

R E P O R T
on activity of the Supervisory Board of Apator SA
for the period since 1st January 2010 till 31st December 2010

According to the stipulations of the Polish Commercial Companies Code and the Statute of Apator SA, the Supervisory Board submits to General Shareholders Meeting the report on its activity for the period since the 1st January 2010 till the 31st December 2010.

The report was prepared in accordance with Best Practice for WSE Listed Companies and it contains concise assessment of the situation of the Company including the assessment of internal control system and risk management system significant to the Company and the assessment of the operation of Supervisory Board.

I. Makeup of the Supervisory Board

The Supervisory Board of Apator SA is appointed for five year of common tenure.

Since the 1st January till the 21st June 2010 the Supervisory Board acted in the following makeup:

1. Janusz Marzygliński - Chairman of the Supervisory Board
2. Ryszard Wojnowski - Deputy Chairman of the Supervisory Board
3. Danuta Guzowska - Member of the Supervisory Board
4. Mariusz Lewicki - Member of the Supervisory Board
5. Krzysztof Kwiatkowski - Member of the Supervisory Board
6. Mariusz Pawlak - Member of the Supervisory Board

On 21st June 2010 the operation of the sixth tenure of the Supervisory Board was over and Ordinary General Shareholders Meeting nominated the Supervisory Board of the seventh tenure with the following makeup:

1. Janusz Marzygliński - Chairman of the Supervisory Board
2. Mariusz Lewicki - Deputy Chairman of the Supervisory Board
3. Danuta Guzowska - Member of the Supervisory Board
4. Krzysztof Kwiatkowski - Member of the Supervisory Board
5. Mariusz Pawlak - Member of the Supervisory Board

II. Supervisory Board Meetings

The Supervisory Board performing its duties had 7 meetings in the reporting period where it adopted 32 resolutions and took the positions in matters included in the agenda of the meetings. The meetings were held on the following dates: 2nd February, 30th March, 18th May, 21st June, 21st June (the first meeting of Supervisory Board of the following tenure), 23rd September and 27th October.

The minutes of the meetings of the Supervisory Board are made and stored with other documentation in the headquarters of the Company.

III. The report on activity of the Audit Committee

The Audit Committee of Supervisory Board acts within the Supervisory Board and it supports the actions of the Supervisory Board of Apator SA and it is its advisory body. The tenure of the Audit Committee is common for their members and it is the same as the tenure of Supervisory Board. The

minutes of meetings of the Audit Committee are made and stored with other documentation of Supervisory Board in the headquarters of the Company.

Since the 1st January till 21st June 2010 the Audit Committee operated in the makeup (according to 27/2010 resolution of the Supervisory Board) where the following members were included:

- Mariusz Lewicki – Chairman of the Committee,
- Mariusz Pawlak – Member of the Committee,
- Krzysztof Kwiatkowski – Member of the Committee,

On the 21st June 2010 the Supervisory Board of the following tenure operated with the makeup with nominated (by resolution no. 24/2010) the members of the Audit Committee:

- Mariusz Lewicki – was granted the duties of Chairman of the Committee,
- Mariusz Pawlak
- Krzysztof Kwiatkowski

Mr. Krzysztof Kwiatkowski is an independent member of the Audit Committee.

The Audit Committee performing its duties had 6 meetings in the reporting period when it adopted the resolution on recommendation to approve by Supervisory Board financial statements and the reports of Executive Board for 2009 and took the positions in matters in the agenda of the meetings. The meetings were held on the following dates: 2nd February, 30th March, 30th April, 18th May, 21st June, 23rd September.

During the meeting on the 2nd February 2010 the Audit Committee analysed:

- financial risks identified by Apator SA
- monitoring system for risks,
- limitation method of particular risks

The Audit Committee did not raise any objections to the effectiveness of risk management in the Company. At the meeting the Audit Committee familiarized with the statement confirming the independence of the entity authorized to audit financial statements – the entity – Korycka, Budziak & Auditorzy Sp. z o.o. and the independence of chartered auditors performing the financial audit and it did not raise any objections to the statement.

At the meeting on the 30th April 2010 the Audit Committee familiarized with individual financial statement of APATOR SA for 2009 and consolidated financial statement of Grupa Apator SA with the reports of Executive Board.

Next at the meeting on the 18th May 2010 the Audit Committee made the audit of the statements and made the analysis of the letter of chartered auditor regarding the audit of statements for ended year 2009.

Based on the resolution no.1/2010 the Audit Committee recommended to Supervisory Board of Apator SA to submit to Ordinary General Shareholders meeting the application to approve financial statements for 2009.

Moreover, in 2010 the Audit Committee analysed:

- improvement of the process of preparation of consolidated financial statements, by among other things elaboration of the corporate guideline containing consolidation package

- security of data processed and collected in Apator SA by use of computer equipment
- level of hedging transactions in Grupa Apator

IV. Information on performance of duties in 2009 related to Ordinary General Shareholders Meeting of Apator SA

The Supervisory Board performing its duties on the 18th May 2010 gave positive opinion of the motions submitted to Ordinary General Shareholders Meeting held on the 21st June 2010 regarding:

- reports of the Executive Board on Activity of Apator SA and Grupa Apator in 2009 ,
- individual and consolidated financial statements for 2009 ,
- establishment of reserve fund for the payment of dividend,
- profit distribution of the Company for financial year 2009,
- establishment of number of members of the Supervisory Board,
- nomination of the members of the Supervisory Board,
- establishment of earnings of the members of Supervisory Board,
- amendments to § 7 of the Statute of Apator SA
- authorisation of Supervisory Board to establish unified content of the Statute of Apator SA
- completion of the Programme for acquisition of own shares for their redemption and reduction of share capital dated the 8th June 2009
- opening of the Programme for acquisition of own shares and reduction of share capital.

On the 21st June 2010 Supervisory Board gave negative opinion to the proposal submitted by the shareholder – Mr. Zbigniew Jaworski regarding to establish the auditor for special affairs to make the audit in order to establish how the activity of the Company in 2005-2009 was hedged against the risk of the change in currency rates.

Moreover, Supervisory Board has presented to Ordinary General Shareholders Meeting the report on its activity in 2009 and appealed for its approval.

The Supervisory Board performing its duties gave positive opinion on the 27th October 2010 on the applications submitted to Ordinary General Shareholders Meeting held on 6th December 2010 regarding amendments to § 6 of the Statute of Apator SA.

The members of the Supervisory Board according to the rules of corporate governance attended the meeting of Ordinary General Shareholders Meeting in the makeup that enabled to give substantive answers the questions asked.

V. Personnel policy

The competence of the Supervisory Board includes:

- establishment of a number of members of the Executive Board of the Company,
- appointment and dismissal of the members of the Executive Board of the Company,
- nomination of the President of the Executive Board,
- suspension for serious reasons from the duties all or particular members of the Executive Board,

- establishment of earnings for the members of the Executive Board including its motivated character.

On the day of Ordinary General Shareholders Meeting (the 21st June 2010) the tenure of the Executive Board was over with the makeup:

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- Janusz Niedźwiecki – President of the Executive Board,
- Tomasz Habryka – Member of the Executive Board,
- Jerzy Kuś – Member of the Executive Board

On the same day the Executive Board nominated for the next tenure the Executive Board with the makeup unchanged:

- Janusz Niedźwiecki – President of the Executive Board,
- Tomasz Habryka – Member of the Executive Board,
- Jerzy Kuś – Member of the Executive Board

The tenure of the Executive Board lasts three years and it ends on the day of the Ordinary General Shareholders Meeting of Apator SA to be held in 2013.

The remuneration of the Members of the Executive Board was established based on transparent procedures and principles including its motivated character and provision of effectiveness and fluent management of the Company. The remuneration corresponded with the criteria of the scope of responsibility resulting of the function performed remaining in reasonable relation to the level of remuneration of the members of the executive boards in similar companies, particularly in public companies. The remuneration of the members of the Executive Board in 2010 was in total 1.583 000 PLN, including bonuses and awards in amount of 510 000 PLN,, that is 32%.

In the reporting period the Executive Board did not make use of entitlements specified in art. 383 of the Polish Commercial Companies Code i.e.:

- it did not suspend from the duties of particular or all the members of the Executive Board,
- it did not delegate members of the Supervisory Board for temporary performance of the duties of members of the Executive Board.

In the opinion of the Supervisory Board, the Executive Board performed its duties according to all legal requirements and its job contributed to the increase of the goodwill of Apator SA and Grupa Apator. The Supervisory Board appeals to General Shareholders Meeting to give the vote of approval to all the members of the Executive Board.

VI. The scope of application of Best Practice for WSE Listed Companies by Apator SA

Apator SA observes the principles accepted and included in the "Best Practice for WSE Listed Companies, except:

- Rule I.1 Broadcasting of General Meetings over internet due to lack of interest by shareholders of the Company and additional costs to be born by the Company concerning the direct broadcasting
- Rule III.6 At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company

Since the 21st June 2010 the Supervisory Board of Apator SA consists of five members where one meets the criteria of being independent from the company.

VII. The application of Best Practice for WSE Listed Companies by the Supervisory Board

The Supervisory Board acts according to the rules of corporate governance. Last year there was no case of breaching of any rules of Best Practice for WSE Listed Companies accepted and applied by the Supervisory Board.

The members of the Supervisory Board fulfilled personally their duties regarding the meetings of the Supervisory Board. Moreover they attended the meetings of the Executive Board and General Shareholders Meetings and advised about the buying and selling transactions of shares which next were announced to the public.

The remuneration of the members of the Supervisory Board was in reasonable relation to the economical results of Apator SA and it was 333 000 PLN. The Chairman of the Supervisory Board has been receiving 5 000 PLN monthly but every member of the Supervisory Board has received 4500 PLN monthly.

On the 21st June 2010 Ordinary General Shareholders Meeting raised the earnings of the Chairman of the Supervisory Board to 6000 PLN but of members of Supervisory Board to 5500 PLN per month.

The members of the Supervisory Board in their behaviour followed the interest of the Company and independence of opinions and judgments.

There were no situations where any member of the Supervisory Board had to confirm the possibility of existence of connections of economical nature, family or other nature that may have the influence on its standpoint for the matter being considered by the Supervisory Board with the shareholder holding shares representing not less than 5% of total number of votes at General Shareholders Meeting.

In the reporting period also there were no situations in result of which members of the Supervisory Board had to advise about existing conflict of interests or possibility its arising and in effect of it they had to restrain from taking part in the discussion at the meeting of the Supervisory Board and from voting on the resolution related to the conflict of interests.

VIII. The appointment of the company for auditing of financial statements

The Supervisory Board based on the resolution no. 41/2008 dated the 19th December 2008 made the appointment of Korycka, Budziak & Audytorzy Sp z o.o. for auditing and reviewing of financial statements for 2009 and 2010.

The following circumstances have been taken into account by the Supervisory Board while taking the decision:

- rules of corporate governance ,
- good cooperation during the previous periods,
- reputation of Korycka, Budziak & Audytorzy Sp. z o.o.,

The Supervisory Board of Apator SA at the meeting on the 28th October 2009 bearing in mind the recommendation of Audit Committee maintained its appointment of chartered auditor – Korycka, Budziak & Audytorzy Sp z o.o.

The decision maintained is in accordance with Best Practice for SWE Listed Companies that requires from the Supervisory Board to change the body entitled for auditing of financial statement at least once per seven financial years.

IX. The assessment of financial statements of Apator SA and Grupa Apator for 2010

Apator SA prepares individual and consolidated financial statements according the International Accounting Standards („IAS”) and International Financial Reporting Standards („IFRS”). Moreover, financial statements are prepared according to the Regulation of Ministry of Finance dated the 19th February on current and regular information being transferred by issuers of securities and the conditions to be considered as equivalent the information required by law of the country not being the member of EU.

The Supervisory Board supervised the process of preparing the financial statements. The Supervisory Board based on the recommendation of the Audit Committee at the meeting held on the 17th May 2011 made the assessment of financial statements of Apator SA and Grupa Apator prepared by the Executive Board. The Supervisory Board confirms that financial data presented in regular reports for all the financial periods in 2010 are reliable, correct and real and they are prepared according to obligatory accounting rules being used on permanent basis and based on correctly kept accounting books.

X. The assessment of activity of the Company and Grupa Apator

The Supervisory Board has been supervising on permanent basis the activity of the Company and operation of the Executive Board by:

- analysis of documents being received from the Executive Board on request of the Supervisory Board,
- obtaining the information and detailed explanations of members of the Executive Board and other employees of the Company during the meetings of the Supervisory Board,
- attendance the meetings of the Executive Board by members of the Supervisory Board,
- activity of the Audit Committee,
- activity of chartered auditor who on behalf of the Supervisory Board carried out the audit and made the reviewing of financial and accounting documentation and based on it prepared financial statements.

In 2010 the Supervisory Board analyzed and supervised among other things:

- actions leading to the sale of the property and the construction of the new Company in Pomeranian Special Economic Zone ,
- sale to institutional investors the package of 1 million shares of Apator SA by Apator Mining Sp. z o.o.,
- change of organization structure of Apator SA taking into account changes in sales and design process,
- extension of the subject of activity of Apator SA for the needs related to the Pomeranian Special Economic Zone ,
- preparation the strategy of Grupa Apator in 2011-2013,
- plans of the activity of Apator SA and entities of Grupa Apator,

- optimization of the costs of the activities of Apator SA and Grupa Apator,
- profitability of domestic sales and export
- performance of dividend policy including payment of advance payment towards dividend
- operation of Smart Metering Team,
- matter concerning the submission by Mr. Zbigniew Jaworski - the shareholder the application to nominate chartered auditor for special affairs and taking position in this matter due to a summons to appear in District Court in Toruń,
- the verdict of District Court in Toruń concerning the dismissal of the application of Mr.Zbigniew Jaworski – the shareholder concerning the nomination of chartered auditor for special affairs,
- matter concerning the notification submitted by Mr. Zbigniew Jaworski on possible occurrence in the period 2008-2010 of abuses of the entitles or failure to fulfil the duties by the members of the executive boards of the joint stock companies in Grupa Apator and other persons dealing with economic activity of the companies and causing the damage to property and also other actions,
- preparation of clarification to Regional Public Prosecutor's Office of the above matter,
- preparation of explanations to Regional Public Prosecutor's Office concerning the above matter,
- decision of refusal to conduct the investigation of the above matter by Regional Public Prosecutor's Office due to lack of any reasons for a crime commitment,
- conclusion and performance of hedging transactions ,
- earnings of the members of the Executive Board of Apator SA and executive boards of the companies in Grupa Apator,
- Audit Committee decisions.

Performing its duties the Supervisory Board on the 2nd February 2010 approved the activity plan of Apator SA for 2010. Next the Supervisory Board supervises over the performance of the plan and at every meeting it analyzed current financial and economic results of the Company and particularly the performance of the sales, costs born, margin level, management of inventory and financial management. The Supervisory Board also has analyzed current financial results of the companies in Grupa Apator and their development plans.

The Supervisory Board on every meeting analyzed the changes on currency market, decisions made regarding management of hedging transactions in Grupa Apator and they influence on financial results.

The Supervisory Board confirms that the decisions regarding opening and performance of hedging transactions were made according to obligatory in Grupa Apator corporate guideline - WK/F/19 on regulations of hedging transactions.

On the 23rd September 2010 the Supervisory Board approved the strategy of Grupa Apator for 2011-2013, which content was made public in current report no.41/2010 dated the 5th October 2010.

According to the strategy, the aspiration of Grupa Apator is to be the leader in switchgear and metering segments on domestic market and the key leader on foreign markets in Central-Eastern Europe, Russia, Balkan Countries, Germany, Benelux Countries and Great Britain.

Grupa Apator closed the books of account in 2010 with revenues on sales in amount of 409 m PLN,

profit on sales in amount of 48 m PLN and net profit in amount of 50 m PLN. Revenues and mentioned financial results were significantly higher than in 2009. Revenues on sales of 1000 000 shares of Apator SA by Apator Mining sp. z o.o. to institutional investors had the influence on consolidated net profit.

Grupa Apator in spite of lasting economic crisis achieved in 2010 the increase of export in value by 2,8 m PLN. The share of export in total sales was 25,7%. The results achieved were first of all due to the sales of water meters and switchgear to Russia. In the opinion of the Supervisory Board financial results achieved in 2010 by Grupa Apator are positive both in the scope of consolidated revenues on sales and also the profitability achieved. They gave high position of Grupa among Polish companies including companies on stock exchange. At the same time the Supervisory Board emphasizes that Apator SA as one of few companies consequently publishes the forecast of financial results and makes payment of dividend what is reflected in rating of shares in new WIGdiv dividend index.

XI. The assessment of internal control system and risk management system significant to the Company

Internal control system in Apator SA is based on distribution of entitles and duties and responsibility specified in the Company in Organization Regulations, scope of jobs and other regulations in form of procedure, instructions, orders, instructions and circulars. System is supervised by managers of the organization units, section directors and the Executive Board in the mode:

- current,
- weekly meetings of managers of organization units in the section with the section director,
- monthly meetings of managers of organization units and section directors with the Executive Board of the Company,
- weekly meetings of directors of sections with the Executive Board,
- weekly meetings of the Executive Board

The internal control is carried out directly by each employee including self-assessment system. Next the employee is controlled by direct superior and persons cooperating in the scope of quality and correctness of the tasks performed. The aim of those actions is to provide the compliance of tasks being performed with obligatory procedures and requirements including legal requirements.

The Executive Board of the Company is responsible for the entirety of internal control being carried out, for minimizing the level of existing risk and also for the identification of new threats.

Internal audit in the Company is being performed by Costs and Economical Analysis Department that every month makes the analysis of performance of the costs by particular organization units, their deviations from planned assumes and the reasons of the deviations. The work of the above organization units is being controlled by Finance Director. The supervision over above aspects is carried out by the Audit Committee and the Supervisory Board at its meetings by:

- analysis of monthly financial statements of Apator SA and entities of Grupy Apator, including monthly consolidated financial statements,
- analysis of quarterly, semi-annual and annual financial statements of Apator SA and entities of Grupa Apator, including consolidated financial statements,

- analysis of identified risks,
- cooperation with chartered auditor

One of the main tools of internal control is BaaN IV Integrated Management System operating both in Apator SA and in subsidiaries: FAP Pafal SA, Apator Metrix SA, Apator Powogaz SA and Apator Control sp. z o. o.

Further tool of the control system is implemented management system based on the standards ISO 9001:2000, ISO 14001 and the standard BHP 18001. The supervision is carried out by the system of quarterly and annual reports on operation of the system in the main processes:

- marketing and sales,
- purchases,
- designing,
- manufacturing,
- protection of environment,
- safety and health at work

The further tool of control system is financial and management reporting. The results of activity are presented in the financial statements prepared by Accounting Department of Apator SA. In Grupa Apator each of the entity has its accounting policy based on the rules of recording of events being applied in the parent company. In the consequence of the recording the particular entities in Grupa Apator get accounting books being further the basis for preparation of individual financial statements by all the entities in Grupa Apator. The individual financial statements are the basis to prepare consolidated financial statements of Grupa Apator.

The risk areas that occur in Grupa Apator are minimized by internal control systems in subsidiaries that operate like it is in Apator SA, by implementation of new, common solutions regulated in the guidelines of corporate governance and by the system of external control like:

- common chartered auditor for all the entities of Grupa Apator – Korycka, Budziak & Audytorzy Sp. z o.o.,
- common certification body for Management System - Polski Rejestr Statków SA.

Based on annual assessment made of the procedures applied the Supervisory Board confirms that the system of internal control in Apator SA and Grupa Apator operates correctly and effectively.

The risks significant for the Company and Grupa Apator:

The main risks are the following:

- currency exchange rate risk,
- loan risk,
- risk concerning sales changeability and financial fluidity.

The export is significant source of revenues for Grupa. Further to the above hedging transactions are the constant element of business activity. The value of export for given year is estimated based on anticipation of traders operating on particular foreign markets and then decisions concerning the hedging are taken according to the obligatory internal regulations within this scope (exposure for given year is hedged up to 80% for next year up to 70% and for the third year up to 50%) .

Loan risk is limited by taking loans in Polish zloty. The rate of interest depends on WIBOR.

The risk related to sales and fluidity is being minimized by the use of procedures of operation such as financial control of sales orders in BaaN system or the service of receivables in BaaN system. The Supervisory Board confirms that in result of control and monitoring being carried out by the Executive Board of Apator SA and permanent supervision of the Supervisory Board and Audit Committee the main risks have been significantly restricted.

Other risks including the observation of the obligatory legal regulations and the regulations are also correctly identified and managed by the Company.

XII. The assessment of the operation of the Supervisory Board and the application to the General Shareholders Meeting

The Supervisory Board considers that it fulfilled its duties according with the all formal and legal requirements and its work had the contribution in the increase of the goodwill and confidence of the shareholders.

The Supervisory Board appeals to General Shareholders Meeting to approve the report of its activity and to give a vote of approval to all the members of the Supervisory Board in 2010.

Chairman of Supervisory Board

Janusz Marzygliński