

**Report on activity of the Supervisory Board of Apator SA
for the period since 1st January 2009 till 31st December 2009**

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 activity for the period since 1st January 2009 till 31st December 2009.

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, internal audit and risk management system significant to the Company.

I. Makeup of the Supervisory Board

The tenure of the Supervisory Board of Apator SA lasts five years. The year of 2009 was the fifth one of the activity of the Supervisory Board of the fifth tenure which was elected by the General Shareholders Meeting on 6th June 2005.

Since the 1st January till 8th June 2009 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

On 8th June 2009 Ordinary General Shareholders Meeting increased its makeup up to 6 members and nominated Mr Mariusz Pawlak the member of the Supervisory Board of Apator SA.

Further to the above since 8th June 2009 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

II. Meetings of the Supervisory Board

The Supervisory Board performing its duties had 9 meetings in the reporting period where it adopted 33 resolutions and took the positions in matters in the agenda of the meetings. The meetings were held on the following dates: 27th January , 25th February, 29th April, 19th May, 24th July, 21st August , 23rd September , 28th October and 4th December 2009.

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

III. The activity of the Audit Committee of the Supervisory Board of Apator SA

The Audit Committee supports the actions of the Supervisory Board of Apator SA and it is its advisory body. The Audit Committee was appointed on 23rd September 2009 based on the resolution no 27/2009 of the Supervisory Board of Apator SA. The Audit Committee consists of:

- Mariusz Lewicki – Chairman of the Committee,

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

The appointment of the Audit Committee was accompanied the adoption of its Regulations. According to § 2 point 4 of the Regulations the tenure of the Audit Committee is common for its members and it is the same as the tenure of the Supervisory Board. According to § 1, Audit Committee acts as the consultation and advisory body to the Supervisory Board of Apator S.A., and its main tasks are the following:

- monitoring of financial reporting (auditing of accepted accounting standards, circulation of the information, preparing documents and planned changes related to it),
- monitoring of the effectiveness of internal control, internal audit, and risk management,
- monitoring of performance of financial auditing,
- monitoring of the independence of chartered accountant for the auditing of financial statements.

The Audit Committee since its nomination till the end of 2009 held one meeting on 28th October 2009 where the resolution was adopted on recommendation for the Supervisory Board of Korycka, Budziak & Audytorzy Sp. z o.o to audit the financial statements for 2009. At that meeting the Audit Committee established also the scope of information to be provided to it by the Executive Board of Apator SA, i.e.:

- first version of financial statements (individual and consolidated) to be submitted and simultaneously to auditors,
- complete set of financial statements (individual and consolidated) with adjustments of chartered accountants,
- report and the opinion of chartered accountant,
- resolutions of the Executive Board regarding accounting policy,
- information on commenced external financial controls and their scopes,
- protocols of carried out controls concerning external financial controls,
- annual stocktaking plans,
- information on results of property stocktaking of the Company,
- offers for the auditing of financial statements accompanied by recommendation of the Executive Board.

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

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

The Supervisory Board according to its duties gave the opinion of the motions presented at Ordinary General Shareholders Meeting held on 8th June 2009 regarding:

- reports of the Executive Board on Activity of Apator SA and Grupa Apator in 2008 ,
- individual and consolidated financial statements for 2008 ,
- profit distribution in the Company for financial year 2008,
- distribution of undistributed profit from previous years,

- adoption of the resolution on the increase of number of members of the Supervisory Board up to 6 persons,
- nomination of the member of the Supervisory Board,
- completion of the Programme for acquisition of own shares for their redemption and reduction of share capital dated 9.07.2008 ,
- redemption of shares and amendments to § 7 of the Statute of Apator SA,
- amendments to § 6 and §14 of the Statute of Apator SA,
- adoption of the resolution on the following Programme for acquisition of own shares and reduction of share capital,
- entitlement of the Supervisory Board to establish uniform content of the Statute of Apator SA,
- amendments to the Regulations of General Shareholders Meetings of Apator SA.

Moreover, the Supervisory Board has presented to Ordinary General Shareholders Meeting the report on its activity in 2008 and appealed for its approval.

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. Staff policy

The competence of the Supervisory Board includes:

- establishment of the number of members of the Executive Board,
- appointment and dismissal of the members of the Executive Board,
- nomination of the President,
- suspension for serious reasons from the duties all or particular members of the Executive Board,
- delegation of members of the Supervisory Board to perform on temporary basis the duties of members of the Executive Board,
- establishment of remuneration for the members of the Executive Board including its motivated character.

In 2009 Apator SA was managed by the Executive Board with the following three person makeup:

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

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

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 Executive Board in 2009 was in total 1.070 000 PLN, including bonuses and awards in amount of 204 000 PLN , that is 19%.

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 Best Practice for WSE Listed Companies by Apator SA

Best Practice rule III.6

Since 8th June 2009 i.e on the day of nomination by General Shareholders Meeting of Mariusz Pawlak on the member of the Supervisory Board, Apator SA applies the rule of Best Practice n. III.6 concerning two independent members of the Supervisory Board. Independent members: Mr Krzysztof Kwiatkowski and Mr Mariusz Pawlak have submitted the statements in writing on their independence.

Best Practice rule III.7

On 23rd September 2009 the Audit Committee of the Supervisory Board of Apator SA was nominated. The Audit Committee consists of three members with the competence of accounting and financing that is specified in Best Practice III.7, two of them meet the criteria of independence from the Company. Further to the above Apator SA did not respect only the rule no I.1 Best Practice for WSE Listed Companies regarding the broadcasting of the debates of Ordinary General Shareholders Meeting held on 8th June 2009 with the use of internet.

VII. Best Practice for WSE Listed Companies use 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 being in use 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 306 000 PLN. The Chairman of the Supervisory Board has been receiving 5 000 PLN monthly but every member of the Supervisory Board has received 4,5 000 PLN monthly.

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 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 28th October 2009 bearing in mind recommendation of Audit Committee maintained its appointment of chartered accountant – Korycka, Budziak & Audytorzy Sp z o.o. for auditing and reviewing of financial statements for 2009.

The decision maintained is in accordance with Best Practice for SWE Listed Companies that require 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 2009

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 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 18th May 2010 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 for 2009 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 materials being received from the Executive Board,

- obtaining the information and detailed explanations of members of the Executive Board and other employees of the Company during the meeting 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 accountant 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 2009 the Supervisory Board analyzed and supervised among other things:

- possible capital connections including Romanian manufacturer of water meters,
- possible sale of the land where the Apator SA is located and the construction of the new Company,
- the offer of purchase of Apator Control Sp. z o.o. and Apator Kfap Sp. z o.o. placed by one of the shareholders of the Company,
- prospective of development of particular entities including Apator Control Sp. z o.o. with the attendance of its Chairman,
- plans of the activity of Apator SA and entities of Grupa Apator,
- new strategy for the service of the domestic market in the scope of electricity meters and systems of remote communication with the electricity meters implemented for Apator SA and FAP PAFAL SA,
- optimization of the costs of the activities of Apator SA and Grupa Apator,
- profitability of domestic sales and export,
- scope of powers of attorney granted to the employees of particular entities,
- performance of dividend policy including payment of advance payment towards dividend,
- motion placed by the shareholder for the consent of Apator SA for taking part in proceeding at court of arbitration regarding the holding the shares of Apator SA by Apator Mining Sp. z o.o.,
- matter regarding the notification placed by Patient Education Institute on Domestic Market regarded the suspicious of commitment of a crime by the Executive Board of Apator SA,
- preparation of explanations for Regional Public Prosecutor's Office regarding the above matter,
- decision of refusal to institute the investigation by Regional Public Prosecutor's Office due to lack of any reasons a crime has been committed,
- the bringing in action against the resolution of the Ordinary General Shareholders Meeting by Madam Kinga Stachowiak concerning the distribution of the profit and obtaining the positive verdict for Apator SA of the Regional Court in Toruń and the verdict of Appeal Court in Gdańsk regarding the above matter,
- conclusion and performance of hedging transactions,
- level of remuneration of the members of the Executive Board of Apator SA and the Executive Boards in Grupa Apator,
- matters raised by one of the shareholders and the Association of Individual Investors.

Further to dramatic weakness of the Polish zloty that occurred in the third quarter of 2008 and maintained downward trend in entire 2009 the Supervisory Board had intensive supervision over the hedging of the foreign exchange rates. The Supervisory Board on 19th May 2009 based on the

resolution no. 24/2009 extended the scope of duties of the Executive Board of Apator SA completing with the following duties in § 8 of the Regulations of the Executive Board:

- adoption of the resolutions regarding the hedging of the Company against foreign exchange rate risk and advise the Supervisory Board about adopted resolutions,
- advising the Supervisory Board about the level of hedging against foreign exchange rate risk in Grupa Apator.

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.

In 2009 Apator SA continued its activity aimed at the performance of the vision that is to obtain the leader position in Central-Eastern Europe in the scope of metering equipment and systems and switchgear. At the same time at the end of last year the Executive Board summarized the effectiveness of the performance of the strategy in the period 2007-2009 and commenced works aimed to define further strategic actions up to 2012.

Fulfilling its duties the Supervisory Board on 25th February 2009 approved the plan of activity of Apator SA for 2009 and the forecast of financial results of Grupa Apator for 2009. Next the Supervisory Board held the permanent supervision over performance of the plan and analyzed current financial and economic results of the Company at every meeting, particularly the performance of selling, cost incurred, level of margin, management of inventory and financial means. The Supervisory Board also analyzed current financial results of the entities in Grupa Apator, their plans of development and met with the Executive Boards of the entities during the meetings of the Management of the Grupa.

Taking into account external circumstances such like stronger than it was assumed the influence of economic crisis on revenues of the entities of Grupa Apator and high Eur exchange currency rate having the negative influence on the costs concerning the settlement of hedging transactions in 2008, the Supervisory Board accepted the correction of consolidated financial results made in IV quarter of 2009 by the Executive Board of Apator SA.

Grupa Apator closed the year 2009 with the revenues on sales in amount of 368 m PLN, profit on sales in amount of 49 m PLN and net profit in amount of 31 m PLN. Revenues and above mentioned categories of the financial result were performed at higher level than in 2008.

Grupa Apator, in spite of economic crisis obtained also the increase of export by 15 m PLN in relation to 2008, and its share in revenues was in total 28%. On foreign markets not only the sales of water meters, gas meters and post-paid electricity meters increased and also the prepayment electricity meters increased that Apator SA delivered to African market to such countries like Sierra Leone or Burundi.

In the opinion of the Supervisory Board the financial results obtained in 2009 by Grupa Apator are positive both in the scope of consolidated revenues on sales and also the level of profitability. They give Grupa Apator high position among the Polish Companies including WSE listed ones. At the same time the Supervisory Board emphasizes that Apator SA, as one of few WSE listed companies publishes consequently its forecast of financial results.

XI. The assessment of dividend policy and suggestions regarding the profit distribution for 2009.

The Supervisory Board considers that dividend payment policy is correct and it distinguishes Apator SA among WSE listed companies. The Supervisory Board gives the positive opinion of the motion of the Executive Board regarding the dividend payment from the profit in 2009 in amount of 0,50 PLN per share (including the advance payment) and the proposal of the payment of the other part of the dividend in amount of 0,30 PLN per share on 21st July 2010 .

XII. 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, directors of sections and the Executive Board in the mode:

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

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 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 performed by Costs and Economical Analysis Department that every month makes the analysis of performance of the costs by particular organization units, their deviation from planned assumes and the reasons of the deviations. The work of the above organization units is being controlled by Finance Director. The supervision of 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 accountant

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 hygiene 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 base 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 accountant 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:

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

In 2009 the significant influence on consolidated financial results had the foreign currency exposure and the level of foreign currency rates which were related to the settlement of the options concluded in 2008 .

Export for Grupa Apator is significant source of revenues. Further to the above the hedging transactions have to be permanent business activity. The level of export of the year is forecasted based on the expectations of traders operating on particular foreign markets and then the decisions concerning the level of hedging are made within the scope of obligatory internal regulations. Loan risk is restricted by taking loans in the Polish zloty. Interest rate depends on WIBOR interest rate that is a bit hesitated.

Risk related to the sales and fluidity are minimized the use of procedure of proceeding like financial control of sales orders in BaaN 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 the main risks have been significantly restricted.

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

XIII. The assessment of the operation of the Supervisory Board and the motion 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 2009.

Chairman of Supervisory Board

Janusz Marzygliński