TOYA S.A. Capital Group

Consolidated financial statements

for the year ended 31 December 2018

Contents

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

Consolidated statement of financial position

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	8	23,420	21,798
Intangible assets	9	3,019	2,683
Goodwill	10	717	699
Trade and other receivables	11	405	344
Deferred income tax assets	29	2,952	2,205
		30,513	27,729
Current assets			
Inventory	12	226,252	162,882
Trade and other receivables	13	74,201	64,464
Cash and cash equivalents	14	15,147	8,907
		315,600	236,253
Total assets		**346,113**	**263,982**
EQUITY AND LIABILITIES			
Equity per shareholders of the parent company			
Share capital	15	7,504	7,833
Share premium		35,677	35,677
Own shares		-	(29,433)
Reserve capital		329	26
Other comprehensive income		58	(1,002)
Result on transactions with non-controlling interests		(6,270)	(6,270)
Retained earnings	16	147,401	168,499
Total equity		184,699	175,330
Long-term liabilities			
Liabilities from finance leases	20	2,421	1,114
Liabilities from employee benefits	19	402	305
		2,823	1,419
Short-term liabilities			
Trade and other payables	18	64,464	47,646
Liabilities from employee benefits	19	7,036	6,395
Liabilities from loans	17	82,045	28,489
Liabilities from finance leases	20	807	425
Liabilities from current income tax	29	3,039	3,894
Provisions	22	1,200	384
		158,591	87,233
Total liabilities		161,414	88,652
Total equity and liabilities		**346,113**	**263,982**

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

Consolidated statement of profit or loss and other comprehensive income

	Note	12 months ended 31 December	
		2018	**2017**
Revenue from sales of goods	23, 24	380,739	347,541
Cost of goods sold	23, 25	(240,248)	(223,185)
Gross sales profit		**140,491**	**124,356**
Selling costs	25	(67,069)	(56,880)
Administrative expenses	25	(20,072)	(17,686)
Other operating revenue	27	2,742	1,850
Other operating expenses	27	(663)	(836)
Operating profit		**55,429**	**50,804**
Financial revenue	28	68	58
Financial expenses	28	(1,022)	(466)
Profit before tax		**54,474**	**50,396**
Income tax	29	(10,708)	(10,090)
Net profit		**43,767**	**40,306**
Items that can be transferred to profit or loss:			
Foreign operations currency translation differences		1,105	(3,508)
Items that cannot be transferred to profit or loss:			
Actuarial gains or losses		(56)	(39)
Income tax on other comprehensive income		11	7
Other net comprehensive income		**1,060**	**(3,540)**
Net comprehensive income for the financial year		**44,827**	**36,766**
Net profit for the year attributable to:			
Shareholders of the parent company		43,767	40,306
Non-controlling interests		-	-
Comprehensive income for the year attributable to:			
Shareholders of the parent company		44,827	36,766
Non-controlling interests		-	-
Other comprehensive income attributable to:			
Shareholders of the parent company		1,060	(3,540)
Non-controlling interests		-	-
Basic/diluted earnings per share (PLN)	30	**0.58**	**0.52**

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

Consolidated statement of changes in equity

	Attributable to shareholders of the parent company							
	Share capital	Share premium	Own shares	Reserve capital	Other comprehensive income	Result on transactions with non-controlling interests	Retained earnings	Total equity
As at 1 January 2018	**7,833**	**35,677**	**(29,433)**	**26**	**(1,002)**	**(6,270)**	**168,499**	**175,330**
Adjustment resulting from adoption of IFRS 9 (including tax effect)	-	-	-	-	-	-	(81)	**(81)**
As at 1 January 2018 (restated)	**7,833**	**35,677**	**(29,433)**	**26**	**(1,002)**	**(6,270)**	**168,418**	**175,249**
Total comprehensive income								
Net profit	-	-	-	-	-	-	43,767	43,767
Other comprehensive income								
Actuarial gains or losses	-	-	-	-	(56)	-	-	(56)
Income tax on other comprehensive income	-	-	-	-	11	-	-	11
Foreign operations currency translation differences		-	-	-	1,105	-	-	1,105
Total comprehensive income	**-**	**-**	**-**	**-**	**1,060**	**-**	**43,767**	**44,827**
Transactions with owners								
Settlement of unused reserve capital for the buyback of own shares	-	-	-	(26)	-	-	26	-
Redemption of own shares	(329)	-	29,433	329	-	-	(29,433)	-
Dividend paid	-	-	-	-	-	-	(35,270)	(35,270)
Total transactions with owners	**(329)**	**-**	**29,433**	**303**	**-**	**-**	**(64,677)**	**(35,270)**
As at 31 December 2018	**7,504**	**35,677**	**-**	**329**	**58**	**(6,270)**	**147,508**	**184,806**
As at 1 January 2017	**7,833**	**35,677**			**2,538**	**(6,270)**	**128,358**	**168,136**
Net profit	-	-	-	-	-	-	40,306	40,306
Other comprehensive income								
Actuarial gains or losses	-	-			(39)	-	-	(39)
Income tax on other comprehensive income	-	-	-	-	7	-	-	7
Foreign operations currency translation differences		-	-	-	(3,508)	-	-	(3,508)
Total comprehensive income	**-**	**-**	**-**	**-**	**(3,540)**	**-**	**40,306**	**36,766**
Transactions with owners								-
Creation of the reserve capital for the buyback of own shares	-	-	-	29,598	-	-	(29,598)	**-**
Buyback of own shares	-	-	(29,433)	(29,433)	-	-	29,433	**(29,433)**
Transaction costs related to buyback of own shares	-	-	-	(139)	-	-	-	**(139)**
Total transactions with owners	**-**	**-**	**(29,433)**	**26**	**-**	**-**	**(165)**	**(29,572)**
As at 31 December 2017	**7,833**	**35,677**	**(29,433)**	**26**	**(1,002)**	**(6,270)**	**168,499**	**175,330**

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

Consolidated cash flow statement

	Note	12 months ended 31 December	
		2018	**2017**
Cash flows from operating activities			
Profit before tax		**54,474**	**50,400**
Adjustments for:			
Amortization and depreciation		4,451	3,649
Net interest		954	409
Profit/Loss on investing activities		58	(90)
Foreign exchange gains/losses		-	3
Changes in balance sheet items:			
Change in trade and other receivables		(9,289)	(6,536)
Change in inventories		(62,500)	(23,552)
Change in provisions		813	30
Change in trade and other payables		15,979	21,079
Change in employee benefit liabilities		626	1,977
Income tax paid		(12,272)	(9,137)
Net cash from operating activities		**(6,704)**	**38,232**
Cash flows from investing activities			
Sale of property, plant and equipment		158	107
Purchases of property, plant and equipment and intangible assets		(3,944)	(3,705)
Interest received		68	102
Net cash from investing activities		**(3,718)**	**(3,496)**
Cash flows from financing activities			
Proceeds from loans		53,514	14,869
Repayments of loans		-	(17,100)
Repayment of liabilities arising from finance leases		(858)	(257)
Interest paid on loans		(897)	(476)
Interests paid on leases		(84)	(30)
Buyback of own shares		-	(29,572)
Dividends paid		(35,270)	-
Net cash from financing activities		**16,405**	**(32,566)**
Net change in cash		**5,983**	**2,170**
Cash and cash equivalents at the beginning of the period	14	**8,907**	**7,420**
Result on translation of cash and cash equivalents		257	(683)
Cash and cash equivalents at the end of the period	14	**15,147**	**8,907**

Accounting policy and other explanatory notes

1. General information

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

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

The Company was incorporated by virtue of a Notarial Deed of 17 November 1999 drawn up by Notary Public Jolanta Ołpińska in the Notarial Office in Wrocław (Rep. A No 5945/99). Next, pursuant to a court decision of 3 December 1999, the Company was entered into the Commercial Register maintained by the District Court for Wrocław-Fabryczna, 6th Commercial Division, under entry No RHB 9053. By virtue of a decision of 5 December 2001, the District Court for Wrocław-Fabryczna, 6th Commercial Division of the National Court Register, entered the Company into the Register of Entrepreneurs under entry No KRS 0000066712.

As at 31 December 2018, TOYA S.A. operates one branch – in Nadarzyn.

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

The core business activities of TOYA S.A. include import and distribution of industrial goods, including primarily hand and power tools for professional and DIY use. The Company distributes goods manufactured and supplied mainly by companies located in China. For many years, the Company has been implementing its strategy of expanding into international markets. It focuses primarily on Central, Southern, and Eastern Europe (Romania, Hungary, Czech Republic, Germany, the Balkan States, Russia, Lithuania, Ukraine, Belarus, Moldova). In 2003, a subsidiary, TOYA Romania S.A., was established, which business includes sales of hand and power tools in Romania. This company offers the same products and brands as those offered by the Company in Poland. In 2013, the company Yato Tools (Shanghai) Co. Ltd., located in China was included in the group of entities subject to full consolidation. The entity deals in the distribution of YATO brand tools and power tools in China and in certain other foreign markets not supported by the Parent Company.

The duration of the Parent Company is unlimited.

In the period from 1 January 2018 to 31 December 2018, the Management Board of the Parent 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 Parent 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.

Tomasza Koprowski resigned as a Member of Supervisory Board of the Parent 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 these consolidated financial statements for publication, the Supervisory Board of the Parent Company was composed of the following members:

- Piotr Mondalski — President of the Supervisory Board;
- Jan Szmidt — Vice-President of the Supervisory Board;
- 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.

These consolidated financial statements of the Group cover the year ended on 31 December 2018 and provide comparative data with regard to the year ended 31 December 2017 and as of 31 December 2017.

These consolidated financial statements of the Group for the year ended 31 December 2018 were approved for publication by the Management Board on 28 March 2019.

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

2. Capital group structure

As at 31 December 2018, the Group comprised the following entities:

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

3. Summary of significant accounting policies

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

3.1 Basis of preparation

These consolidated financial statements of the Group for the financial year ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and interpretations issued by the International Accounting Standards Board, as adopted by the European Union ("EU").

These consolidated financial statements have been prepared in accordance with IFRS and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which were issued and in effect as at the reporting date, i.e. 31 December 2018.

Certain entities of the Group maintain their accounting books in accordance with accounting policies specified in other accounting standards. The consolidated financial statements include a number of adjustments not included in the books of account of those entities of the group, which were made to reconcile the financial statements of those companies to be in conformity with IFRS.

The policies described below have been consistently applied to all the periods presented, except for changes resulting from the application of new or amended IFRS from 1 January 2018, which were described below.

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

The preparation of the consolidated financial statements in conformity with IFRS requires the use of significant accounting estimates. It also requires the Management Board of the Parent Company to exercise judgement in the process of applying the accounting policies adopted by the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are material from the point of view of the consolidated financial statements are disclosed in note 5.

Going concern

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

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

These consolidated financial statements have been prepared on the basis of the EU IFRS issued and effective as at the reporting date, i.e. 31 December 2018.

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

a) New standards, interpretations and amendments to existing standards effective in 2018

- **IFRS 9 "Financial Instruments"**

The Group adopted IFRS 9 effective from 1 January 2018, which resulted in changes to the accounting principles (policy) and adjustments to amounts recognized in the financial statements.

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

The standard introduces the following categories of financial assets: measured at amortized cost, measured at fair value through profit or loss and measured at fair value through other comprehensive income. The classification is performed as at the moment of initial recognition and depends on the financial instrument management model adopted by the entity, as well as the characteristics of contractual cash flow from those instruments.

IFRS 9 introduces a new model for the determination of revaluation write-downs — the model of expected credit losses.

Most of the IAS 39 requirements with regard to classification and measurement of financial liabilities have been moved to IFRS 9 in an unchanged form. The key change is: (i) the requirement imposed on entities – to recognize changes of own credit risk from financial liabilities earmarked for fair value measurement by the financial result in other total income, and (ii) immediate recognition in income statement of profits or losses from renegotiated debt terms, which do not result in derecognition of the liability.

In the area of hedge accounting, the objective of the amendments is to align hedge accounting to risk management practices better. In this regard the standard does not apply to the Group, as the Group does not apply the hedge accounting.

The Group applied this standard from 1 January 2018 without restatement of comparative data, while the effect of adjustments resulting from adoption of the standard was recognized as of 1 January 2018 in equity.

The detailed description of impact of application of the standard on individual items of the financial statements is presented in note 3.4.

- **IFRS 15 “Revenue from contracts with customers”**

IFRS 15 “Revenue from Contracts with Customers” is effective for annual periods starting on or after 1 January 2018.

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

The impact of application of IFRS 15 is presented in note 3.4.

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

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

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

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

Interpretation clarifies that the date of the transaction, for the purpose of determining the exchange rate to be applied for initial recognition of asset, expense or income (or its part), is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Interpretation did not have material impact on the consolidated financial statements.

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

The amendments clarify the requirements related to transfer of property (including property under construction or development) to or from investment property. Amendments explain that a change of use occurs if property meets, or ceases to meet, the definition of investment property and evidence exist proving the change of use. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use.

Group does not own any investment properties, therefore amendments did not have impact on the consolidated financial statements.

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

International Accounting Standards Board (IASB) issued Amendments to IFRS 2 “Share-based payments” to clarify principles for the following areas: the accounting for the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment, the classification of share-based payment transactions with a net settlement feature for withholding tax obligations, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Application of these amendments did not have impact on the consolidated financial statements as currently the Group does not carry out share-based transactions.

- **Amendments to IAS 28: Investments in associates and joint ventures, included in Annual Improvements to IFRS Standards 2014-2016**

Amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, mutual fund, unit trust or other qualifying entity (including insurance fund related to investments) , is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The entity makes such a choice individually for each associate and joint venture, upon initial recognition of an associate or joint venture. If entity, that is not an investment entity itself, holds shares in associate or joint venture, which are investment entities, the entity may. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These changes are not applicable for the Group.

- **Amendments to IFRS: First-time adoption of International Financial Reporting Standards, included in Annual Improvements to IFRS Standards 2014-2016**

Amendments delete the short-term exemptions in paragraphs E3–E7 of IFRS 1.

These changes do not have material impact on the consolidated financial statements of the Group.

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

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

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

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

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

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

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28. The accounting approach depends on whether the contribution of non-monetary assets to an associate or a joint venture constitutes a business.

If the non-monetary assets meet the definition of a "business", the investor will show the full gain or loss on the transaction. If a transaction involves assets that do not constitute a business, a partial gain or loss is recognised (excluding the part representing the interests of other investors).

The amendments were published on 11 September 2014. The effective date of the amendment regulations has not yet been set by the International Accounting Standards Board.

As at the date of drawing up these consolidated financial statements, the approval of these amendments has been deferred by the European Union.

- **IFRS 16 "Leases"**

IFRS 16 "Leases" is effective for annual periods starting on or after 1 January 2019.

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

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

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

As a result of application of the standard, using the simplified approach, the Group recognized in the books the right to perpetual usufruct of land, rights to use warehouses and office premises in Parent company as well as the rights to use few dozens of passenger cars. Total value of recognized right to use assets amounted to PLN 11,203 thousand, including reclassification of assets used under finance lease in the amount of PLN 3,849 thousand as of 31 December 2018 and reclassification of the right to perpetual usufruct of land classified as deferred expenses until 31 December 2018, in the amount of PLN 218 thousand. Total lease liabilities increased by PLN 8,156 thousand. At the same time, the Group elected not to recognize assets and liabilities for leases with a lease term of 12 months or less.

- **IFRS 17 „Insurance contracts"**

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

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

The Group intends to apply IFRS 17 as of the date of entry into force established by the EU.

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

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

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

The Group intends to apply the changes as of 1 January 2019. Application of the interpretation will not have material impact on the consolidated financial statements.

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

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

The Group intends to apply the changes as of 1 January 2019. Application of the amendments will not have material impact on the consolidated financial statements.

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

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

The Group intends to apply the changes as of 1 January 2019. The amendments will not have material impact on the consolidated financial statements.

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

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

Amendments contain clarifications and specification relating to recognition and valuation.

The Group intends to apply these improvements as of 1 January 2019. Application of the annual improvements will not have material impact on the consolidated financial statements.

- **Amendments to IAS 19: Plan amendments, curtailments and settlements**

Changes were issued on 7 February 2018 and is effective from annual reporting periods beginning on or after 1 January 2019.

The Group intends to apply these improvements as of 1 January 2019. Application of the annual improvements will not have material impact on the consolidated financial statements.

- **Amendments to reference to the Conceptual Framework included in the International Financial Reporting Standards**

Changes were issued on 29 March 2018 and is effective from annual reporting periods beginning on or after 1 January 2020.

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

- **Amendments to IFRS 3: Business combinations**

Changes were issued on 22 October 2018 and is effective from annual reporting periods beginning on or after 1 January 2020.

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

- **Amendments to IAS 1 and IAS 8: Definition of materiality**

Changes were issued on 31 October 2018 and is effective from annual reporting periods beginning on or after 1 January 2020.

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

3.3 Changes in the accounting policies

Accounting policies applied are consistent with the accounting principles used in preparation of consolidated financial statements for the financial year ended 31 December 2017, with the exception of impact of adoption of new and revised standards, described in note 3.2. New accounting principles applied from 1 January 2018 are summarized below.

3.3.1 Revenues from sales – adoption of IFRS 15

IFRS 15 replaces IAS 11 „Construction contracts”, IAS 18 “Revenue” and related interpretations. New standard applies to all contracts with customers except for contracts within the scope of other standards. The new standard introduces the “five-step model framework” for recognition of revenues from contracts with customers. According to IFRS 15, revenue is recognized in the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to the customer.

Application of this standard will require the exercise of judgement by the Parent Company’s Management Board, in relation to each of the five steps of the model framework.

The Group has decided to apply IFRS 15 using modified retrospective method, i.e. recognising the cumulative effect of applying IFRS 15 as an adjustment to the opening balance as at the date of initial application (beginning of current reporting period). Application of the standard did not have any material impact on presentation of the statement of financial position, statement of profit or loss and other comprehensive income.

The Group operates in the area of sales of industrial products, in particular power and hand tools intended for professional and DIY use. The sales agreement contains only one performance obligation – obligation to sell goods to customer, therefore revenue is recognized when the right to the goods is transferred to the customer (which generally is the time of delivery). As a result, impact of application of IFRS 15 is not material in relation to these agreements. Nevertheless, adoption of the standard has impacted amounts of revenue recognized in the following areas:

(i) variable consideration

Some contracts with customers contain elements of variable consideration, arising from rebates granted to customers, including these tied to achieving a set level of turnover.

In accordance with IFRS 15, where a contract contains elements of variable consideration, the entity will estimate the amount of variable consideration to which it will be entitled under the contract in exchange for transferring promised goods or services to the customer. Variable consideration is only included in the transaction price if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. Application of IFRS 15 did not have impact on the amount of revenue recognized. The group estimates the potential liability arising from rebates granted to customers, and if the estimated liability is material, the Group recognizes this liability as an offset to revenues from sales and as a trade liability.

The group has also analysed sale with a right of return. In accordance with the applicable laws and regulations, the customer has a right to withdraw from the purchase agreement within 14 days from the date of delivery of goods. This right applies to customers who purchase goods at internet store toya24.pl and other shopping portals. In addition, the Group extends the right of return of purchased goods, within limited period of time, to some of its customers. The Group estimates the potential liability arising from these rebates and if the estimated liability is material, the Group recognizes this liability as an offset to revenues from sales and as a liability due to expected returns in “trade liabilities” line. The group recognizes the estimated amount of inventories to be returned by the customers and recognizes this amount as inventory and offset to costs of goods for resale sold.

(ii) advances received from customers

So far the Group classified advances received from customers as “deferred income” or “trade liabilities” under “trade and other liabilities” section of the statement of financial position. In line with the existing accounting policies (principles), the Group has not recognized costs related to interest accrued on advances received.

In accordance with IFRS 15, where consideration is paid in advance, the entity needs to consider whether the contract includes a significant financing arrangement. The Group decided to use the available practical expedient, according to which where the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months, there is no need to adjust for the time value of advances received. The Group does not receive long-term advances from customers, therefore application of IFRS 15 in this area does not impact the financial statements. Currently, advances or prepayments received are classified as advances received for supplies in line “trade and other liabilities”.

(iii) guarantee

The Group provides a guarantee for the goods sold, which so far has been recognized in accordance with requirements of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. Usually guarantee is provided to promise to customer that the delivered product is as specified in the contract and such guarantee does not give rise to a separate performance obligation. As a result, the existing guarantees will continue to be recognized in accordance with IAS 37.

The Group disaggregated revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. In addition, the Group has also disclosed information enabling users of the consolidated financial statements to understand how the disaggregated revenue categories tie in with the information about revenues disclosed for each operating segment (note 23).

3.3.2 Financial assets – adoption of IFRS 9

Change in accounting principles results from implementation of IFRS 9. The group decided to apply IFRS 9 retrospectively without restating the comparative figures. As a result of this decision, comparative figures are presented in accordance with accounting policies previously applied by the Group and disclosed in the annual financial statement for the year ended 31 December 2017. The Group does not use hedge accounting, therefore adoption of IFRS 9 did not have any implications in this area.

Starting from 1 January 2018, the Group classifies its financial assets to the following categories:
(i) measured at amortized cost;
(ii) measured ad fair value through profit or loss;
(iii) measured at fair value through other comprehensive income.

The classification depends on the Group's business model objective for its financial assets as well as the characteristics of contractual cash flow from those instruments. For financial assets, reclassification is performed, if and only if the entity's business model objective for its financial assets has changed.

(i) <u>Financial assets measured at amortized cost</u>

Financial assets held to receive contractual cash flows, which include only repayment of principal amount and interest, are measured at amortised cost. The Group classifies trade receivables and cash and cash equivalents into this category of financial assets. Interest revenue (for receivables with a deadline for repayment of over one year) are determined using effective interest rate method and recognized as “financial income” in statement of profit or loss. Impairment losses on trade receivables are recognised in line with the accounting policy described in note 3.16.1 and are recognized in cost of sales.

As of 1 January 2018 and 31 December 2018 the Group did not held any assets qualified within the remaining two categories, i.e. (ii) measured ad fair value through profit or loss, and (iii) measured at fair value through other comprehensive income.

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

3.4 Impact of applying the new standards

Impact of first-time adoption of IFRS 9 and IFRS 15 as of 1 January 2018 has been presented below:

		1 January 2018 Restated	Adjustments resulting from adoption of IFRS 9 and IFRS 15	31 December 2017 Published
ASSETS	**adjustments**			
Non-current assets				
Property, plant and equipment		21,798	-	21,798
Intangible assets		2,683	-	2,683
Goodwill		699	-	699
Trade and other receivables		344	-	344
Deferred income tax assets	(b)	2,228	23	2,205
		27,752	23	27,729
Current assets				
Inventory		162,882	-	162,882
Trade and other receivables and deferred expenses, including:		64,360	(104)	64,464
Trade receivables:	(b)	*60,892*	*(104)*	*60,996*
gross book value		*63,002*	-	*63,002*
write-downs	(b)	*(2,154)*	*(104)*	*(2,050)*
Cash and cash equivalents		8,907	-	8,907
		236,149	(104)	236,253
Total assets		**263,901**	**(81)**	**263,982**
EQUITY AND LIABILITIES				
Equity				
Share capital		7,833	-	7,833
Share premium		35,677	-	35,677
Own shares		(29,433)	-	(29,433)
Reserve capital		26	-	26
Other comprehensive income		(1,002)	-	(1,002)
Result on transactions with non-controlling interests		(6,270)	-	(6,270)
Retained earnings	(b)	168,418	(81)	168,499
		175,249	(81)	175,330
Long-term liabilities				
Liabilities from finance leases		1,114	-	1,114
Liabilities from employee benefits		305	-	305
		1,419	-	1,419
Short-term liabilities				
Trade and other payables		47,646	-	47,646
trade payables	(c)	*43,957*	*(771)*	*44,713*
advances received for supplies	(c)	*762*	*777*	-
deferred income	(c)	-	*(6)*	*6*
Liabilities from employee benefits		6,395	-	6,395
Liabilities from loans		28,489	-	28,489
Liabilities from finance leases		425	-	425
Liabilities from current income tax		3,894	-	3,894
Provisions		384	-	384
		87,233	-	87,233
Total liabilities		88,652	-	88,652
Total equity and liabilities		**263,901**	**(81)**	**263,982**

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

Impact of adoption of IFRS 9 on equity

Impact of adoption of IFRS 9 on equity

	Retained earnings	Total equity
Adjustment of write-downs of assets measured at amortized cost:		
Trade and other receivables	104	104
Deferred income tax adjustments	(23)	(23)
Total	**81**	**81**

Description of adjustments

(a) Calculation of the impairment allowance for expected credit losses and related adjustment

Under the accounting principles applied in previous periods, an impairment loss on a financial asset was recognised when objective evidence of its impairment was present. If the objective evidence was present, the impairment allowance was estimated based on expected future cash flows. IFRS 9 requires estimation of expected losses, regardless of whether impairment indicators exist or not.

Expected credit losses on trade receivables are calculated using a simplified approach and measured through a loss allowance at an amount equal to full lifetime expected credit losses, using provision matrix. The Group utilizes historical data on credit losses, adjusted where applicable for information with respect to future events.

Impairment allowance determined according to IFRS 9, as compared to IAS 39, has been presented below:

	Total 1.01.2018
Gross value	
Trade and other receivable	63,002
Cash and cash equivalents	8,907
Total	71,909
Impairment write-downs	
Trade and other receivable	(2,154)
Cash and cash equivalents	-
Total	(2,154)
Book value (IFRS 9)	**69,755**
Comparison of impairment write-downs under IFRS 9 and IAS 39	
According to IAS 39 (only trade receivables)	(2,050)
Increase	(104)
Total write-down according to IFRS 9	**(2,154)**

Previously applied accounting principles and information regarding credit risk, overdue receivables and trade receivables write-downs were disclosed in the annual consolidated financial statements for the financial year ended 31 December 2017. For trade receivables (except for those which are analysed individually as non-performing), portfolio analysis was performed and simplified provision matrix was applied, where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding, based on full lifetime expected credit losses. The analysis was performed separately for customers from various distribution channels, by division into secured and unsecured receivables and separately for each Group entity, based on non-performance risk parameters determined on the basis of historical data for years 2015-2017. Historical non-performance risk parameters are then adjusted by the Parent Company, to include expectations regarding future periods. Final non-performance ratios for non-impaired receivables are as follows: for unsecured export customers (minimum 0.05% for amounts not overdue, 100% for amounts past due by 90 or more days), for unsecured local customers (minimum 0.02% for amounts not overdue, up to 1% for amounts past due by 90 or more days), secured export clients and other distribution channels (0.01% for amounts not overdue, 20% for export clients for amounts past due by 90 or more days and 0.2% for local clients for amounts past due by 90 or more days). As a result, for trade receivables past due by less than 90 days, the impairment write-down will increase from PLN 0 to PLN 88 thousand and for trade receivables past due by 90 or more days, the impairment write-down will increase from PLN 73 thousand to PLN 89 thousand (i.e. by PLN 16 thousand). Total adjustment due to increase of impairment write-down in the amount of PLN 104 thousand will be recognized in equity (loss). For non-performing trade receivables, analysed individually, impairment write-down of 100% of their value (for unsecured receivables) and 10% of their value (for secured receivable) was retained in the unchanged amount of PLN 1,933 thousand.

(b) change in presentation of advances and prepayments received due to adoption of IFRS 15

So far the Group classified advances received from customers as “deferred income” or “trade liabilities” under “trade and other liabilities” section. Currently, where consideration is paid in advance of delivery of goods to customer, the group classifies such advances received for supplies as “trade and other liabilities”.

3.5 Changes in accounting estimates

3.5.1 Impairment loses on inventories

During the first half of 2018, the Group introduced a change in the method of calculation of impairment losses on inventories. The change resulted from analysis of historical data and was linked to changes in market prices of slow-moving goods. As previously, the amount of an impairment loss depends on the ratio of inventory level and the quantity of goods sold - items for which inventory level exceeds sales expected for the 2-years period are written off. However the write-down percentage rates have changed for slow-moving goods and currently amount to 10% to 70%. As a result of this change, the amount of impairment write-down (for the whole Group) in 2018 was decreased by PLN 935 thousand.

3.5.2 Guarantee provision

During the first half of 2018, the Group introduced a change in the method of calculation of guarantee provisions. Following the implementation of the customer complaints management system, the Group has now access to reliable information regarding quantity of serviced complaints. Change in calculation method was related to determination of the proportion of average number of complaints received to quantity of goods sold over the last 3 years and calculation of average cost of servicing of one individual complaint. Guarantee provision is recognised based on the factual quantity of goods sold over the last 12 months, the proportion of average number of complaints received to quantity of goods sold and average cost of servicing individual complaint. Parameters required for this calculation will be determined annually, based on the data from previous 3 years. As a result of this change, in 2018 the guarantee provision increased by PLN 816 thousand.

3.6 Consolidation

Subsidiaries

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

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

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

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

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

3.7 Segment reporting

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

3.8 Valuation of items denominated in foreign currencies

Functional currency

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

Transactions and balances

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

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

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

Translation of the Group companies' data

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

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

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

3.9 Property, plant and equipment

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

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

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

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

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

Buildings and structures	from 10 to 40 years
Plant and equipment	from 2 to 10 years
Vehicles	from 2 to 10 years
Other tangible fixed assets	from 2 to 20 years

Leasehold improvements (in relation to rented space) are depreciated over a period which is linked to the duration of the rental agreement.

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

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

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

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

3.10 Leases

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

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

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

3.11 Intangible assets

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

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

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

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

Trademarks	from 5 to 10 years
Licences and software	from 1 to 20 years

3.12 Goodwill

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

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that will benefit from the synergies of the business combination, not larger than an operating segment. The accounting policies applicable to goodwill impairment testing are presented in note 10.

Goodwill is expressed in functional currency of the cash-generating unit and is translated into the functional currency of the Parent Company according to the exchange rate effective at the reporting period end date.

3.13 Impairment on non-financial non-current assets

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

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

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

3.14 Borrowing costs

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

3.15 Financial assets

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

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

Starting from 1 January 2018, the Group classifies its financial assets to the following categories:

a) measured at amortized cost;

b) measured ad fair value through profit or loss;

c) measured at fair value through other comprehensive income.

The classification depends on the Group's business model objective for its financial assets as well as the characteristics of contractual cash flow from those instruments. For financial assets, reclassification is performed, if and only if the entity's business model objective for its financial assets has changed.

a) Financial assets measured at amortized cost

Financial assets held to receive contractual cash flows, which include only repayment of principal amount and interest, are measured at amortised cost. The Group classifies trade receivables and cash and cash equivalents into this category of financial assets. Interest revenue (for receivables with a deadline for repayment of over one year) are determined using effective interest rate method and recognized as "financial income" in statement of profit or loss. Impairment losses on trade receivables are recognised in line with the accounting policy described in note 3.16.1 and are recognized in cost of sales.

As of 1 January 2018 and 31 December 2018 the Group did not held any assets qualified within the remaining two categories, i.e. (ii) measured ad fair value through profit or loss, and (iii) measured at fair value through other comprehensive income.

3.16 Impairment of financial assets

3.16.1 Accounting policy applied from 1 January 2018 – in accordance with IFRS 9

Expected credit losses on short-term trade receivables, with no significant financing arrangements, are calculated using a simplified approach and measured through a loss allowance at an amount equal to full lifetime expected credit losses, from the moment of its initial recognition. The Group utilizes provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

For the purpose of estimation of the expected credit losses, trade receivables are grouped on the basis of credit risk characteristics (separate groups were determined for certain distribution channels – receivables from export customers, network customers, wholesale customers and individual customers). For each Group entity, customers credit non-performance analysis was performed for the last 3 years, to determine the general non-performance ratios. These ratios are determined for the following ranges:

- not yet due;
- past due under 30 days;
- past due from 30 to 60 days;
- past due from 60 to 90 days;
- past due over 90 days.

Historical data on receivables referred to court and written-down as well as information about share of amounts received in each time range indicated above, are used in determination of non-performance ratio for each time range. Other factors, such as insurance of receivable or expected impact of future events, are also taken into consideration.

Impairment write-down is estimated considering non-performance ratios, adjusted for expected impact of future events and based on balance of outstanding receivables as of the balance sheet date, for each of the time ranges indicated above.

3.16.2 Accounting policy applied from comparative data as of 31 December 2017 – in accordance with IAS 39

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

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

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

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

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

3.17 Inventory

Inventory includes goods for resale and assets for expected returns.

Goods for resale are measured at the costs of acquisition not higher than net realisable value.

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

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

The assets for expected returns, (i.e. value of goods which are expected to be returned by customers in accordance with the right provided to customers in the agreement or under the binding laws and regulations - please refer to revenue recognition policy in note 3.25) are estimated based on historical data, including ratio of returns from customers to revenue from sales for the period of last 3 years. Estimated value of these assets offsets the costs of goods sold.

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

Impairment losses on inventory are recognised in cost of sales.

3.18 Cash and cash equivalents

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

3.19 Equity

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

The particular categories of equity are:

- share capital of the Company – stated at its par value as specified in the Company's Articles of Association and entered in the court register,

- share premium is stated in the proceeds from the issue of shares in the amount exceeding the par value of shares, less transactions costs associated with the public share issue,
- own shares are stated at purchase price and presented in equity with a negative sign,
- reserve capital for buyback of own shares is created based on the resolution of General Shareholders' Meeting,
- other comprehensive income includes foreign operations currency translation differences and actuarial profits and losses arising from the actuarial valuation of provisions for pensions and related benefits,
- retained earnings – comprising profit/(loss) distributions, undistributed profit/(loss), and net profit/(loss) for the reporting period to which given financial statements relate.

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

3.20 Bank loan liabilities

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

3.21 Trade payables

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

Other liabilities include liabilities arising from returns of goods from customers (in accordance with the right provided to customers in the agreement or under the existing laws and regulations - please refer to revenue recognition policy in note 3.25). Value of these liabilities is estimated based on historical data, including ratio of returns from customers to revenue from sales for the period of last 3 years. At the same time, the Group recognizes in inventories the asset for goods which the customers are expected to return, with the offsetting entry to cost of goods sold (see note 3.17).

According to the regulations of European Parliament and other laws in force, i.e. EU Waste Electrical and Electronic Equipment Act, the Parent Company, as an operator that places electrical and electronic equipment, batteries, containers and products such as oils and tires on the market, and under the Extended Producer Responsibility, is responsible for the products until the end of its life (i.e. waste creation). Due to the fact that under existing Polish regulations the Parent Company is required, among others, to ensure minimum recycling efficiency levels and recover waste from manufactured products, the Parent Company fulfils these obligations through an agreement concluded with a Recovery Organization. Costs associated with this agreement are accrued over the whole year and settled at the end of financial year, upon receiving of the final invoice.

3.22 Current and deferred income tax

Mandatory decreases of profit include current and deferred income tax.

Current tax

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

Deferred tax

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

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

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

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

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

3.23 Liabilities from employee benefits

Post-employment benefit plan – the defined contribution plan

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

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

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

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

3.24 Provisions

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

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

In particular, a provision is created for the expected returns and complaints. The provision for returns is estimated based on the actual quantity of goods sold over the last 12 months period and taking into consideration the defined failure ratio and average cost of servicing customer complaints. Parameters required for calculation of this provision, for the period of previous 3 years, are updated on an annual basis.

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

3.25 Recognition of revenue

Revenue is recognised at fair value of consideration received or receivable, net of VAT, returns, rebates and discounts. The Group recognizes revenue from contracts with customers when all of the following five criteria are met:

- the contract has been approved (in writing, orally, or in accordance with other customary business practices) and the parties are committed to perform their obligations in the contract
- each party's rights regarding the goods or services to be transferred can be identified
- the payment terms for the goods or services to be transferred can be identified
- the contract has commercial substance (i.e. the risk, timing or amount of the vendor's future cash flows is expected to change as a result of the contract)
- it is probable that the consideration for the exchange of the goods or services that the vendor is entitled to will be collected.

In particular, revenue from sales of goods is recognized in accordance with rules described above. The sales agreement with customer contains only one performance obligation – obligation to deliver goods to customer, therefore revenue is recognized at the specified point in time. The entity recognizes revenue when the goods are transferred to the customer. Goods are transferred to the customer, when the customer receives the control over the transferred assets.

Revenue from sales of goods include transportation services, provided by external parties, costs of which are incurred by the customers, in case the Group is responsible for organizing the transportation and bears the risks during the transport.

Some contracts with customers contain elements of variable consideration, arising from rebates granted to customers, including these tied to achieving a set level of turnover. In accordance with requirements of IFRS 15, the group estimates amounts of rebates owned to customers and recognizes these rebates as an offsetting entry to revenues from sales and as a trade liability.

Some contracts with customers contain right to return goods. In accordance with the applicable laws and regulations, the customer has a right to withdraw from the purchase agreement within 14 days from the date of delivery of goods. This right applies to customers who purchase goods at internet store toya24.pl and other shopping portals. In addition, the Group extends the right of return of purchased goods, within limited period of time, to some of its customers. The Group estimates the potential liability arising from these rebates and if the estimated liability is material, the Group recognizes this amount as an offset to revenues from sales and as a liability due to expected returns in "trade liabilities" line (note 3.21).At the same time, the group recognizes the estimated amount of inventories to be returned by the customers and recognizes this amount as inventory and offset to costs of goods for resale sold (note 3.17).

3.26 Dividends

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

4. Foreign currencies used in preparation of these financial statements

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

Currency	31 December 2018	31 December 2017
1 EUR	4.3000	4.1709
1 USD	3.7597	3.4813

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

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

Currency	31 December 2018	31 December 2017
1 RON	0.9229	0.8953
1 CNY	0.5481	0.5349

Financial results of subsidiaries have been translated from the functional currency into the presentation currency using the following exchange rates:

Currency	31 December 2018	31 December 2017
1 RON	0.9165	0.9282
1 CNY	0.5463	0.5552

5. Material accounting estimates and judgements

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

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

Useful lives and depreciation rates for property, plant and equipment

The Group's Management Board determines estimated useful lives and depreciation rates for property, plant and equipment. The estimates are based on the projected useful lives for individual assets. The estimates may change materially as a result of new technological solutions emerging on the market, plans of the Parent Company's Management Board, or intensity of use. The Management Board increases or decreases a depreciation rate for a given asset if its useful life proves shorter or longer, respectively, than expected, and revalues technologically obsolete assets, and assets which are not of strategic importance and whose use has been discontinued. Property, plant and equipment value and depreciation are described in note 8.

If the actual useful lives of property, plant and equipment had been by 10% shorter than the Management Board's estimates, the depreciation of property, plant and equipment would have been higher by PLN 411 thousand as at 31 December 2018, and PLN 350 thousand as at 31 December 2017.

Classification of lease agreements

The Group's lease classification into operating or capital lease is based on the assessment on what portion of risk and benefits of holding the leased object is attributable to a lessor and to a lessee, which is each time decided based on the economic content of each transaction.

The Parent Company uses the following assets under lease contracts: servers, forklifts and trucks. The Group keeps all the material risks and benefits resulting from ownership of those assets, which relates mainly to the fact that the term of the lease agreement covers the substantial portion of the assets' useful life.

The Parent Company and subsidiaries also use offices, warehouses and passenger cars under lease agreements, for which significant risks and rewards remain with the lessor and the term of the lease agreement does not covers the substantial portion of the assets' useful life.

Provisions and impairment write-downs

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

- provisions for guarantees and complaints – estimated level of the ratio used to perform calculations in accordance with the policy described in note 3.24; This ratio was determined on the basis of historical costs and claims and is verified on a regular basis through reference with actually incurred costs; for details on the amount of the provision, see note 22;

- impairment write-downs on inventory – estimated average period during which the product is sold, and beyond which a write-down is created in accordance with the policy described in note 3.17; for details on the amount of the write-down, see note 12;

- impairment write-downs on receivables – the Group utilizes provision matrix to estimate expected credit losses in relation to trade receivables. For the purpose of estimation of the expected credit losses, trade receivables are grouped on the basis of credit risk characteristics. Historical data regarding credit losses, adjusted for expected impact of future events, is used by the Group in estimation of the expected credit losses, in accordance with the policy described in note 3.13; for details on the amount of the write-down, see note 13.

- other provisions resulting from claims brought against the Group – the values are determined taking into consideration the probability of having to pay the obligation and the amount of potential claim – see note 32.

Uncertainties related tax settlements

Regulations regarding VAT, corporate income tax and social security contributions are subject to frequent changes. These frequent changes result in there being little point of reference, interpretations not consistent and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between govern ment bodies and companies.

Tax settlements and other areas of activity (e.g. customs or foreign currency related issues) may be subject to inspection by administrative bodies authorized to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in the Group's countries than in countries that have a more established taxation system.

Accordingly the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

Effective 15 July 2016, the Polish Tax Code was amended for the General Anti-Abuse Rule (GAAR) provisions. GAAR is intended to prevent the creation and use of artificial legal arrangements to avoid payment of tax in Poland and defines tax avoidance as an act carried out primarily in order to achieve a tax benefit, contrary in the circumstances to the object and goal of a provision of a tax act, which shall not result in a tax benefit, if the mode of action was not genuine. All unjustified (i) split of operations, (ii) involvement of intermediary entities without any economic or business justification, (iii) elements that compensate or exclude each other and (iv) other actions with a similar effect to the previously mentioned, may be considered as prerequisites of artificial activities subject to GAAR. The new regulation will require significantly more judgement in assessment of the tax consequences of particular transactions

The GAAR clause is effective with respect to transactions performed following its entry into force as well as transactions that were carried out before, but the benefits were / are being achieved after the date of its entry into force. Implementation of the above provisions will enable the Polish tax authorities to challenge legal arrangements by the taxpayers such as group's restructurings and reorganizations.

The Company recognizes current and deferred income tax assets and liabilities using IAS 12 Income tax based on profit (tax loss), tax base, unsettled tax losses, unused tax exemptions and tax rates, taking into account assessment of uncertainties related to tax settlements.

If there is uncertainty over where or not and in what scope the tax authority will accept tax accounting for transactions, the Company recognizes these settlements taking into account an uncertainty assessment.

6. Financial risk management

6.1 Financial risk factors

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

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

6.2 Market risk

Foreign exchange risk

The Group purchases significant amounts of goods from foreign suppliers, located primarily in China, at prices denominated in foreign currencies, particularly in CNY and USD. As at 31 December 2018, trade payables in USD represented 19% of the total trade payables and trade payables in CNY represented 66% of total trade payables (as at 31 December 2017 – payables in USD represented 19% of that balance and payables in CNY represented 67% of that balance).

The Group may use PLN, EUR and USD denominated credit facilities available under executed credit facility agreements. As at 31 December 2018 and 31 December 2017, the Group has no loan liabilities denominated in foreign currencies.

As at 31 December 2018, cash in foreign currencies (USD and EUR) represented 23% of the total cash, cash in CNY represented 37% of total cash and cash in RON represented 40% of total cash (as at 31 December 2017 – cash in USD and EUR represented 33% of the total balance, cash in CNY represented 44% of the total balance and cash in RON represented 20% of the total balance).

33% of the Group's revenue is generated from exports (sales outside markets where the Group has its entities) and 15% of the Group's revenue is generated in local markets in China and Romania, at prices denominated in foreign currencies — in USD, EUR, CNY and RON. As at 31 December 2018, trade receivables in USD represented 14% of the total trade receivables (16% as at 31 December 2017) and trade receivables in EUR represented 5% of the total trade receivables (5% as at 31 December 2017). Moreover, as at 31 December 2018, 12% of trade receivables are denominated in CNY, due to sales on the local market in China (12% as at 31 December 2017) and 12% of trade receivables are denominated in RON due to sales in the local market in Romania (10% as at 31 December 2017).

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

If, as at 31 December 2018, PLN appreciated/depreciated by 10% against USD (all other conditions remaining unchanged), the profit before income tax for 2018 would rise/drop by approximately PLN 203 thousand (drop/rise by approximately PLN 232 thousand in 2017) mainly due to the measurement of USD denominated trade payables).

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

If, as at 31 December 2018, PLN appreciated/depreciated by 10% against EUR (all other conditions remaining unchanged), the profit before income tax for 2018 would drop/rise by approximately PLN 307 thousand (in 2017 by approximately PLN 218 thousand) due to the measurement of EUR denominated trade receivables.

If, as at 31 December 2018, PLN appreciated/depreciated by 10% against CNY (all other conditions remaining unchanged), the profit before income tax for 2018 would rise/drop by approximately PLN 627 thousand (in 2017 by approximately PLN 686 thousand) mainly due to the measurement of CNY denominated trade payables.

Risk of interest rate changes affecting cash flows and fair values

As at 31 December 2018 and 31 December 2017 the Group held cash at bank accounts with a variable interest rate, which exposes the Company to the risk of interest rate changes affecting cash flows, however taking into consideration the amount of interest, the risk is insignificant. The group held no other interest-bearing assets.

The Group's policy envisages the use of bank loans bearing interest at variable rates. This exposes the Group to the risk of interest rate changes affecting its cash flows. As at 31 December 2018, all liabilities under bank loans bear interest at variable rates (which was also the case as at 31 December 2017).

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

The below sensitivity analysis of the Group's cash flows to interest rate risk was prepared for financial instruments based on variable interest rates. The financial instruments held by the Group were linked to WIBOR rates. The impact of interest rate fluctuations on the financial result was calculated as the product of liability balances as at 31 December 2018 and the assumed WIBOR variance.

	+20 basis points		-20 basis points	
	Effect on profit before income tax	**Effect on net profit and equity**	**Effect on profit before income tax**	**Effect on net profit and equity**
Financial liabilities				
Variable interest rate loans	(164)	(133)	164	133
Total for 2018	**(164)**	**(133)**	**164**	**133**

	+20 basis points		-20 basis points	
	Effect on profit before income tax	**Effect on net profit and equity**	**Effect on profit before income tax**	**Effect on net profit and equity**
Financial liabilities				
Variable interest rate loans	(57)	(46)	57	46
Total for 2017	**(57)**	**(46)**	**57**	**46**

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

6.3. Credit risk

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

Credit risk relating to bank deposits is considered by the Management Board as low because the Group cooperates with renowned financial institutions which enjoy premium credit ratings (Bank Handlowy w

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

Warszawie S.A., Santander Bank S.A. and BNP Paribas Bank Polska S.A. (previously Raiffeisen Bank Polska S.A.) in Poland, Citi Bank and Agricultural Bank in China and BRD Groupe Societe Generale in Romania).

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

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

	2018	2017
Local markets – wholesale market (*)	47%	47%
Local markets – chains (*)	16%	18%
Export sales	32%	32%
Other sales	4%	3%
Total	**100%**	**100%**

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

As regards sales to retail chains, the Group sells its products to the largest chains in Poland and Romania. Credit exposures in this customer group are not evenly distributed as 2 key retail chains in Poland jointly account for approximately 85% of sales made through this particular channel. Credit risk exposure to retail chains is considered by the Company as low as most of them are reliable and financially transparent customers with an established market position and a sound payment history.

In the area of wholesale distribution, the Group has established cooperation with a few dozen authorised distributors, a few dozen wholesalers across the country and authorised retail stores, as well as with wholesalers in Romania and China. In 2018, 75% of sales in this group was executed to approx. 64 customers (59 customers in 2017). The Group pursues a policy of reducing credit exposures to wholesale customers with the use of a credit limit mechanism. The limits are set for each customer based on a detailed assessment of its financial performance, market position, payment discipline and the overall situation in the sector. The utilisation of credit limits is monitored on a regular basis. A transaction exceeding the credit limit may only be executed upon authorisation by authorised persons in accordance with an internal credit policy.

The Group mitigates its credit risk by having trade receivables insured in a renowned insurance company. The insurance covers receivables from the customers of the parent company. As at 31 December 2018, 59% of the short-term trade receivables were insured (63% as at 31 December 2017). This applies to customers who have been granted an individual limit and customers covered by the so-called automatic limit, up to the amount specified in the insurance contract. Under the insurance contract, the deductible is typical for such contracts.

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

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

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

With respect to trade receivables, the Group does not have external ratings, but it monitors counterparties' payment delays ongoing basis. Receivables which as at 31 December 2018 were not past due and did not suffer impairment come from customers that settle their receivables to the Group on the due date or with a slight delay.

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

The maximum credit risk exposure is approximately equal to the book value of trade receivables, net of receivables insured and cash and cash equivalents. As at 31 December 2018, the maximum credit risk exposure is PLN 38,929 thousand (31 December 2017: PLN 30,202 thousand).

6.4. Liquidity risk

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

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

	31 December 2018	**31 December 2017**
Current assets	315,600	236,253
Current liabilities	158,591	87,233
	2018	**2017**
Cash flow from operating activities	(6,704)	38,232

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

	Up to 1 year	**1–3 years**	**3–5 years**	**More than 5 years**	**Total**
Loans	83,289	-	-	-	**83,289**
Trade and other payables	62,784	-	-	-	**62,784**
Liabilities from finance leases	903	2,561	-	-	**3,464**
As at 31 December 2018	**146,976**	**2,561**	**-**	**-**	**149,537**
Loans	29,040	-	-	-	**29,040**
Trade and other payables	45,978	-	-	-	**45,978**
Liabilities from finance leases	475	1,187	-	-	**1,662**
As at 31 December 2017	**75,493**	**1,187**	**-**	**-**	**76,680**

6.5. Capital management

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

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

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

	31 December 2018	31 December 2017
Non-current assets	30,513	27,729
Equity	184,699	175,330

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

6.6. Fair value measurement

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

7. Financial instruments

As at 31 December 2018	**Financial assets**	**Other financial liabilities**
	Assets measured at amortised cost	**Liabilities measured at amortised cost**
Trade receivables	61,895	-
Cash	15,147	-
Trade and other payables	-	62,783
Loans	-	82,045
Liabilities from finance leases	-	3,228
	77,042	**148,056**

As at 31 December 2017	**Financial assets**	**Other financial liabilities**
	Loans and receivables	**Liabilities measured at amortised cost**
Trade receivables	60,899	-
Cash	8,907	-
Trade and other payables	-	45,978
Loans	-	28,489
Liabilities from finance leases	-	1,539
	69,806	**76,006**

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

12 months ended 31 December 2018	**Financial assets**	**Financial liabilities**
Interest income	68	-
Interest expenses	-	(938)
Profits on foreign exchange differences	2,416	2,936
Losses on foreign exchange differences	(1,266)	(1,861)
Establishment of impairment write-downs	(1,106)	-
Reversal of impairment write-downs	288	-
Total net profit / (loss)	**400**	**137**

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

12 months ended 31 December 2017	Financial assets	Financial liabilities
Interest income	58	-
Interest expenses	-	(437)
Profits on foreign exchange differences	1,139	4,892
Losses on foreign exchange differences	(3,648)	(1,144)
Establishment of impairment write-downs	(67)	-
Reversal of impairment write-downs	7	-
Total net profit / (loss)	**(2,511)**	**3,311**

8. Property, plant and equipment

	31 December 2018	31 December 2017
Land	2,907	2,907
Buildings and structures	8,805	9,084
Plant and equipment	3,718	2,550
Vehicles	4,153	1,735
Other	3,517	3,907
Total	**23,100**	**20,183**
Property, plant and equipment not transferred for use	320	1,615
Total property, plant and equipment	**23,420**	**21,798**

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

Changes in property, plant and equipment by type

	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Property, plant and equipment not transferred for use	Total
Initial value							
As at 1 January 2018	2,907	13,493	7,046	4,410	13,746	1,615	**43,217**
Increases	-	461	2,337	3,246	1,023	4,614	**11,681**
Decreases	-	(89)	(919)	(1,060)	(3,988)	(5,915)	**(11,971)**
Currency translation differences	-	22	49	81	122	6	**280**
As at 31 December 2018	**2,907**	**13,887**	**8,513**	**6,677**	**10,903**	**320**	43,207
As at 1 January 2017	2,907	13,588	6,575	4,436	12,807	67	**40,380**
Increases	-	12	790	803	1,402	2,712	**5,719**
Decreases	-	-	(125)	(527)	(43)	(1,153)	**(1,848)**
Currency translation differences	-	(107)	(194)	(302)	(449)	(11)	**(1,063)**
Reclassification	-	-	-	-	29	-	**29**
As at 31 December 2017	**2,907**	**13,493**	**7,046**	**4,410**	**13,746**	**1,615**	43,217
Accumulated depreciation							
As at 1 January 2018	-	4,409	4,496	2,675	9,839	-	**21,419**
Increases	-	701	1,155	731	1,421	-	**4,008**
Decreases	-	(43)	(884)	(923)	(3,947)	-	**(5,797)**
Currency translation differences	-	15	28	41	73	-	**157**
As at 31 December 2018	**-**	**5,082**	**4,795**	**2,524**	**7,386**	**-**	19,787
As at 1 January 2017	-	3,905	3,909	2,888	8,657	-	**19,359**
Depreciation for the financial year	-	557	796	480	1,490	-	**3,323**
Decreases in depreciation	-	-	(110)	(527)	(51)	-	**(688)**
Currency translation differences	-	(53)	(99)	(166)	(257)	-	**(575)**
As at 31 December 2017	**-**	**4,409**	**4,496**	**2,675**	**9,839**	**-**	21,419
Carrying amount							
As at 31 December 2018	**2,907**	**8,805**	**3,718**	**4,153**	**3,517**	**320**	23,420
As at 31 December 2017	**2,907**	**9,084**	**2,550**	**1,735**	**3,907**	**1,615**	21,798

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

As at 31 December 2018, the Parent Company holds servers, forklifts and trucks under finance lease agreements.

	31 December 2018	31 December 2017
Purchase cost	4,742	2,194
Accumulated depreciation	(893)	(364)
Net book value	**3,849**	**1,830**

Detailed information about lease liabilities - see note 20.

As at 31 December 2018, the Parent Company used a warehouse in branch in Nadarzyn and passenger cars under an operating lease agreement (note 21). Moreover, subsidiaries used warehouses with offices in Shanghai and Bucharest.

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

In 2018 and 2017, the Group did not capitalise borrowing costs due to the insignificancy of these amounts.

As at 31 December 2018, the Group had no commitments to expenditure on property, plant and equipment.

9. Intangible assets

	31 December 2018	31 December 2017
Licences, concessions and patents, including:	2,725	2,567
– software	2,725	2,567
Other - trademarks and industrial designs	96	116
Total	**2,821**	**2,683**
Intangible assets not transferred for use	198	-
Total intangible assets	**3,019**	**2,683**

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

No security interests on the intangible assets have been created.

Intangible assets not transferred for use include trademarks applied for, for which decisions have not yet been received. No impairment was reported for these trademarks.

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

Changes in intangible assets

Initial value	Software	Other	Intangible assets not transferred for use	Total
As at 1 January 2018	4,228	240	-	**4,468**
Increases	572	-	198	**770**
Decreases	(337)	-	-	**(337)**
Currency translation differences	13	-	-	**13**
As at 31 December 2018	**4,476**	**240**	**198**	**4,914**
As at 1 January 2017	3,479	249	376	**4,104**
Increases	781	-	-	**781**
Decreases	-	(9)	(376)	**(385)**
Currency translation differences	(32)	-	-	**(32)**
As at 31 December 2018	**4,228**	**240**	**-**	**4,468**
Accumulated amortisation				
As at 1 January 2018	1,661	124	-	**1,785**
Increases	423	20	-	**443**
Decreases	(335)	-	-	**(335)**
Currency translation differences	3	-	-	**3**
As at 31 December 2018	**1,752**	**144**	**-**	**1,896**
As at 1 January 2017	1,362	105	-	**1,467**
Amortisation for the period	306	20	-	**326**
Decreases of amortization	-	(1)	-	**(1)**
Currency translation differences	(7)	-	-	**(7)**
As at 31 December 2018	**1,661**	**124**	**-**	**1,785**
Carrying amount				
As at 31 December 2018	**2,725**	**96**	**198**	**3,019**
As at 31 December 2017	**2,567**	**116**	**-**	**2,683**

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

10. Goodwill

Goodwill amounting to PLN 717 thousand includes only the goodwill resulting from the acquisitions of Yato Tools in 2013:

	Yato Tools (Shanghai) Co., Ltd.
As at 1 January 2018	699
Foreign exchange differences	18
As at 31 December 2018	**717**

Impairment test for goodwill

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

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

The key assumptions used for value-in-use calculations in 2018 are as follows:

- compound annual rate of growth of sales revenue – 5% per year (forecast for the years 2018-2022)
- rate of growth after the forecast period – 2%
- weighted average cost of capital (discount rate) – 7.8%

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

The recoverable amount calculated based on value in use, under the above assumptions, exceeded carrying value by approx. 350%. The following changes in key assumptions would remove this excess (the impact of each assumption was estimated under the assumption that other assumptions remain unchanged):

- decrease in forecasted revenue growth by 23 percentage point,
- increase in the discount rate by 8 percentage point.

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

11. Trade and other long-term receivables

	31 December 2018	31 December 2017
Deposits paid	190	126
Accruals and deferred income related to the perpetual usufruct right	215	218
Total long-term receivables	**405**	**344**

The Group purchased the right of perpetual usufruct from other entities. Perpetual usufruct fees included in the financial result amounted to PLN 20 thousand both in 2018 and in 2017.

Following receipt of decision on increase of the perpetual usufruct fees, the total amounts of future minimum lease payments amount to:

	31 December 2018	31 December 2017
up to 1 year	51	20
1 - 3 years	126	40
3 - 5 years	126	40
more than 5 years	4,339	1,340
Total	**4,642**	**1,500**

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

12. Inventory

	31 December 2018	31 December 2017
Goods for resale at warehouse and in transit	227,875	165,984
Revaluation write-down	(2,195)	(3,102)
Asset for expected returns from customers	572	-
Total inventory	**226,252**	**162,882**

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

	2018	2017
As at 1 January	**3,102**	**2,931**
Increase	73	295
Reversal/utilisation	(1,009)	-
Currency translation differences	29	(124)
As at 31 December	**2,195**	**3,102**

Write-downs on inventory made in the financial year as well as utilisation and reversal of write-downs made in previous years were recorded in the financial result and presented as cost of goods for resale sold. The reversal of write-downs resulted from the decrease in the value of inventory which should be written down, in accordance with change in write-downs policy as described in note 3.5.1.

The Group's Warehouse management is continuously adjusted to respond to expected demand from customers. In response to increased volume of orders, continuously extending products offering and intention to increase accessibility of goods for customers, in 2018 the Group increased stock of inventories by 37% as compared to the end of 2017.

For collaterals established on inventories, please refer to note 17.

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

13. Trade and other receivables

	IFRS 9	IFRS 9	IAS 39
	31 December 2018	**1 January 2018 restated**	**31 December 2017**
Trade receivables from related parties	3	2	2
Trade receivables from third parties	64,827	63,000	63,000
Total trade receivables	**64,830**	**63,002**	**63,002**
Taxes, custom duties and social security receivables	7,273	2,051	2,051
Other receivables from third parties	895	853	853
Advances for deliveries	3,410	-	-
Prepayments and deferred costs	843	661	661
Total gross receivables	**77,251**	**66,567**	**66,567**
Impairment write-downs of doubtful receivables	(2,935)	(2,154)	(2,050)
Impairment write-downs of other receivables	(115)	(53)	(53)
Total net receivables	**74,201**	**64,360**	**64,464**

As of 31 December 2018 and 1 January 2018, expected credit losses on trade receivables are calculated using a simplified approach and measured through a loss allowance at an amount equal to full lifetime expected credit losses, using provision matrix (in line with the accounting policies described in note 3.16.1).

The average repayment period of receivables is 70 days.

Changes in gross receivables are summarized in table below:

	Receivable with no impairment write-down	Receivables with impairment write-down (individual analysis)	Total
As at 1 January 2018	**60,971**	**2,031**	**63,002**
Increase	459,575	74	450,232
Interest accrued	9	-	9
Receivables written-off	(2)	(209)	(211)
Receivables classified individually as irrecoverable	(1,962)	1,962	-
Collected receivables	(456,670)	(95)	(456,765)
Compensated receivables	(1,613)	0	(1,613)
Other changes, including currency translation differences	759	0	759
As at 31 December 2018	**61,921**	**3,858**	**64,830**

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

	2018	2017
As at 31 December 2017	**2,050**	**2,525**
Implementation of IFRS 9	104	-
As at 1 January 2018	**2,154**	**2,525**
Increase	1,106	67
Reversal	(207)	(583)
Utilisation	(136)	(7)
Currency translation differences	18	48
As at 31 December 2018	**2,935**	**2,050**

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

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

The table below presents the ageing structure of receivables, including average expected credit loss ratio for each overdue period:

		Overdue period				
	Total	**Not overdue**	**0-30 days**	**30-60 days**	**60-90 days**	**over 90 days**
Gross trade receivables	**64,830**	**47,486**	**10,007**	**2,857**	**1,992**	**2,489**
Group analysis						
Gross value of trade receivables analysed on grouped level	**61,105**	47,033	9,797	2,145	1,732	397
Expected credit loss ratio		0.01%-0.05%	0.01-5%	0.01-25%	0.01-50%	0.01%-100%
Expected credit losses (impairment loss for customers analysed at grouped level)	**(87)**	(46)	(23)	(9)	(6)	(3)
Individual analysis						
Gross value of trade receivables analysed on individual level	**3,726**	452	210	712	260	2,092
Impairment loss on individual customers	**(2,848)**	-	(135)	(603)	(167)	(1,943)
Total net trade receivables	**60,112**	**45,656**	**9,849**	**2,245**	**1,819**	**543**

For collaterals established on receivables, please refer to note 18.

14. Cash and cash equivalents

	31 December 2018	**31 December 2017**
Cash in hand and at bank	15,147	8,907
Total cash and cash equivalents	**15,147**	**8,907**

Apart from cash disclosed in the statement on financial position, the Parent Company has a separate bank account for the funds of the Company Social Benefits Fund (ZFŚS) which are presented under other receivables in their net amount together with liabilities towards the ZFŚS and receivables under loans granted. As at 31 December 2018, these funds amounted to PLN 3 thousand (as at 31 December 2017: PLN 110 thousand). The Parent Company may use these funds only in the manner provided for by the law with regard to the ZFŚS funds.

As a result of implementation of VAT split payment mechanism, the Parent Company has dedicated VAT bank accounts, where VAT amounts from invoices settled by the vendors of TOYA S.A. will be transferred. Funds collected in these VAT accounts may only be used for VAT settlements concerning invoices received and VAT settlements with the tax office. As at December 31, 2018, the cash balance in these VAT accounts totalled PLN 1 thousand.

Apart from the ZFŚS funds, as at 31 December 2018 and 31 December 2017, the Group did not have any cash of limited disposability.

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

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

12 months ended 31 December 2018		**Adjustments**				
	Balance sheet change	**Impact of IFRS 9 implementation**	**Measurement of cash in foreign currencies**	**Currency translation differences**	**Actuarial gains/losses recognised in comprehensive income**	**Change in statement of cash flows**
Change in trade and other receivables	(9,798)	(104)	-	613	-	(9,289)
Change in inventories	(63,370)	-	-	870	-	(62,500)
Change in provisions	816	-	-	(3)	-	813
Change in trade and other payables	16,818	-	-	(839)	-	15,979
Change in employee benefit liabilities	738	-	-	(56)	(56)	626
Change in cash	6,240	-	(249)	(8)	-	5,983

12 months ended 31 December 2017		**Adjustments**				
	Balance sheet change	**Discount of receivables**	**Measurement of cash in foreign currencies**	**Currency translation differences**	**Actuarial gains/losses recognised in comprehensive income**	**Change in statement of cash flows**
Change in trade and other receivables	(4,561)	(44)	-	(1,931)	-	(6,536)
Change in inventories	(20,611)	-	-	(2,941)	-	(23,552)
Change in provisions	27	-	-	3	-	30
Change in trade and other payables	18,217	-	-	2,862	-	21,079
Change in employee benefit liabilities	1,872	-	-	144	(39)	1,977
Change in cash	1,487	-	773	(90)	-	2,170

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

15. Share capital

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

All of the shares are paid up. The table below presents the ownership structure and percentage stakes held in the Parent Company as at 31 December 2018:

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%
Others - 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%**

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.

As a consequence of the above changes, reserve capital in the amount equal to the nominal value of redeemed own shares (i.e. PLN 328,861.50) was created, from reduction of the Company's share capital, in accordance with article 457 §2 of the Commercial Companies Code.

16. Retained earnings and dividend per share

On 26 June 2018, the General Shareholders' Meeting of TOYA S.A. approved the financial statements of TOYA S.A. for 2017, and resolved to allocate the profit for 2017 in the amount of PLN 35,378 thousand as follows:
.

- PLN 35,270 thousand for dividend payment,
- PLN 108 thousand to supplementary capital.

In line with the provisions of the Commercial Companies Code, retained earnings are used to create statutory reserve funds, to which at least 8% of the profit generated in a given financial year is transferred until the statutory reserve funds reach at least one-third of the share capital, i.e. in the case of the Parent Company – PLN 2,501 thousand as at 31 December 2018. These statutory reserve funds are exempt from distribution among shareholders and may only be used to cover losses. As at 31 December 2018 and 31 December 2017, the statutory reserve funds exempt from distribution amounted to PLN 4,372 thousand.

The remaining portion of the retained earnings, in the amount of PLN 143,029 thousand as at 31 December 2018, represents accumulated profit from previous years, of which PLN 121,392 thousand represent the accumulated profit of the Parent Company and may be allocated to the payment of dividend.

Dividend paid per share:

	12 months ended 31 December	
	2018	**2017**
Dividend paid	35,270	-
Weighted average number of ordinary shares ('000) (*)	75,042	77,466
Dividend per share (PLN)	**0.47**	**-**

(*) weighted average number of ordinary shares calculated in line with calculation of earnings per share in note 30.

Management Board of the Company did not provide recommendation on 2018 profit distribution.

17. Loans and borrowings liabilities

	31 December 2018	31 December 2017
Bank loan liabilities, including	**82,045**	**28,489**
– long-term	-	-
– short-term	82,045	28,489

Changes in bank loans are presented in the table below:

	Bank loans
As at 1 January 2017	**30,759**
Increase in loans	14,869
Interest for the period (note 28)	437
Interest repaid	(476)
Loan repaid	(17,100)
As at 31 December 2017	**28,489**
Increase in loans	53,515
Interest for the period (note 28)	938
Interest repaid	(897)
As at 31 December 2018	**82,045**

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

Description of loan agreements:

Object and value of agreement	Name of the Bank	Loan amount as per agreement as at 31 December 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 on 8 March 2019, see note: 34.3
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		-	-	-			

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

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

The table below presents collaterals for repayment of the loans:

Type of security	31 December 2018	31 December 2017
Mortgage	62,500	62,500
Transfer of title to inventory	67,000	56,000
Assignments of claims	40,999	41,018
Total restricted assets	**170,499**	**159,518**

The value of mortgage collaterals was determined as a sum of collaterals established for individual banks, in the amounts required by the banks (in the amount resulting from the value of the secured liability or in the amount resulting from the appraisal made by a real estate appraiser for the bank's needs). The book value of mortgaged assets was PLN 11,322 thousand as at 31 December 2018 (PLN 11,668 thousand as at 31 December 2017). Amount representing value of transfer of title to inventory was determined at the maximum amount resulting from agreements. The values of other types of security were determined at the carrying amounts of the assets provided as security as at 31 December 2018 and 31 December 2017.

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

Effective interest rate for loans

The effective interest rates are close to the nominal interest rates calculated in line with the terms of the agreements described above. As at 31 December 2018, the weighted average cost of loans was 2.11%.

Defaults under loan agreements

As at 31 December 2018, the Group did not default on its debt repayment obligations or on any other of its obligations under loan agreements in a manner which would result in an acceleration of debt repayment.

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

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

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

18. Trade and other payables

	31 December 2018	1 January 2018 restated	31 December 2017
Trade payables to related parties	-	17	17
Trade payables to third parties	58,792	44,462	44,713
Total trade payables	**58,792**	**44,479**	**44,730**
Tax liabilities	1,681	1,668	1,668
Accruals	1,021	762	762
Liability due to expected goods returns	984	-	-
Prepayments received	721	256	-
Other payables to third parties	1,265	481	480
Deferred income	-	-	6
Total other current payables	**5,672**	**3,167**	**2,916**
Total	**64,464**	**47,646**	**47,646**

An average payables payment period is 61 days.

During the year ended 31 December 2018, the Group recognized revenues in the amount of PLN 256 thousand, which were classified as prepayments at the beginning of the period.

19. Liabilities from employee benefits

	31 December 2018	31 December 2017
Provisions for retirement benefits, disability pensions and for death benefits	402	305
Liabilities from employee benefits – non-current portion	**402**	**305**
Provisions for retirement benefits, disability pensions and for death benefits	7	6
Payroll liabilities	6,037	5,578
Unused holidays	992	811
Liabilities from employee benefits – current portion	**7,036**	**6,395**

The Parent Company pays retirement benefits, disability pensions and death benefits in accordance with the Labour Code, in the amount of a one month's remuneration. The amount of provision for retirement benefits, disability pensions and death benefits as at 31 December 2018 and 31 December 2017 was estimated by an actuary. The basic assumptions were as follows:

	31 December 2018	31 December 2017
Discount rate (risk-free rate)	2.73%	3.25%
Growth rate of remunerations		
- in the first year	4.00%	2.50%
- in the subsequent years	2.50%	2.50%

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

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

The statement of actuarial gains and losses is presented below.

	31 December 2018	31 December 2017
Current value of liability as at 1 January	**311**	**251**
Current service cost	32	26
Net interest on net liability	10	9
Actuarial gains or losses, including resulting from:	56	39
changes in demographic assumptions	*(1)*	*1*
changes in financial assumptions	*31*	*13*
ex post adjustments of actuarial assumptions	*26*	*25*
Past service cost	-	-
Benefits paid	-	(14)
Current value of liability as at 31 December	**409**	**311**

Total expenses recognised in profit or loss in respect of future employee benefits amounted to PLN 42 thousand in 2018 and PLN 35 thousand in 2017 and were recognised in administrative expenses. Actuarial losses incurred in 2018 amounted to PLN 56 thousand (in 2017: PLN 39 thousand) and were recognised in other comprehensive income.

Sensitivity analyses of liability under defined benefits (retirement benefits, disability pensions and death benefits) to changes in main weighted estimates as at 31 December 2018 are as follows:

Assumption	**Changes in the assumption**	**Increase in the assumption**	**Decrease in the assumption**
technical discount rate	1%	(47)	57
salary rise in the Company	1%	56	(48)
turnover ratio	1%	(22)	24

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

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

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

Name of benefit	**1st year**	**2nd year**	**3rd year**	**4th year**	**5th year**	**6th year (and further)**
Retirement benefit	-	-	12	37	41	1,188
Disability pension	2	2	2	1	1	18
Death benefit	7	7	8	8	8	287
Total	**9**	**9**	**22**	**46**	**50**	**1,493**

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

20. Finance lease – the Group as a lessee

	31 December 2018	31 December 2017
Minimum lease payments		
payable up to 1 year	904	475
payable between 2 and 5 years	2,562	1,188
Total	**3,466**	**1,663**
Future interest expenses	(238)	(124)
Present value of finance lease liabilities	**3,228**	**1,539**
of which:		
payable up to 1 year	807	425
payable between 2 and 5 years	2,421	1,114

As at 31 December 2018, the Group leased two servers under finance lease agreements entered into in 2014 and in 2017, trucks under finance lease agreement entered into in 2017 and forklifts under the agreement entered into in 2018. Total net amount of the lease liability as at the date of the agreements is PLN 4,742 thousand. The agreements were concluded for a period of 60 months. Monthly lease payments amount to approx. PLN 80 thousand. The terms and conditions of the agreements were not different from terms and conditions typical to this type of agreements.

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

	Short-term	Long-term	Total
As at 1 January 2018	**425**	**1,114**	**1,539**
Repayment of principal	(859)	-	(859)
Entering into new lease agreements	638	1,910	2,548
Reclassification	603	(603)	-
As at 31 December 2018	**807**	**2,421**	**3,228**

21. Operating lease – the Group as a lessee

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

The costs incurred by the Parent Company in connection with the operating leases amounted to PLN 3,359 thousand in 2018 (PLN 3,105 thousand in 2017). These include:

- rent and service charges concerning the warehouse,
- lease payments concerning the passenger cars rental, administrative charges and additional services,
- fees for perpetual usufruct.

The costs incurred by subsidiaries in connection with lease of office premises and warehouses amounted to PLN 2,464 thousand in 2018 (PLN 2,520 thousand in 2017).

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

Total future minimum lease payments for the warehouse and office premises in Nadarzyn and in subsidiaries, lease payments for passenger cars and fees for perpetual usufruct (amounts include only future rent payment, without service and utilization fees) amount to:

	31 December 2018	31 December 2017
up to 1 year	4,737	4,674
1–3 years	3,603	5,480
3–5 years	259	169
more than 5 years	4,339	1,340
Total	**12,938**	**11,663**

The warehouse lease agreement was signed by the Parent Company in 2006 and is valid (in accordance with the latest annex) until 31 January 2022. The warehouses and office premises lease agreements entered into by the subsidiaries are valid until 30 November 2019 and 31 December 2019. Subsequent to the end of the financial year, subsidiary TOYA Romania entered into new warehouse and office rental agreement (see note 34.4).

In 2017, the Parent Company entered into a general passenger car lease agreement. As at 31 December 2018, a few dozens of passenger cars had been provided for use under the agreement, in place of the cars provided under previous general lease agreement from 2012. The agreement was concluded for a period of 36 months. After the end of the lease term, the Company has the option to purchase the cars at the price typical for operating lease agreements

22. Provisions

	Provisions for guarantee repairs	Other provisions	TOTAL
As at 1 January 2018	**384**	**-**	**384**
Provision created	1,200	-	1,200
Provision reversed	(384)	-	(384)
As at 31 December 2018	**1,200**		**1,200**
Short-term as at 31 December 2018	1,200	-	1,200
As at 1 January 2017	**347**	**10**	**357**
Provision created	385	-	385
Provision reversed	(346)	(10)	(356)
Currency translation differences	(2)	-	(2)
As at 31 December 2017	**384**	**-**	**384**
Short-term as at 31 December 2017	384	-	384

The provision for guarantee repairs is created in accordance with the policy described in note 3.24. The obligation of the Company to incur the costs of guarantee repairs results from general provisions on surety and guarantee granted to certain product groups. It is to be used within less than 12 months, and the amount is estimated based on historical costs of guarantee repairs borne; thus, the uncertainty towards its value should not have a material impact on the Company's future results. Provisions are recognised in the financial result under "costs of goods for resale sold".

23. Operating segments

Identification of operating and reporting segments

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

The Group specifies three operating and reporting segments for its activities:

- sales on local markets (Poland, Romania and China) to retail networks,
- sales on local markets (Poland, Romania and China) – wholesale market,
- export sales.

As part of the retail networks segment, the Group cooperates with large retail networks throughout Poland and Romania. Wholesale on all markets where the Group holds its entities is conducted through a network of wholesalers, authorised retail stores and sales representatives. Foreign markets are supported using sales department of the Parent Company and subsidiary, Yato Tools (Shanghai) Co., Ltd. The segment of other sales comprises mainly sales through a stationary store and online store. As at 31 December 2018, this segment did not meet separate reporting criteria. As a result, it is presented as other trading activities.

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

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

As at 31 December 2018, the Group's assets amounted to PLN 346,113 thousand, and the Group's liabilities amounted to PLN 161,414 thousand and were related only to trading activities. The Management Board of the Parent Company does not examine the assets of the Group for each segment separately.

The Parent Company has no non-current assets located abroad, although such assets are held by the subsidiaries. The net value of property, plant and equipment located in Romania as at 31 December 2018 is PLN 1,969 thousand and located in China is PLN 2,451 thousand (as at 31 December 2017: Romania – PLN 2,029 thousand, China – PLN 2,525 thousand).

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

12 months ended 31 December 2018	*EXPORT SALES*	*WHOLESALE MARKET*	*RETAIL NETWORKS*	*OTHER*	Total
Sales revenue					
Sales to external customers	125,926	179,514	60,524	14,775	380,739
Total segment revenue	**125,926**	**179,514**	**60,524**	**14,775**	**380,739**
Cost of goods sold					
Sales to external customers	(80,718)	(110,726)	(41,643)	(7,161)	(240,248)
Total costs of goods sold	**(80,718)**	**(110,726)**	**(41,643)**	**(7,161)**	**(240,248)**
Gross profit	**45,208**	**68,785**	**18,884**	**7,614**	**140,491**
Gross margin	**36%**	**38%**	**31%**	**52%**	**37%**
Gross profit – all operating segments					**140,491**
Selling costs					(67,069)
Administrative expenses					(20,072)
Other operating revenue					2,742
Other operating expenses					(663)
Operating profit					**55,429**
Financial revenue					68
Financial expenses					(1,022)
Profit before tax					**54,474**
Income tax					(10,708)
Net profit					**43,767**

12 months ended 31 December 2017	*EXPORT SALES*	*WHOLESALE MARKET*	*RETAIL NETWORKS*	*OTHER*	Total
Sales revenue					
Sales to external customers	112,402	162,562	63,296	9,281	347,541
Total segment revenue	**112,402**	**162,562**	**63,296**	**9,281**	**347,541**
Cost of goods sold					
Sales to external customers	(72,962)	(100,660)	(44,837)	(4,726)	(223,185)
Total costs of goods sold	**(72,962)**	**(100,660)**	**(44,837)**	**(4,726)**	**(223,185)**
Gross profit	**39,440**	**61,902**	**18,459**	**4,555**	**124,356**
Gross margin	**35%**	**38%**	**29%**	**49%**	**36%**
Gross profit – all operating segments					**124,356**
Selling costs					(56,880)
Administrative expenses					(17,686)
Other operating revenue					1,850
Other operating expenses					(836)
Operating profit					**50,804**
Financial revenue					58
Financial expenses					(466)
Profit before tax					**50,396**
Income tax					(10,090)
Net profit					**40,306**

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

24. Sales revenue

	12 months ended 31 December 2018	2017
Sales revenue		
Sales of goods for resale	380,739	347,541
Total sales revenue	**380,739**	**347,541**

The geographical structure of revenues from sales has been presented below:

	12 months ended 31 December 2018		12 months ended 31 December 2017	
	Sales revenue	**Share**	**Sales revenue**	**Share**
Baltic countries	15,264	4.0%	14,659	4.2%
Ukraine	15,112	4.0%	11,141	3.2%
Belarus	11,876	3.1%	8,391	2.4%
Hungary	10,971	2.9%	8,721	2.5%
Russia	9,782	2.6%	11,680	3.4%
Czech Republic	8,806	2.3%	8,174	2.4%
Germany	7,927	2.1%	8,962	2.6%
Europe – other EU countries	10,287	2.7%	10,242	2.9%
Europe – other non-EU countries	9,269	2.4%	5,955	1.7%
Asia	14,844	3.9%	14,466	4.2%
America	6,183	1.6%	3,264	0.9%
Africa	5,329	1.4%	6,410	1.8%
Australia	295	0.1%	336	0.1%
Total export	125,944	33.1%	112,402	32.3%
Poland	196,175	51.5%	181,507	52.2%
Romania	40,446	10.6%	36,960	10.6%
China	18,174	4.8%	16,673	4.8%
Total sales revenue	**380,739**	**100.0%**	**347,541**	**100.0%**

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

25. Costs by type and cost of goods for resale sold

	12 months ended 31 December	
	2018	2017
Amortisation and depreciation	4,451	3,649
Material and energy consumption	3,701	3,711
Third-party services	24,331	17,025
costs of transportation	7,687	5,993
rental costs	4,966	2,746
IT and telecommunications costs	1,865	1,474
leasing	789	775
legal, audit and consulting costs	986	1,057
Taxes and fees	1,160	1,031
Costs of employee benefits	40,669	33,662
Other costs by type	12,829	15,488
Value of goods for resale and materials sold	240,248	223,185
Total costs by type and value of goods for resale sold	**327,389**	**297,751**

Selling costs, including:	67,069	56,880
amortisation and depreciation	3,413	2,492
costs of employee benefits	27,696	22,041
Impairment loss on receivables	856	60
Administrative expenses, including:	20,072	17,686
amortisation and depreciation	1,038	1,157
costs of employee benefits	12,973	11,621
Value of goods for resale sold	240,248	223,185
Total	**327,389**	**297,751**

The Group does not conduct important R&D works.

26. Cost of employee benefits

	12 months ended 31 December	
	2018	**2017**
Payroll	34,208	27,202
Cost of social insurance	5,376	5,414
Cost of provision for unused leaves	185	297
Cost of retirement benefits	199	21
Cost of other employee benefits	701	728
Total cost of employee benefits	**40,669**	**33,662**

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

	12 months ended 31 December	
	2018	**2017**
Total employees	397	367

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

27. Other operating revenue and expenses

	12 months ended 31 December	
	2018	2017
Gain on liquidation of property, plant and equipment	92	93
Surplus of FX gains over FX losses on operating activities	2,226	1,239
Revenue from other sales	148	142
Motor insurance claims received from counterparties (net)	76	113
Interest received	8	2
Other operating revenue	192	261
Total other operating revenue	**2,742**	**1,850**

	12 months ended 31 December	
	2018	2017
Loss on liquidation of property, plant and equipment	149	13
Cost of other sales	157	126
Penalties and fines paid	-	7
Court and debt recovery fees	28	6
Interest paid to the state budget and to counterparties	1	107
Motor insurance claims, on balance with compensation received	-	158
Donations given	18	12
Receivables written-off	3	278
Other	307	129
Total other operating expenses	**663**	**836**

28. Financial revenue and expenses

	12 months ended 31 December	
	2018	2017
Interest on cash in bank accounts	68	35
Interest on long-term receivable	-	23
Total financial revenue	**68**	**58**

	12 months ended 31 December	
	2018	2017
Interest and commissions on loans	938	437
Interest on finance lease liabilities	83	29
Total financial expenses	**1,021**	**466**

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

29. Income tax

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

- from 1 January 2018 to 31 December 2018,
- from 1 January 2017 to 31 December 2017.

	12 months ended 31 December	
	2018	**2017**
Current tax	11,412	10,447
Deferred tax	(705)	(357)
Total income tax	**10,708**	**10,090**

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

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

	12 months ended 31 December	
	2018	**2017**
Profit before tax	54,474	50,396
Tax rate applicable in the period	19%	19%
Tax calculated at the applicable tax rate	**10,350**	**9,575**
Tax effect of the following items:		
- permanent tax differences – revenues	-	(12)
- permanent tax differences – expenses	398	471
- temporary tax differences for which no asset was created	(35)	8
- adjustment of tax from previous years	5	18
Technology credit and other tax credits	(93)	(26)
Difference between tax rates applicable in other countries (in Romania: 16%, in China: 25%)	83	56
Income tax recognised in profit or loss	**10,708**	**10,090**

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

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

Deferred income tax

	As at 31 December 2018			As at 1 January 2018	Recognised in profit or loss/equity
	Assets	Liabilities	Net	Net	
Non-current assets					
Property, plant and equipment under finance lease agreements and difference between tax and accounting depreciation rates of property, plant and equipment	-	1,345	(1,345)	(905)	(440)
Current assets			-	-	-
Write-down of inventories and asset for expected returns	1,595	109	1,486	1,411	75
Write-down of receivable and balance-sheet valuation of receivables denominated in foreign currencies	496	64	432	196	236
Balance-sheet valuation of cash denominated in foreign currencies	-	-	-	1	(1)
Long-term liabilities					
Liabilities from finance leases	459	-	459	211	248
Liabilities from employee benefits	76	-	76	58	18
Short-term liabilities					
Provisions for liabilities	656	-	656	304	352
Provisions for unused vacation and bonuses	794	-	794	775	19
Accrued and not paid interest on loans	11	-	11	3	8
Liabilities from finance leases	153	-	153	81	72
Provisions for guarantee repairs	230	-	230	70	160
Total assets and liabilities	**4,470**	**1,518**	**2,952**	**2,205**	**747**
Total deferred income tax, of which	**4,470**	**1,518**	**2,952**	**2,205**	**747**
– recognised in profit or loss					705
– recognised in equity (*)					42

	As at 31 December 2017			As at 1 January 2017	Recognised in profit or loss/equity
	Assets	Liabilities	Net	Net	
Non-current assets					
Property, plant and equipment under finance lease agreements and difference between tax and accounting depreciation rates of property, plant and equipment	-	905	(905)	(595)	(310)
Trade and other receivables	-	-	-	(8)	8
Current assets			-	-	-
Write-down of inventories	1,411	-	1,411	1,062	349
Write-down of receivable and balance-sheet valuation of receivables denominated in foreign currencies	257	61	196	278	(82)
Balance-sheet valuation of cash denominated in foreign currencies	1	-	1	-	1
Long-term liabilities					
Liabilities from finance leases	211	-	211	60	151
Liabilities from employee benefits	58	-	58	45	13
Short-term liabilities					
Provisions for liabilities	304	-	304	261	43
Provisions for unused vacation and bonuses	775	-	775	671	104
Accrued and not paid interest on loans	3	-	3	9	(6)
Liabilities from finance leases	81	-	81	35	46
Provisions for guarantee repairs	70	-	70	62	8
Total assets and liabilities	**3,171**	**966**	**2,205**	**1,880**	**325**
Total deferred income tax, of which	**3,171**	**966**	**2,205**	**1,880**	**325**
– recognised in profit or loss					357
– recognised in equity (*)					(32)

(*) applies to deferred tax from actuarial losses recognised in other comprehensive income and exchange differences from translation of deferred tax assets recognised in other comprehensive income and adjustments resulting from adoption of new IFRS standards as of 1 January 2018 recognized in retained earnings.

Of the above-reported value of deferred tax assets, the amount of PLN 170 thousand, as at 31 December 2018, concerns items that the Parent Company expects to realise over a period exceeding 12 months. There are no temporary differences related to investments in subsidiaries for which a deferred tax provision should be created.

30. Earnings per share

	12 months ended 31 December	
	2018	**2017**
Net profit	**43,767**	**40,306**
Weighted average number of ordinary shares ('000)	75,042	78,331
Adjustment for weighted average number of own shares purchased ('000)	-	(865)
Adjusted weighted average number of ordinary shares ('000)	**75,042**	**77,466**
Basic earnings per share from continuing operations (PLN)	**0.58**	**0.52**
Diluted net profit	43,767	40,306
Weighted average number of ordinary shares used for calculating basic earnings per share ('000)	75,042	77,466
Dilution impact		
Adjusted weighted average number of ordinary shares used for calculating diluted earnings per share ('000)	75,042	77466
Diluted earnings per share from continuing operations (PLN)	**0.58**	**0.52**

Basic earnings per share were calculated by dividing the net profit by the weighted average number of ordinary shares during the period. Weighted average number of ordinary shares was calculated taking into account adjustment for own shares purchased in accordance with the offer for purchase of shares of TOYA SA announced on 4 September 2017. The acquisition of own shares was completed on 27 September 2017. As of 31 December 2017 the acquired own shares were held by the Company. After the balance sheet date, on 27 February 2018, the Extraordinary General Shareholders' Meeting adopted a resolution to redeem own shares (see note 35.2).

As at 31 December 2018 the Group had no potential dilutive instruments.

31. Financial guarantees granted and received

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

No	Counterparty	Type of guarantee	Subject matter and value	Date of expiry
1	Bank Handlowy w Warszawie S.A.	Guarantee of payment for the lease of warehouses in Nadarzyn	Bank guarantee 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.

32. Contingent assets and liabilities

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

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

On 21 November 2017, TOYA S.A. received request from TOYA Development for payment of PLN 3,076 thousand (the "Request"), due to the legal defect of the real property which was contributed in kind to TOYA Development by TOYA S.A. on 6 April 2011, pursuant to Resolution No 1 of the Extraordinary General Shareholders' Meeting of TOYA Development. Based on legal opinions obtained, the Request has been considered as unfounded, due to the fact that the matter of compensation for damage resulting from the legal defect of the real property had already been regulated in the Agreement between the parties. As a result, in opinion of TOYA S.A., the Request received from TOYA Development has no valid factual and legal grounds. According to the Management Board of TOYA S.A., the probability that the payment will have to be made is low, therefore no provision for that purpose has been recognised in the consolidated financial statements as at 31 December 2018.

33. Transactions with related entities

In 2018 and 2017, the Group effected transactions with the following related parties:

- Toya Development Sp. z o.o. S.K. in liquidation – entity related through key management personnel,
- Grzegorz Pinkosz – President of the Management Board – key management personnel,
- Maciej Lubnauer – Vice-President of the Management Board – key management personnel,
- Piotr Mondalski – President of the Supervisory Board – key management personnel,
- Jan Szmidt – Vice-President of the Supervisory Board – key management personnel,
- Dariusz Górka – Member of the Supervisory Board – key management personnel,
- Grzegorz Maciąg – Member of the Supervisory Board – key management personnel,
- Michał Kobus - Member of the Supervisory Board since 29 June 2017 – key management personnel,
- Tomasz Koprowski – Member of the Supervisory Board – key management personnel until 29 August 2018,
- Wojciech Bartłomiej Papierak - Member of the Supervisory Board since 29 June 2017 – key management personnel,
- Beata Szmidt - Member of the Supervisory Board since 20 November 2018 – key management personnel.

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

Transactions with related entities (cont.)

	Trade and other receivables	Trade and other payables	Revenue from sales of goods	Purchase of goods and services	Remuneration for work	Financial revenue – interest	Dividend paid	Buyback of shares (*)
	31.12.2018		1.01.2018 - 31.12.2018					
Entities related through key management personnel	3	-	29	12	-	-	-	-
Key management personnel	-	-	-	-	2,625	-	19,576	-
Person closely-related with a key management personnel	-	-	-	-	-	-	1,522	-
Total	**3**	**-**	**29**	**12**	**2,625**	**-**	**21,098**	**-**
		31.12.2017	1.01.2017 - 31.12.2017					
Entities related through key management personnel	2	17	28	66	-	-	-	-
Key management personnel	-	-	-	-	2,248	23	-	9,693
Person closely-related with a key management personnel	-	-	-	-	-	-	-	1,088
Total	**2**	**17**	**28**	**66**	**2,248**	**23**	**-**	**10,781**

(*) As part of buyback of own shares transaction in 2017, the Company purchased shares from the following individuals (based on information provided to the Company by its shareholders) at the price of PLN 8.95 per share:

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

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

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

In the years ended 31 December 2018 and 31 December 2017, no receivables from related parties were written down.

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

Balances due to transactions with related entities are not insured.

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

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

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

	2018	2017
Remunerations and benefits under employment contracts and appointment contracts — Management Board	2,042	1,593
Social insurance (ZUS) costs borne by the Company – Management Board	88	39
Remunerations for positions held – Supervisory Board	583	655
Social insurance (ZUS) costs borne by the Company – Supervisory Board	94	110

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

34. Material events subsequent to the end of reporting period

35.1 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.

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

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.

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

On 4 March 2019, the Parent 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 40,000,000. 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.

34.2 Repayment of loan

On 8 March 2019, the Parent 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.

34.3 Conclusion of rental agreement by subsidiary

On 8 February 2019, subsidiary Toya Romania S.A. entered into new warehouse and office rental agreement. According to the agreement, new location will be made available for the Company on 1 November 2019. The agreement covers the period of 10 years.

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	

Person responsible for bookkeeping:

Date	Name and surname	Position	Signature
28.03.2019	Iwona Banik	Chief Accountant	