, with a profit margin of 29%. Distribution through retail chains on the domestic market has the lowest share in sales revenue, which in 2018 reached the level of 18%, with a profit margin of 31%. Share of sales of on-line and stationary stores increased in 2018 to the level of 4%, with 51% profitability.

Such diversified sales network provides access to a broad market, professional service as well as optimised availability of the entire range of products sold by the Company.

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

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

Sales revenue of TOYA S.A.	for 12 months ended 31 December			
	2018		2017	
	PLN '000	%	PLN '000	%
Wholesale market	127,553	41%	114,739	40%
Export	115,458	37%	106,276	37%
Retail networks	54,814	18%	58,155	20%
Other	13,808	4%	8,613	3%
Total	311,633	100%	287,783	100%

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

Sales profitability [%]	for 12 months ended 31 December	
	2018	2017
Wholesale market	37%	37%
Export	29%	27%
Retail networks	31%	29%
Other	51%	48%
Average	33%	32%

Key:

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

Average – weighted average sales for all the segments

14.1.1 Wholesale market – sales in Poland

TOYA S.A. has been present in Poland for more than 25 years. During this time, it has been systematically strengthening its market position. The highest sales in Poland take place through traditional distribution channels, i.e. through distributors, wholesalers and stores. In 2018, TOYA S.A. cooperated with multiple authorised distributors. This network is constantly developing. The Company also cooperates with several dozen wholesale customers in all regions, meeting the rising demand for its products, in order to increase its margins and to promote its own brands. The Company employs a few dozen sales representatives – assistants of partners on the wholesale market – and is planning further development of this distribution channel.

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

Sales revenue	for 12 months ended 31 December			
	2018		2017	
	PLN '000	%	PLN '000	%
Authorised distributors	102,073	80%	89,524	78%
Wholesalers and stores	25,480	20%	25,215	22%
Total	127,553		114,739	

14.1.2 Retail networks – sales in Poland

Domestic sale to retail networks constitutes approx. 18% of the Company's sales revenue. TOYA S.A. cooperates with few large networks in Poland. The Company sells industrial goods on the basis of its customers' orders for specific quantities of products to be delivered on specific dates. Upon acceptance, these orders give rise to typical contractual obligations. In this channel, the Company cooperates with customers with established market positions that are reliable and financially transparent and have a sound payment history.

In 2018 there were no entities with which the Company's turnover would constitute more than 10% of the Company's total revenue.

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

14.1.3 Export sales – TOYA S.A.

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

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

Sales revenue	for 12 months ended 31 December			
	2018		2017	
	PLN '000	% share	PLN '000	% share
Russia	16,071	14%	17,472	16%
Baltic countries	15,264	13%	14,659	14%
Romania	15,112	13%	10,775	10%
Germany	11,876	10%	8,391	8%
Ukraine	10,971	10%	8,721	8%
Belarus	10,912	9%	10,038	9%
Czech Republic	9,157	8%	11,680	11%
Hungary	8,806	8%	8,174	8%
Balkans	7,496	6%	8,521	8%
Moldova	4,483	4%	2,811	3%
Spain	3,753	3%	3,185	3%
Italy	912	1%	895	1%
Total	115,458	100%	106,276	100%

14.1.4 On-line store – sales in Poland

In 2018, TOYA S.A. continued to develop the www.toya24.pl on-line store. The share in sales revenue amounted to 4% with the gross profit margin of 51%.

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

14.2 Suppliers

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

The Company's biggest supplier is its subsidiary - Yato Tools (Shanghai) Co. Ltd. Purchases from this entity represented 64% of all purchases of the Company in 2018.

15. CONCLUDED AGREEMENTS IMPORTANT TO THE COMPANY'S OPERATIONS

The criterion for recognising agreements as important adopted by the Company is agreement value exceeding 10% of the Company's equity. According to this criterion, in 2018 the Company concluded annexes to agreements with banks which were presented in item 0.

The table below includes insurance policies of the Company:

No	Insurance period	Insurer	Object of insurance	Total sum insured
1.	1 July 2018 – 30 June 2019	Generali T.U. S.A. with its registered office in Warsaw / Ergo HESTIA S.A. Branch in Wrocław, with its registered office in Sopot	Insurance against all risks of physical loss or damage of property / tangible fixed assets and properties	PLN 36.6 million
2	1 July 2018 - 30 June 2019	Generali T.U. S.A. with its registered office in Warsaw / Ergo HESTIA S.A. Branch in Wrocław, with its registered office in Sopot	Insurance against all risks of physical loss or damage of property / current assets	PLN 125 million
3	22 September 2018 – 21 September 2019.	ERGO HESTIA S.A. with its registered office in Sopot	Motor insurance of the vehicle fleet	The market value of the vehicles (according to Info Export) approx. PLN 3.5 million
4	1 July 2018 – 30 June 2019	Generali T.U. S.A. with its registered office in Warsaw / Ergo HESTIA S.A. Branch in Wrocław, with its registered office in Sopot	Civil liability insurance due to owned property and conducted activity	PLN 2 million
5	20 September 2018 – 19 September 2019	TUiR Allianz S.A. with its registered office in Warsaw	Civil liability insurance of members of companies' bodies	PLN 40 million
6	1 August 2018 - 30 November 2019	TU Euler Hermes S.A. with its registered office in Warsaw	Insurance of the trade credit risk on certain agreements	a maximum of 60 times the contribution paid for a given insurance year
7	1 March 2018 – 28 February 2019	Colonnade Insurance S.A. Branch in Poland with its registered office in Warsaw	Insurance of property in CARGO transport	Liability limit per 1 vehicle: USD 350,000 (road and air transport) USD 2,000,000 (maritime transport)
8	1 January 2019 – 31 December 2019	ERGO HESTIA S.A. with its registered office in Sopot	Guarantee for the payment of customs fees	PLN 270 thousand

16. THE ENTITY AUDITING THE FINANCIAL STATEMENTS

The entity authorised to audit and review individual and consolidated statements is Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, Rondo ONZ 1, 00-124 Warsaw. The auditor was appointed by the Supervisory Board on 20 March 2018.

The agreement on audit and review was concluded on 6 June 2018, and it covers semi-annual review and annual audit of the individual and consolidated financial statements for 2018 and 2019.

Audit and review of the individual and consolidated financial statements for 2017 were conducted by PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, Ul. Lecha Kaczyńskiego 14, 00-638 Warsaw, on the basis of agreement concluded on 4 May 2017.

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

	2018	2017
Audit of annual financial statements (individual and consolidated)	135	98
Review of semi-annual financial statements	60	48
Tax consulting	-	-
Other services (*)	-	24
TOTAL	195	170

(*) does not include other entities in the same capital group

In 2018 and 2017 the Company did not use any other services of the audit firm appointed in 2018.

17. RELATED PARTY TRANSACTIONS

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

In 2018 the Company did not conclude any transactions with related entities which were atypical or divergent from the arm's length basis.

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

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

18. DISPUTES

As of 31 December 2018, TOYA S.A. is not a party to any proceedings before courts, arbitration panels or public authorities.

19. LOANS AND BORROWINGS

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

TOYA S.A.

Directors' report on the Company's operations for 12 months ended 31 December 2018

Object and value of agreement	Name of the Bank	Loan amount as per agreement as at 31 December 2018	Amount outstanding as at 31 December 2018	Amount outstanding as at 31 December 2017	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)	BNP Paribas Bank Polska S.A. w Polsce (previously: Raiffeisen Bank Polska S.A. with its registered office in Warsaw)	25,000	21,121	9,784	WIBOR 1 M + bank's margin EURIBOR/LIBOR 1 M+ bank's margin	8 March 2019	Repayment of the total outstanding debt, see note: Błąd! Nie można odnaleźć źródła odwołania.
2. Overdraft facility agreement No BDK/KR-RB/000054601/0641/10 of 22 December 2010	Bank Handlowy w Warszawie S.A.	40,000	39,343	9,174	WIBOR 1 M + bank's margin	13 December 2019	-
4. Overdraft facility agreement No K00856/17	Santander Bank S.A. with its registered office in Warsaw	25,000	21,581	9,531	WIBOR 1 M + bank's margin	18 September 2019	-
Total liabilities, of which:		90,000	82,045	28,489			
– short-term portion		90,000	82,045	28,489			
– long-term portion		-	-	-			

20. EXTENDED LOANS AND BORROWINGS

In 2018, the Company did not extend any borrowings or loans.

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

As at 31 December 2018, the Company had the following guarantees:

No	Counterparty	Type of guarantee	Subject matter and value	Date of expiry
1	Bank Handlowy w Warszawie S.A.	Guarantee of payment for the lease of warehouses in Nadarzyn	Bank guarantee in the amount of EUR 195,503	28 February 2019 (*)
2	Sopockie Towarzystwo Ubezpieczeń ERGO Hestia S.A.	Guarantee of payment of custom debts	The security for repayment of custom debts, taxes and other fees associated with goods released into free circulation based on customs declaration, in the amount of PLN 270,000	31 December 2019

(*) after the end of the financial year, the guarantee was extended until 28 February 2020, for the amount of EUR 196,870.

On 29 November 2012, the Company and TOYA Development Sp. z o.o. Spółka Komandytowa in liquidation (hereinafter: Toya Development) concluded an agreement concerning a legal defect of the real property which was contributed in kind on 6 April 2011 pursuant to Resolution No 1 of the Extraordinary General Shareholders' Meeting of TOYA Development by TOYA S.A., which at that time was the company's general partner. The real property in question comprises land with the expenditure incurred thereon. The contributed real property had a legal defect, i.e. on 6 April 2011, TOYA S.A. was not its owner since, pursuant to a decision of the Head of Wisznia Mała Municipality of 7 May 2007, this plot of land became the property of Trzebnicki Powiat on 8 June 2007. TOYA S.A. is entitled to pursue claims against Trzebnicki Powiat due to expropriation of the abovementioned real property and the expenditure incurred thereon. Had the legal defect of the in-kind contribution not existed and had the transfer of ownership of the real property been effective, TOYA Development would be entitled to the claims of TOYA S.A. Thus, by way of compensation for the damage resulting from the property's legal defect, TOYA S.A. has undertaken to pay TOYA Development compensation equal to the compensation obtained from the Trzebnicki Powiat. The right to compensation will arise provided that TOYA S.A. receives compensation from the Trzebnicki Powiat and in the amount obtained from the Trzebnicki Powiat. As at 31 December 2015, the contingent liability includes compensation due to the incurred expenditure, whose revaluated value was estimated at net PLN 2.5 million. At the same time, as at 31 December 2015, the Company had a contingent asset due to compensation for the incurred expenditure from the Trzebnicki Powiat in the same amount, i.e. approx. net of PLN 2.5 million.

On 24 January 2014, TOYA S.A. filed a lawsuit in the Regional Court in Wrocław against the Trzebnicki Powiat for the repayment of the disputed amount. In July 2015, the lawsuit was dismissed by the Court and in September 2015, the Company appealed against this decision. On 14 June 2016 the appeal was dismissed. The Court decision is final and legally valid, therefore as of 31 December 2016 the contingent liability for compensation due to the incurred expenditure and the contingent asset due to compensation for the incurred expenditure from the Trzebnicki Powiat in the same amount, have been terminated.

On 21 November 2017, TOYA S.A. received request from TOYA Development for payment of PLN 3,076 thousand (the "Request"), due to the legal defect of the real property which was contributed in kind to TOYA Development by TOYA S.A. on 6 April 2011, pursuant to Resolution No 1 of the Extraordinary General Shareholders' Meeting of TOYA Development. Based on legal opinions obtained, the Request has been

considered as unfounded, due to the fact that the matter of compensation for damage resulting from the legal defect of the real property had already been regulated in the Agreement between the parties. As a result, in opinion of TOYA S.A., the Request received from TOYA Development has no valid factual and legal grounds. According to the Management Board of TOYA S.A., the probability that the payment will have to be made is low, therefore no provision for that purpose has been recognised in the financial statements as at 31 December 2018.

22. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

22.1 Annex to a significant agreement

On 23 January 2019 TOYA S.A. and Bank Handlowy S.A., with its registered office in Warsaw, concluded annex no 14 to the Overdraft facility agreement No Nr BDK/KR-RB/000054601/0641/10. According to the annex:

- a) the current amount of the overdraft available was increased from PLN 40,000 thousand to PLN 55,000 thousand;
- b) overdraft credit facility in the amount of PLN 55,000 thousand will be available until 28 June 2019, and in the amount of PLN 40,000 thousand until 13 December 2019, in accordance with current report no. 48/2018 of 14 December 2018;
- c) additional collateral in the form of a registered pledge upon the object of the pledge in the form of current assets was established to the highest collateral sum of PLN 18,750 thousand.

The other terms and conditions of the Agreement remain without any significant changes and do not deviate from the generally applicable terms and conditions with respect to this type of agreements.

22.2 Conclusion of an overdraft credit facility with mBank S.A., with its registered office in Warsaw

On 4 March 2019, the Company entered into an overdraft credit facility with mBank S.A., with its registered office in Warsaw. The credit facility was extended for the purposes of financing the Company's current operations. In the first place, the new facility will be utilized for repayment of liability arising from the Debt Limit Facility Agreement No CRD/L/11381/02 of 2 October 2002, concluded with Raiffeisen Bank Polska S.A. with its registered office in Warsaw, maturing on 8 March 2019. The total credit amounts to PLN 40 million. The final repayment data of the credit is 3 March 2020. The security for the repayment of the credit facility is a mortgage on a real estate property in Wrocław, at ul. Strzelecka 1 and blank bill of exchange issued by TOYA S.A., accompanied by the a statement of the Company's bill of exchange.

The interest on debt shall be equal to base WIBOR ON rate, increased by the margin of the Bank. Other terms of the agreement do not differ from those commonly used for this type of contract.

22.3 Repayment of loan

On 8 March 2019, the Company repaid in full the liability arising from the Debt Limit Facility Agreement No CRD/L/11381/02 of 2 October 2002, concluded with Raiffeisen Bank Polska S.A. with its registered office in Warsaw.

23. STATEMENT ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

In accordance with § 70 section 6 point 5) Regulation of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by laws of non-member state (Journal of Laws. Laws of 2018 item 757 as amended), the Management Board hereby presents its corporate governance statement for 2018.

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

From 1 January 2016, the Company is subject to a set of principles of best practice companies listed on the WSE 2016" (annex to resolution No. 26/1413/2015 of the Supervisory Board of the stock exchange in Warsaw of 13 October 2015). The text of the statement of principles is available to the public on the official website of the Warsaw Stock Exchange S. A. at: <https://www.gpw.pl/dobre-praktyki>. Text of the statements which includes the declared scope of the Company's compliance with these principles is available on the Company's website at: <http://yato.com/wp-content/uploads/2016/01/Informacja-na-temat-stanu-stosowania-przez-sp%C3%B3%C5%82k%C4%99-rekomendacji-i-zasad-zawartych-w-Zbiorze-Dobre-Praktyki-Sp%C3%B3%C5%82ek-Notowanych-na-GPW-20162.pdf>

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

Pursuant to Article 29.3 of the Regulations of Warsaw Stock Exchange, the Management Board submitted a report on the Company's compliance with the corporate governance rules (contained in the document referred to above) in the EBI report No. 1/2016 dated 4 January 2016. According to the report, in 2018 the Company was compliant with:

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

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

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

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

2. Detailed principle I.Z.1.7. - “A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation, the information materials published by the company concerning the company's strategy and its financial results”.

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

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

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

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

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

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

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

In the Company's opinion, the fact that it each time publishes draft resolutions before a general shareholders' meeting, together with additional, extensive documentation, in accordance with the generally applicable legal standards, directly following from the Commercial Companies Code of 15 September 2000 (i.e. Journal of Laws of 2017, item 1577, as amended), makes it possible for the shareholders to review relevant resolutions and pass them with adequate understanding. The Company declares that it is going to consider the application of the principle in the future if there is a significant change in the structure of shareholders.

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

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

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

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

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

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

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

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

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

8. Detailed principle V.Z.6. – “In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the Management Board or the Supervisory Board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.”

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

Due to the amendments to the reporting laws and regulations as brought about by the entry into force of: Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council, and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (UE Journal of Laws L of 2014, no 173, page 1) - the so called MAR, and Directive of the European Parliament and of the Council No 2014/57/EU of 16 April 2014 on criminal sanctions for market abuse (UE Journal of Laws L of 2014, no 173, page 179) - the so called MAD, the Company is working on the creation of internal regulations to address, among other things, the matters involved in the principle in question.

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

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

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

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

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

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

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

- 1) general information about the company's remuneration system;
- 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
- 3) information about non-financial remuneration components due to each management board member and key manager;
- 4) significant amendments of the remuneration policy in the last financial year or information about their absence;
- 5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.”

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

The Company does not have an approved remuneration policy. The remuneration of members of the Management Board, its amount, are set by the Supervisory Board. At the same time, the Company discloses

the aggregate amount of remuneration, bonuses and benefits paid or payable to members of its governing and supervisory bodies in its activity report.

- B. Recommendations and principles contained in "Best Practice for GPW Listed Companies 2016", except for:
1. Recommendation I.R.2. . "Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The table below presents the ownership structure of shareholders who hold, directly or indirectly, major blocks of shares of TOYA S.A., the number of shares held by such entities, their percentage share in the share capital, the number of votes resulting from them and their percentage share in the total number of votes at the general meeting as of 31 December 2018 (status according to information provided to Company by its shareholders):

Name	Number of shares/Number of votes	Percentage share in the share capital/Percentage share in the total number of votes at the general meeting
Jan Szmidt	28,170,647	37.54
Tomasz Koprowski	11,866,684	15.81
Romuald Szałagan	9,652,290	12.86
Rockbridge TFI S.A.	7,711,798	10.28
Generali OFE	5,001,147	6.66

23.5 Indication of the owners of any securities, which provide special control rights, together with the description of the rights

All shares in the Company are ordinary bearer shares which provide no special control rights. Apart from shares, the Company issued no other securities.

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

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

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

In 2018, there were no such limitations.

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

Members of the Management Board of TOYA S.A. are appointed and dismissed by the Supervisory Board.

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

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

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

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

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

23.9 Principles of introducing amendments to the articles of association

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

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

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

The Supervisory Board convenes the General Shareholders' Meeting:

- a) if the Company's Management Board failed to convene the Ordinary General Shareholders' Meeting within the prescribed period,
- b) if, despite the submission of a request by the Supervisory Board, the Company's Management Board failed to convene the General Shareholders' Meeting in time, or
- c) whenever it deems such meeting necessary.

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

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

Resolutions of the General Shareholders' Meeting are adopted by an absolute majority of votes, unless the provisions of law or these Articles of Association provide otherwise. Resolutions of the General Shareholders' Meeting are adopted by the majority of $\frac{3}{4}$ votes cast with respect to the following issues:

- a. amendments to the Articles of Association, including issue of new shares,
- b. issue of convertible bonds or bonds with pre-emptive rights to acquire shares,
- c. merger of the Company with another company,
- d. decrease of the share capital,
- e. redemption of shares,
- f. disposal of the Company's enterprise or its organised part,
- g. dissolution of the Company.

The resolutions amending the Articles of Association on the increase of the shareholders' benefits or limiting the rights granted to individual shareholders require the consent of all affected shareholders.

Resolutions of the General Shareholders' Meeting are binding upon all bodies of the Company, as well as all shareholders, including shareholders who are not present on the General Shareholders' Meeting.

The competences of the General Meeting of Shareholders include adopting resolutions concerning the following issues:

- a) considering and approving the Management Board and Supervisory Board's report and the financial statements,
- b) adopting a resolution on the division of profits or covering of losses,
- c) discharging members of the Company's governing bodies from liability in the performance of their duties,
- d) taking all decisions concerning claims for the remedy of damage caused in incorporating the Company or in carrying out management or supervision,

- e) disposing of or leasing the Company's business or an organised part thereof and establishing a limited right in rem thereon,
- f) acquisition of own shares,
- g) issue of convertible bonds or bonds with pre-emptive rights to acquire shares,
- h) amendment to the Company's Articles of Association, including concerning a share capital increase or decrease,
- i) merger of the Company or transformation of the Company,
- j) dissolution and liquidation of the Company,
- k) determination of remuneration of the Supervisory Board members,
- l) appointment and dismissal of the Supervisory Board members,
- m) creation and liquidation of special funds,
- n) approval of the regulations of the Supervisory Board,
- o) redemption of shares.

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

Subject to cases specified in the Commercial Companies Code, if the General Shareholders' Meeting was convened correctly, it is valid and capable of adopting resolutions regardless of the number of shareholders or number of shares represented at the meeting, unless otherwise provided in the provisions of law. The General Shareholders' Meeting of the Company is convened by an announcement published on the Company's website and in a manner specified for transmitting current information, according to generally applicable regulations. The announcement should be made at least twenty six days before the date of the General Shareholders' Meeting. The announcement about the General Shareholders' Meeting of the Company should include at least:

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

by shareholders who submitted, to the entity keeping the securities account, a request for issue of a registered certificate of the right to participate in the General Meeting not earlier than after the announcement on the General Meeting being convened and not later than on the first business day following the date of registration for the General Meeting. The Company determines the list of shareholders entitled to participate in the General Meeting on the basis of the list prepared by the entity maintaining the depository of securities, according to the provisions on trade in financial instruments, submitted to the Company not later than a week before the date of the General Meeting.

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

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

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

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

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

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

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

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

transmitted via the Internet. Information about public transmission of the meeting will be published on the Company's website right before the General Shareholders' Meeting.

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

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

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

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

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

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

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

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

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

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

- 1) formulation of conclusions,
- 2) agreement upon the Participants' positions,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

After holding a group ballot, the chairperson of the group delivers written results of secret ballots held in groups to the Chairperson of the General Shareholders' Meeting. The Chairperson of the General Shareholders' Meeting announces the composition of the Supervisory Board after collecting all results of group ballots.

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

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

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

23.11 Composition and the changes that occurred in the course of the last accounting year and the description of managing, supervisory and administrative bodies` as well as committees' operation, and with respect to the Audit Committee or Supervisory Board or other supervisory or controlling body performing the function of the Audit Committee, providing also information on:

- on individuals who meet the statutory independence criteria and who have knowledge and skills in accounting or auditing of financial statements, including the manner of acquiring the same,
- on individuals who have knowledge and skills in the industry in which the Company operates, including the manner of acquiring the same,
- whether the Company has been provided with any permitted non-audit services by the auditing firm examining its financial statements, and whether the independence of this auditing firm has been assessed and the consent for the provision of such services has been given,
- main assumptions of the policy developed for the selection of an audit firm to carry out the audit and the policy of providing any permitted non-audit services by the audit firm, any entities related thereto and by the member of the auditing firm's chain,
- whether the recommendation regarding the selection of an audit firm to carry out the audit met the applicable conditions, and where the selection of the audit firm was not related to the extension of the agreement for the auditing of financial statements – whether such recommendation was prepared following the selection procedure organised by the Issuer and whether it complied with the applicable criteria,
- number of meetings of the Audit Committee or Supervisory Board or other supervisory or controlling body held,
- in case the functions of the Audit Committee are performed by the Supervisory Board or other supervisory or controlling body - information on which statutory conditions allowing such situation were met, along with necessary supporting data.

MANAGEMENT BOARD

The composition of the Management Board as at 31 December 2018 was as follows:

- Grzegorz Pinkosz – President of the Management Board,
- Maciej Lubnauer – Vice-President of the Management Board.

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

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

Detailed principles of operation of the Management Board are specified in the Regulations of the Management Board, published on the website www.yato.pl, in the Investor Relations — Corporate Documents tab.

SUPERVISORY BOARD

As at 31 December 2018, the composition of the Supervisory Board was as follows:

- Piotr Mondalski - President of the Supervisory Board and Independent Member of the Supervisory Board,
- Jan Szmidt - Vice-President of the Supervisory Board,
- Dariusz Górka - Independent Member of the Supervisory Board
- Grzegorz Maciąg - Independent Member of the Supervisory Board,
- Wojciech Papierak – Independent Member of the Supervisory Board,
- Michał Kobus – Independent Member of the Supervisory Board,
- Beata Szmidt – Member of the Supervisory Board.

On 29 August 2018, the mandate of Supervisory Board Member - Mr Tomasz Koprowski expired, due to his resignation for personal reasons. As a result, number of members of the Supervisory Board decreased to 6. In order to complement the Supervisory Board, the Company took necessary actions to convene an Extraordinary General Shareholders Meeting, in order to fill the vacancy in the Board.

On 20 November 2018, the Extraordinary General Shareholders Meeting adopted a resolution to appoint Ms Beata Szmidt as a Member of the Supervisory Board, in relation to resignation of Mr Tomasz Koprowski from serving the function of Supervisory Board Member, for a period of a joint 3-year term commenced on 29 June, 2017.

AUDIT COMMITTEE

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

- Dariusz Górka – President of the Audit Committee and Independent Member of the Audit Committee,
- Grzegorz Maciąg – Independent Member of the Audit Committee,
- Jan Szmidt,
- Piotr Mondalski – Independent Member of the Audit Committee.

Dariusz Górka is the member of the Audit Committee who has qualification in the field of accounting or audit of the financial statements. Dariusz Górka is, inter alia, graduate of Stern School of Business (New York, USA), where he had obtained an MBA degree in finance and acquired knowledge and competencies in the area mentioned above. He remains the member of Institute of Management Accountants (IMA) in Newark (New York, USA).

A member of the Audit Committee with knowledge and skills in the field of industry specializing in TOYA S.A. Is Jan Szmidt. Jan Szmidt is the originator and co-founder of the Company and has been with the Company since its inception. He has experience in business development area, proven by many successful accomplishments in the Polish and international markets. He studied at Faculty of Civil Engineering and Faculty of Computer Science and Management at Wrocław University of Science and Technology.

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

- 1) monitoring:
 - a) the Company's financial reporting process,
 - b) the effectiveness of internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting,
 - c) monitoring of performing of financial revisions, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and arrangements of the Audit Supervision Committee stemming from an audit (inspection) performed at an audit company;
- 2) controlling and monitoring of independence and impartiality of the chartered accountant (certified auditor) and the entity entitled to examine financial statements, in particular in case other services than an audit are provided for the benefit of the Company;
- 3) informing the Supervisory Board of audit results and explaining as to who did the audit contribute to trustworthiness of financial reporting in the Company, and also what was the role of the Audit Committee in course of the audit;
- 4) performing the evaluation of independence of the certified auditor and expressing consent for performing by him of permitted services not constituting the audit within the Company;
- 5) developing the policy for selecting the auditing company to perform the audit;
- 6) developing a policy of performing by the auditing company performing the audit, entities related with the auditing company and members of the auditing company's corporate network of permitted services no constituting the audit;
- 7) defining the procedure for selecting the auditing company by the Company;
- 8) presenting to the Supervisory Board of recommendation, as required under Art. 16.2 Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2016 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (i.e. Official Journal of European Union L 158 of 2014, page 77), in line with policies referred to above in items 5 and 6;
- 9) presenting recommendations aimed at ensuring reliability of the financial reporting process within the Company,
- 10) performing other activities vested with audit committees pursuant to Act of 11 May 2017 on certified auditors, auditing companies and public oversight.

Main assumption of the Policy on appointing the Audit Firm to audit financial statements adopted by the Company are as follows:

- selection of the audit firm conducting the statutory audit should be held in accordance with the Policy on appointing the Audit Firm to audit financial statements adopted by the Company;
- the selection decisions are taken in the form of a resolution of the Supervisory Board, no later than by the end of December of the year proceeding the year which will be subject to an audit, provided that selection of the audit firm for 2018 had been made by 30 March 2018;
- Audit Committee is entrusted with conducting the selection procedures, in accordance with applicable regulations and Policy on appointing the Audit Firm to audit financial statements;
- selection of the audit firm conducting the statutory audit is performed upon providing the recommendation for selection by the Audit Committee to the Company's Supervisory Board. When selection does not relate to extension of an existing audit contract, the recommendation submitted by the Audit Committee should contain at least two candidates, along with reasoning and indication of justified preferred option;
- in case of statutory audit, the first audit contract should be executed for a period not shorter than 2 years, with an option to be extended by subsequent, at least 2-year period, considering obligations to rotate audit firm and key certified auditor resulting from generally applicable legislations;

- while selecting the audit firm, principle regarding change of audit firm should be taken into consideration, according to which the maximum duration of continuous engagements of statutory audits, carried out by the same audit firm or an audit firm associated with that audit firm or any member of the network operating in the Member State of the European Union of which the audit firms belong, may not exceed 5 years. In case of key certified auditor, the maximum period during which the key certified auditor can provide statutory audit services shall not be longer than 5 consecutive years. Key certified auditor may again perform the statutory audit of the Company's financial statement at least 3 years after the end of the last statutory audit;
- the following criteria are applied while selecting the audit firm to perform audit of the financial statements:
 - a) proposal submitted by audit firm does not qualify for rejection under Article 9 point 4 of the Policy on appointing the Audit Firm;
 - b) audit firm has the ability to provide required audit procedures in foreign subsidiaries of TOYA S.A. Capital Group;
 - c) audit firm has:
 - knowledge and international connections which can be utilized in proper execution of the audit;
 - experience in auditing financial statements of companies listed on the stock exchange, within the meaning of Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies of 29 July 2005 (Journal of Laws of 2018, No. 512 with later amendments), preparing their financial statements in accordance with International Financial Reporting Standards;
 - personnel resources consisting of, among others, individuals being members of international association of finance, accounting and management professionals – ACCA;
 - adequate expert knowledge and knowledge of the industry in which the Company operates;
 - d) audit firm provides the Company, the Supervisory Board and the Audit Committee current and direct access to the key certified auditor;
 - e) audit firm uses common IT tools and has experience in auditing accounting records maintained in SAP system;
 - f) audit firm has its head office, branch or offices in Wrocław;
 - g) during the duration of the audit contract, audit firm enables the Company to perform assessment of significant matters subject to the audit;
 - h) audit firm submits a proposal containing elements referred to in Article 12 point 4 of the Policy on appointing the Audit Firm;
 - i) price, however price offered by audit firm is not a decisive factor;
 - j) impartiality, objectivity, integrity and independence of the audit firm;
- in case any circumstances indicating possible influence of third parties on the auditor's selection procedure are detected or disclosed, an individual who is associated with these circumstances shall immediately refrain from performing any activities related to the auditor selection procedure and inform the Audit Committee;
- the Management Board signs the agreement with audit firm appointed by the Supervisory Board.

Main assumption of the Policy on providing non-audit allowed services by audit firm performing the audit or an audit firm associated with that audit firm or any member of the network operating in the Member State of the European Union of which the audit firms belong are as follows:

- the policy is developed by the Audit Committee and is addressed to all entities of TOYA S.A. Capital Group;
- a statutory auditor or an audit firm carrying out the statutory audit of TOYA S.A. entity or Group, or any member of the network to which the statutory auditor or the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its controlled undertakings within the Group any prohibited non-audit services including:
 - a) tax services relating to:
 - preparation of tax forms;
 - payroll tax;
 - customs duties;

- identification of public subsidies and tax incentives unless support from the statutory auditor or the audit firm in respect of such services is required by law;
 - support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm in respect of such inspections is required by law;
 - calculation of direct and indirect tax and deferred tax;
 - provision of tax advice;
 - b) services that involve playing any part in the management or decision-making of the audited entity;
 - c) bookkeeping and preparing accounting records and financial statements;
 - d) payroll services;
 - e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;
 - f) valuation services, including valuations performed in connection with actuarial services or litigation support services;
 - g) legal services, with respect to:
 - the provision of general counsel;
 - negotiating on behalf of the audited entity; and
 - acting in an advocacy role in the resolution of litigation;
 - services related to the audited entity's internal audit function;
 - h) services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity;
 - i) human resources services, with respect to:
 - management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
 - searching for or seeking out candidates for such position; or
 - undertaking reference checks of candidates for such positions;
 - structuring the organisation design; and
 - cost control.
- statutory auditors and the audit firms shall be allowed to provide certain tax and valuation services when such services are immaterial or have no direct effect, separately or in the aggregate, on the audited financial statements. Where such services involve aggressive tax planning, they should not be considered as immaterial. A statutory auditor or an audit firm should be able to provide non-audit services, in the scope not related to the tax policies of the Company and/or the TOYA S.A. Group, which are not prohibited under the existing laws and regulations and which include:
 - a) services performed in connection with the prospectuses issued by the audited entity, conducted in accordance with the national standard of related services and consisting in conducting the agreed procedures:
 - of conducting due diligence procedures with regard to economic-financial condition;
 - issuing letters certifying;
 - b) assurance services with regard to pro forma financial information, forecasts of results or estimated results, published in the prospectus issued by the audited entity;
 - c) examination of historical financial information to of the Prospectus mentioned in the Regulation of the Commission (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (EU Journals of Law L of 2004, no. 149, page 1);
 - d) verification of consolidation packages;
 - e) confirmation of fulfilment of conditions of the concluded loan contracts on the basis of the analysis of financial information coming from financial statements audited by a given audit firm;
 - f) assurance services in reporting concerning corporate governance, risk management and corporate social responsibility;
 - g) services consisting in assessment of compliance of information revealed by financial institutions and investment companies with the requirements with regard to disclosing information concerning capital adequacy and variable remuneration;

- h) certification concerning reports or other financial information for supervision bodies, the supervisory board or other supervisory authority of the company, or owners, exceeding the scope of the statutory audit, to help these authorities to perform their statutory duties.
- services other than audit services are provided in accordance with the independence requirements specified for those services in professional ethics principles and standards of providing such services;
 - entities providing non-audit services shall have a critical attitude and alertness towards conditions that may indicate a possible distortion or behaviours contrary to binding regulations in the area of provided services;
 - when the statutory auditor or the audit firm provides to the audited entity, its parent undertaking or its controlled undertakings, for a period of three or more consecutive financial years, non-audit services other than those referred to in point 3 of this Policy, the total fees for such services shall be limited to no more than 70 % of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity and, where applicable, of its parent undertaking, of its controlled undertakings and of the consolidated financial statements of TOYA S.A. Capital Group of undertakings;
 - providing permitted non-audit services is allowed only subject to the approval of the Audit Committee by the mean of appropriate resolution. The Audit Committee may approve providing permitted non-audit services if there is a justified need to use such services by one of the Company's bodies, after it has properly assessed threats to independence and the safeguards applied in accordance with Articles 69-73 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight.

Audit firm providing financial statements audit services to the Company has not provided any non-audit permitted services.

Due to the fact that selection of audit firm in 2018 did not concern the extension of the cooperation with the previous audit firm, recommendation of the Audit Committee of TOYA S.A., regarding appointment of the audit firm to provide financial statements audit services in years 2018 - 2019, was prepared as a result of selection procedure organized by the Company, meeting the binding criteria, including:

- inviting any audit firms to submit proposals for the provision of the statutory audit service on the condition that Article 17(3) of the Regulation (EU) no 537/2014 of the European Parliament and of the Council of 16 April 2016 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC;
- organization of the tender process does not in any way preclude the participation in the selection procedure of firms which received less than 15 % of the total audit fees from public-interest entities in the Member State concerned in the previous calendar year, included in the list of the audit firms, referred to in Article 91 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight;
- the audited entity shall prepare tender documents for the attention of the invited audit firms. Those tender documents shall allow them to understand the business of the audited entity and the type of statutory audit that is to be carried out. The tender documents shall contain transparent and non-discriminatory selection criteria that shall be used by the audited entity to evaluate the proposals made by statutory auditors or audit firms;
- the audited entity shall be free to determine the selection procedure and may conduct direct negotiations with interested tenderers in the course of the procedure;
- the audited entity shall evaluate the proposals made by the audit firms in accordance with the selection criteria predefined in the tender documents
- the Company shall prepare a report on the conclusions of the selection procedure, which shall be approved by the resolution of the Audit Committee;
- the Company and the Audit Committee shall take into consideration any findings or conclusions of annual report, referred to in article 90 point 5 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight;
- At the request of the Financial Supervision Authority (KNF), the Company shall prove that the selection procedure was conducted in accordance with the requirements referred to in Article 130 points 2 and 3 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight.

During 2018, the Audit Committee held three meetings.

23.12 Description of diversity policy applied for administrative bodies, managing and supervising the Issuer as regards the aspects such as, for example, age, gender or education and experience, aims of this policy, ways of its realization and results in the particular reporting period (and in case the Company does not apply such policy, explanation of the reasons for such decision)

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

Management Board of Toya S.A.

Date	Name and surname	Position	Signature
28.03.2019	Grzegorz Pinkosz	President of the Management Board	
28.03.2019	Maciej Lubnauer	Vice-President of the Management Board	