

Report
on activity of Supervisory Board of APATOR –Joint Stock Company for the period
from 1st January 2008 to 31st December 2008

In accordance with the stipulations of the Polish Commercial Companies Code and the Statute of APATOR S.A., the Supervisory Board submits the General Shareholders Meeting the report on activity in the period from 1st January 2008 to 31st December 2008. The report has been made in accordance with the Best Practices in Public Companies quoted on stock exchange and it contains concise evaluation of situation of the Company taking into account internal control system and risk management system significant to the Company and the evaluation of the activity of Supervisory Board.

I Makeup of Supervisory Board

The tenure of Supervisory Board of APATOR S.A is five years. The year 2008 was the fourth year of the activity of Supervisory Board of fifth tenure elected by General Shareholders Meeting in 2005. The makeup of Supervisory Board in 2008 was as follows;

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

In 2008 there were no changes in the makeup of Supervisory Board.

II The sittings of the Supervisory Board

The Supervisory Board performing its duties held 11 sittings and during the meetings it adopted 42 resolutions and took its positions of the matters being on the agenda of the meetings. The meetings took place on the following dates: 11th February, 20th February, 16th April, 28th April, 27th May, 23rd June, 8th July, 28th August, 24th October, 7th November and 19th December 2008. Protocols are made from the sittings of Supervisory Board and they are kept with other documentation in the premises of the Company.

III Information on duties performed and related to Ordinary Shareholders Meeting of APATOR SA

Supervisory Board performing its duties gave its opinion to the motions for Ordinary Shareholders Meeting held on 23rd June 2008 in the scope of:

- reports of the Executive Board on activity of APATOR SA and GRUPA APATOR in 2007,
- individual and consolidated financial statement for 2007,
- profit distribution and dividend payment,
- distribution of retained earnings from previous years,
- establishment of ordinary and bail mortgage for Bank Handlowy w Warszawie SA,
- cancellation of the resolution no. 12/2007 of Ordinary General Shareholders Meeting of APATOR SA dated 11th June 2007 regarding the sale of the right for perpetual usufruct of the land and buildings and constructions being separate subject of property with the value exceeding 10% of own capitals of the Company,

- consent for sale of the right for perpetual usufruct of the land and buildings and constructions being separate subject of property with the value exceeding 10% own capitals of the Company,
- amendment to the resolution no. 14/2007 of Ordinary General Shareholders Meeting of APATOR SA regarding the consent to acquire by the Company own shares for their redemption,
- amendment to the Statute of APATOR SA,
- amendment to the Regulations of the General Shareholders Meetings,
- amendment to the regulations of the Supervisory Board of APATOR SA,
- declaration of observation of the best practices of the Public Companies quoted on stock exchange,
- increase of the fund for the redemption of shares, appointment and audit of chartered accountant for special affairs, the matters regarding running business of APATOR SA in dependent entity-FAP PAFAL SA in Świdnica,
- appointment and audit of chartered accountant for special affairs, the matters regarding running business in APATOR SA and particularly profitability of investment concerning semiconductors under the name surge arresters,
- appointment and audit of chartered accountant for special affairs, the matters regarding running business in APATOR SA and particularly the settlement the profitability of the transaction of established APATOR GmbH in Germany,
- appointment and audit of chartered accountant for special affairs, the matters regarding running business in APATOR – KFAP Sp. z o.o. in Cracow.

Moreover, the Supervisory Board has presented to the report on its activity in 2007 to the Ordinary General Shareholders Meeting and applied for its approval.

The members of the Supervisory Board have attended the Ordinary General Shareholders Meetings in accordance with the rules of corporate government in the strength enabling to give answer any possible questions.

IV Human resources policy

The competency of the Supervisory Board covers:

- establishment of number of members of the Executive Board,
- appointment and dismissal of the Executive Board,
- appointment of the President of the Company,
- suspension in their duties due to serious reasons all or particular members of the Executive Board,
- delegation of the members of the Supervisory Board for temporary performance of the duties of the members of the Executive Board,
- establishment of the remuneration of the members of the Executive Board taking into account its motivation character.

In 2008 the Company was govern by the Executive Board in the following makeup:

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|----------------------|---|-----------------------------------|
| – Janusz Niedźwiecki | – | President of the Executive Board, |
| – Tomasz Habryka | – | Member of the Executive Board. |

The Executive Board of the Company was appointed for the common current tenure in 2007. The tenure of the Executive Board lasts three years i.e. 2007-2009 and it ends on the date of Ordinary General Shareholders Meeting of APATOR SA to be held in 2010.

The remuneration of the Executive Board was established by the Supervisory Board and it consists of essential part and motivation elements. In 2008 it was in total 1.071 000 PLN and awards and bonuses were 311 000 PLN. In the reporting period the Supervisory Board did not make use of entitles specified in art. 383 of the Polish Commercial Companies Code like:

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

The Supervisory Board considers that the Executive Board of the Company fulfilled its duties according to all formal and legal requirements and its work makes that the value of the Company is being increased. The Executive Board applies to Ordinary General Shareholders Meeting to get discharge to all the members of the Executive Board in 2008.

Extension of the makeup of the Executive Board

On 24th October 2008 the Supervisory Board since 1st January 2009 extended the makeup of the Executive Board of APATOR SA to three persons. The Supervisory Board since 1st January 2009 nominated Jerzy Kuś to the member of the Executive Board of APATOR SA for the common tenure for the period 2007-2009.

V The scope of the application of the Best Practices in Public Companies quoted on stock exchange by APATOR SA

The Ordinary General Shareholders Meeting of APATOR SA has recommended to applying all the rules of the Best Practices in Public Companies quoted on stock exchange except one rule III.6 with the following wording: “At least two members of Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company (....).”

The Ordinary General Shareholders Meeting of APATOR SA did not recommend to applying this rule due to the fact that four members of Supervisory Board are at the same time significant shareholders of the Company and one is independent. The activity of the Supervisory Board in such a makeup provides with permanent, correct and effective supervision over the activity of the Company.

VI The application of the Best Practices in Public Companies quoted on stock exchange by Supervisory Board.

The Supervisory Board acts according to the rules of the corporate governance. Last year there was no incident of breaching by the Supervisory Board any of rules of the best practices in public companies that had been accepted to be applied.

The members of the Supervisory Board made its duties personally related to the sittings of the Supervisory Board. Moreover, they attended the sitting of the Executive Board, General Shareholders Meetings and they advised about sale and purchase transactions of shares that were further announced to the public. Remuneration of the members of the Supervisory Board were in reasonable relation to the economic results of APATOR SA and the Chairman was paid 5 000 PLN monthly but Member of Supervisory Board was paid 4 500 PLN monthly. In total the remuneration of the Supervisory Board of APATOR SA for the fulfillment of the

duties in 2008 was 276 000 PLN and it has not changed since 2005. The members of the Supervisory Board were guided in their proceedings by interest of the Company and the independence of their opinions and judgements. No events have occurred where any of the members of the Supervisory Board had to state that there were any possibilities economic, family or other connections that could have the influence to its post in the matter being considered by the Supervisory Board, with shareholder holding shares and representing not less than 5% of total number of votes at the Ordinary General Shareholders Meeting. In the reporting period also did not take place the situations where the members of Supervisory Board had to advise about the existing conflict of interests or possibility of occurrence it and in effect they had to suspend to take part in the discussion during the sitting of the Supervisory Board and voting on resolution on matter where such a conflict of interests appeared

Audit committee

According to the requirements of the Best Practices in Public Companies quoted on stock exchange at least the audit committee should function within the Supervisory Board.

The committee should consist of at least one independent member from the Company and entities remaining significantly in relation with the Company with competency in accounting and finance. In the companies where the Supervisory Board consists of minimal number of members required by law the tasks of the committee are allowed to be performed by the Supervisory Board. The Supervisory Board has not nominated the audit committee due to the presence of five persons in Supervisory Board and the engagement of all members of Supervisory Board in all areas of activity of the Company including financial reporting.

VII The selection of the company for the audit of financial statements

The Supervisory Board based on resolution no 15/2007 dated 29th May 2007 selected Korycka, Budziak & Audytorzy Sp. z o.o. to audit and review financial statements for the period 2007 and 2008 and the Supervisory Board making such decision took into consideration the following circumstances:

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

The Supervisory Board based on the resolution no. 41/2008 dated 19th December 2008 made the decision to select Korycka, Budziak & Auditorzy Sp. z o.o. to make audit and review of financial statements for 2009 and 2010. The choice is in accordance with the Best Practices in Public Companies quoted on stock exchange that require from Supervisory Board to provide with the change of entity entitled to make the audit of financial statement at least every seven financial years.

VIII The evaluation of financial statements of APATOR SA and GRUPA APATOR for 2008.

APATOR S.A. makes individual and consolidated financial statements according to International Accountancy Standards ("MSR") and International Financial Reporting

Standards ("MSSF"). Moreover, financial statements are made in accordance with the Resolution of Ministry of Finance dated 19th February 2009 on current and regular information transferred by the issuers of securities and conditions considered as equal information required by law of the country not being the member of the European Union. The Supervisory Board supervised the process of making financial statements. The Supervisory Board during the sitting on 19th May 2009 evaluated the financial statements of APATOR SA and GRUPA APATOR made by the Executive Board. The Supervisory Board states that presented data in the periodical statements for all reporting periods in 2008 are reliable, correct and real and they are made in accordance with obligatory accounting rules applied on permanent basis and based on correct books of account.

IX The evaluation of activity of APATOR SA and GRUPA APATOR

The Supervisory Board has made the supervision over activity the Company and the Executive Board by:

- analysis of materials received from the Executive Board on request of the Supervisory Board,
- getting the information and detailed explanations from members of the Executive Board and other employees during the sittings of the Supervisory Board,
- attendance of the members of the Supervisory Board in the sittings of the Executive Boards,
- acting of chartered accountant who on behalf of the Supervisory Board– made review and audit of financial and accounting documentation and based on it financial statement.

The Supervisory Board on the sitting on 17th December 2007 approved the plan of activity of the Company for 2008 and on 20th February 2008 approved the forecast of financial results of GRUPA APATOR presented by the Executive Board for 2008. The Supervisory Board making the permanent supervision over performance of the plan of activity on every sitting, it has made deep analysis of current financial and economical results of the Company and particularly the performance of sales, costs incurred, the level of margin, management of inventories and financial means. The Supervisory Board made also the analysis of current financial results of the companies in GRUPA APATOR and plans of development. The Supervisory Board arranged the meetings with the Executive Boards of the companies and visited the companies during the sittings of Supervisory Board held outside its headquarter. The recent two months in 2008 and in 2009 are the periods of increased supervision in the scope of hedging of currencies. After a long period of strengthening of Polish zloty in 2007 and continued to the middle of 2008 when the exchange rate of EUR was at the level 3,20 PLN, The trend was changed from the increase to the decrease. The reversed trend made the exchange rate of EURO in the recent for months in 2008 was as follows:

- 2008-09-30 – 3,49 PLN,
- 2008-10-30 – 3,56 PLN,
- 2008-11-28 - 3,76 PLN,
- 2008-12-31 - 4,17 PLN.

GRUPA APATOR has advised about the level of the contract concluded regarding derivatives among other things in the clarifying note no. 9 to consolidated interim financial statement. The note contained:

- the evaluation of currency transactions on 31.12.2007,
- settlement of currency transactions during the first half of 2008,

- evaluation of currency transactions on 30.06.2008.

Moreover, information on foreign trade balance, exchange rate differences and the result of derivatives were presented in quarterly statements and published in 2008 Both in 2007 and in three quarters in 2008 the hedging policy was effective in GRUPA APATOR by the increase of the net profit. However, the change of the trend and the level of derivatives brought in the second half of 2008 reversed effects than it had been expected and negative influence on the possibility of performance the forecast of financial results published on 12th May 2008. During the sitting on 19th December 2008 the Supervisory Board together with the Executive Board made the evaluation of the effects of derivatives. The result of the evaluation was the correction of the forecast of consolidated net profit from 36 m. PLN to 25-28 m. PLN. During the next sittings the Supervisory Board supervised the policy of closing the currency items in particular companies and its influence on net profit and financial fluidity.

During 2008 the Supervisory Board had analyzed all the areas of activity and supervised the following issues:

- performance of the strategy of activity of GRUPA APATOR,
- extension of GRUPA APATOR by RECTOR Sp. z o.o. and POWOGAZ SA,
- possible capital connection with the company dealing with the sales and manufacture of water meters in Romania,
- the sales of shares of APATOR-KFAP Sp. z o.o. to APATOR POWOGAZ SA,
- possibility of sales of property where manufacturing halls are located,
- dividend policy and payment of advance payment forward the dividend,
- establishment of conditions of acquisition of own shares for their redemption by the Company,
- analysis of legal consequences regarding the possession of shares of APATOR SA by APATOR MINING Sp. z o.o.
- the reduction of costs of operation of APATOR SA,
- profitability of domestic sales and export,
- development of metering systems,
- cost level of APATOR SA,
- plan of operation in 2009,
- remuneration inclusive bonus of the Executive Board,
- extension of the makeup of the Executive Board and establishment of remuneration system,
- matters submitted by one of the shareholders,
- matters submitted by Association of Individual Investors,
- the operation programme of the Supervisory Board.

In 2008 APATOR S.A. was performing the strategy accepted for the period 2007-2009, that defines the directions of the development of complete capital group. GRUPA APATOR has been developing in two essential segments covering metering equipment and switchgear.

The above actions made GRUPA APATOR to be closer to the leading position in Central and East Europe in the above fields up to 2012 . The performance of the goal was achieved by organic development, the increase of sales on foreign markets and acquisitions. The year 2008 we may consider as successful one in this scope. In result of negotiations conducted in 2007 GRUPA APATOR was extended in 2008 by two entities. In January 2008 information technology the company under name APATOR RECTOR Sp. z o.o. joined GRUPA APATOR that supports the companies in GRUPA APATOR by infrastructure management systems and the metering and read-out data, particular in the scope of data analysis and their visualization. The next company that joined GRUPA APATOR in the second quarter of 2008

was the company under the name APATOR POWOGAZ SA that specializes in design, manufacture and sales of water meters both to domestic and foreign markets. The take over this company has finished the process of seeking many years the manufacturer of water meters. The effect of extension of GRUPA APATOR by the above products is complete product base what causes the increase of sales of metering equipment and intensive development of the systems. The year 2008 was also successful in respect of the increase of the sales on foreign markets. It was the period of further strengthening the position of GRUPA APATOR and APATOR brand on current markets and seeking new markets. Export of APATOR SA was 23.484 000 PLN and its share in revenues was 23,48%. It was the increase of export what was the result of performance of new sales contracts of prepayment electricity meters to Tunisia and Sierra Leone in metering segment in APATOR in 2008. The deliveries performed to African market have opened new, large sales market for prepayment electricity system. Export of GRUPA APATOR covering postpayment electricity meters, gas meters, water meters, and switchgear has increased from 71.684. 000 PLN to 88.224.000 PLN that is over 23%. The share of export in consolidated revenues from sales increased from 23,02% in 2007 to 24,77% in 2008. Financial results obtained in 2008 are positive in the scope of increase of consolidated revenues. The level of profitability of GRUPA APATOR obtained on sales also reached high level among public companies particularly in electrical engineering sector. The decrease of consolidated net profit to 23.057.000 PLN was the result only of the negative evaluation of the derivatives. The Supervisory Board taking into consideration consequently performed the strategy of operation, increase of sales on foreign markets, successfully completed acquisitions, extended product offer and focus on innovation evaluates positively the situation of APATOR SA and GRUPA APATOR. At the same time the Supervisory Board considers that the policy being performed of dividend payment distinguishes the Company among other public companies. In the assessment of the Supervisory Board in spite of economic crisis perspectives of development of GRUPA APATOR in 2009 are very good what has been announced by the Executive Board in the forecast of financial results. The Supervisory Board expresses its believe that the actions being conducted bring further strengthening of the position on domestic and foreign markets and they will allow in the next years to obtain the profitability satisfying current and future investors.

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

Internal control system in APATOR SA is based on appropriate division of entitlements, duties and responsibility announced in the Company by Organization Regulations, scope of business and other regulations in form of procedures, instructions, orders, recommendations, circulars. System is supervised by managers of organization units, directors of divisions and the Executive Board in the course of:

- current operations,
- weekly meetings of managers in the division with director of the division,
- monthly meetings managers and directors with the Executive Board,
- weekly meetings of directors of divisions with the Executive Board,
- weekly sittings of the Executive Board.

Internal control is performed directly by every employee including self-assessment system. Next, the employee is controlled by direct boss and persons co-operating with him in the scope of quality and correctness of the work being performed. The aim of these actions is to provide the compliance of the work being performed with obligated procedures and

requirements including legal ones. The Executive Board is responsible for the entire internal control and provision of minimal existing risk and also identification of new threats.

The Supervisory Board performs the supervision over the above mentioned aspects during its sittings in the course of:

- monthly analysis of financial statements of APATOR SA and GRUPA APATOR including consolidated monthly statement, analysis of quarterly, interim and annual financial statements of – APATOR SA and GRUPA APATOR including consolidated statements,
- analysis of the risks identified,
- co-operation with chartered accountant.

One of the main tools for internal control is BaaN IV intergrated management system operating in APATOR S.A. and in dependent companies like: FAP PAFAL SA, APATOR METRIX SA, APATOR POOGAZ SA and APATOR CONTROL Sp. z o. o. In other companies the process of implementation of the system has been performing.

The next tool for control system is the quality management system implemented based on ISO 9001:2000, ISO 4001 and the standard regarding hygiene and safety at work BHP 18001. The supervision is performed by system of quarterly and annual reports on functioning in main processes:

- marketing and sales,
- purchases,
- designing,
- manufacturing,
- environmental protection,
- hygiene and safety at work.

The next tool of the control system is financial and management reporting. The results of activity are presented in financial statements being prepared by Accounting Departments of APATOR SA In GRUPA APATOR each company runs the accountancy policy based on the rules of registration of events being used in dominant entity. In consequence of such registration book of accounts are established in particular companies in GRUPA APATOR being further the base to make individual financial statements by all divisions of GRUPA APATOR. Individual financial statements are the base to make consolidated statements of GRUPA APATOR.

The risk areas occurring in GRUPA APATOR are minimized by internal control systems in the dependent companies in the similar manner like it is in APATOR SA, by implementing new, common solutions regulated by corporate guidelines and internal control system like:

- common chartered accountant for all the companies in GRUPA APATOR – Korycka,Budziak&Audytorzy Sp. z o.o.
- common certification institution for quality management system –Polski Rejestr Statków SA.

The Supervisory Board confirms that internal control system in APATOR SA and GRUPA APATOR operates correctly and effectively based on annual assessment of the procedures applied.

Risks significant to the Company and GRUPA APATOR:

The main risk of GRUPA APATOR that had significant influence on consolidated financial results and the performance of the data forecast are currency exposure and the exchange rates. Export is significant source of revenues for GRUPA APATOR. Therefore, the derivatives have to be the permanent element of business activity. The value of export for given year is

estimated based on the forecast of traders on particular foreign markets and then the decisions on type of hedging are made. The level of derivatives in 2008 showed that it was the tendency governed by strengthening of Polish zloty and the value of export in GRUPA APATOR but sudden change of the trend in this scope and its speculation character have not been expected. The intense weakness of Polish currency has caused negative evaluation in amount of 23.920.500 PLN that had to be entered in the books of GRUPA APATOR.

The Supervisory Board due to unexpected changes on currency market besides of permanent supervision obliged the Executive Board to introduce additional procedures in entire capital group covering:

- keeping the record and settlement of derivatives
- making decisions on new derivatives

The Supervisory Board states that in result of measures taken by the Executive Board and under supervision of the Supervisory Board the risk of currency exposure has been significantly limited. Other risks related including the observation of obligatory law and legal regulations are correctly identified and managed by the Company.

XI The assessment of the activity of the Supervisory Board and the motion to General Shareholders Meeting.

The Supervisory Board considers that it fulfilled its duties in accordance with all formal and legal requirements and its work contributed to the increase of the value of the Company and the confidence of shareholders. The Supervisory Board applies to the General Shareholders Meeting to approve the report of its activity and to give vote of acceptance to all the members of the Supervisory Board in 2008.

Chairman of the Supervisory Board

Janusz Marzygliński