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## 1. Makeup of the Supervisory Board

Since the 1<sup>st</sup> January till the 20<sup>th</sup> June 2011 the Supervisory Board acted in 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. Ryszard Wojnowski - Member of the Supervisory Board

On the 20<sup>th</sup> June 2011 based on decision of the Ordinary General Shareholders Meeting:

- makeup of the Supervisory Board was increased up to 6 persons,
- Eryk Karski was appointed the member of the Supervisory Board.

On the 31<sup>st</sup> December 2011 and on the reporting day makeup of the Supervisory Board was as following.

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. Ryszard Wojnowski - Member of the Supervisory Board
6. Eryk Karski - Member of the Supervisory Board

The Supervisory Board of Apator SA is appointed for five years on common tenure. The year 2011 was the second one of the activity of the Supervisory Board of the seventh term of office appointed by the General Shareholders Meeting on the 21<sup>st</sup> June 2010. The tenure of the Supervisory Board ends on the day of Ordinary General Shareholders Meeting to be held, approving financial statements for 2015.

## 2. Supervisory Board Meetings in 2011

The Supervisory Board performing its duties had 9 meetings in the reporting period where it adopted 31 resolutions and took the positions in matters included in the agenda of the meetings. The meetings were held on the following dates: 15<sup>th</sup> February, 1<sup>st</sup> March, 11<sup>th</sup> April, 16<sup>th</sup> May, 20<sup>th</sup> June before General Shareholders Meeting, 20<sup>th</sup> June after General Shareholders Meeting, 30<sup>th</sup> August, 26<sup>th</sup> October, 2<sup>nd</sup> December.

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

## 3. Attendance the Supervisory Board Meetings and General Shareholders Meetings

During the meetings of the Supervisory Board 100 % attendance was noted with exception of the meeting held on the 20<sup>th</sup> June 2011.

In accordance with the rules of corporate governance the members of the Supervisory Board attended the General Shareholders Meetings in the makeup enabling to give substantive answer possible questions.

#### **4. Information on performance of duties in 2011 related to Ordinary General Shareholders Meeting of Apator SA**

On the 17th May 2011 Supervisory Board gave positive opinion of the motions submitted to Ordinary General Shareholders Meeting regarding:

- reports of the Executive Board on Activity of Apator SA and Grupa Apator in 2010,
- individual and consolidated financial statements for 2010,
- profit distribution of the Company for financial year 2010 and payment of the dividend in total Mount of 0,60 PLN per share,
- amendments to § 7 and § 14 point 16 of the Statute of Apator SA
- amendments to § 2 point 1 and § 15 point 4 Regulations of the General Shareholders Meetings of Apator SA,
- proposal of fixing uniform text of the Statutes of the Company,
- completion of the Programme for acquisition of own shares for their redemption and reduction of share capital dated the 21<sup>st</sup> June 2010
- opening of the Programme for acquisition of own shares.

Moreover, Supervisory Board has presented to Ordinary General Shareholders Meeting the report on its activity in 2010 and appealed for its approval.

#### **5. Information on the fulfillment of duties related to the Extraordinary General Shareholders Meeting of Apator SA held on the 23<sup>rd</sup> January 2012**

On 2nd 2011 Supervisory Board gave positive opinion of the motions submitted to Extraordinary General Shareholders Meeting regarding:

- completion of the Programme for acquisition of own shares for their redemption and reduction of share capital dated the 20<sup>th</sup> June 2011
- liquidation of the fund for redemption of shares,
- consent to gratuitous acquisition of shares for their redemption without remuneration,
- opening of the Programme for acquisition of own shares.

#### **6. 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.

In 2011 Apator SA was managed by the Executive Board with three person makeup:

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

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- 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 2011 was in total 1.775 000 PLN, including bonuses and awards in amount of 698 000 PLN,, that is 39%.

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.

#### **7. The application of Best Practice for WSE Listed Companies by Apator SA on 31<sup>st</sup> December 2011 and on the reporting day**

Apator SA observes the principles accepted and included in the "Best Practice for WSE Listed Companies, except: I.1 – in part of broadcasting of General Meetings over internet

The Company does not make any direct broadcast due to lack of interest by shareholders of the Company

The debates of the General Shareholders Meetings are filmed and afterwards they are presented on the website of the Company in investor relations.

#### **8. The application of Best Practice for WSE Listed Companies by the Supervisory Board in 2011**

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 371 000 PLN. The Chairman of the Supervisory Board has been receiving 6 000 PLN monthly but every member of the Supervisory Board has received 5500 PLN monthly.

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.

#### **9. The appointment of the company for auditing of financial statements**

The Supervisory Board of Apator SA at the meeting on the 1st March 2011, after being known with the recommendation of Audit Committee, made the appointment of KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. for auditing and reviewing of financial statements 2011.

In the previous years Apator SA did not use of service of KPMG Audyt spółka z ograniczoną odpowiedzialnością Sp. k. in the scope of auditing of financial statements.

#### **10. The assessment of financial statements of Apator SA and Grupa Apator for 2011**

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 19<sup>th</sup> 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.

#### **11. 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 Company.

Since the 1st January till 31st December 2011 and on the reporting day the Audit Committee operated in the makeup where the following members were included:

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

Krzysztof Kwiatkowski is independent member of the Audit Committee.

Audit Committee performing its duties had four its meetings in reporting period where three resolutions were adopted and it held the position concerning matters in the agenda of the meeting. The meetings were held on the following dates: 15<sup>th</sup> February, 1<sup>st</sup> March, 17<sup>th</sup> May, 30<sup>th</sup> August.

Audit Committee in 2011 was involved in the following issues:

- analysis of the statement confirming the independence of the entity entitled to audit financial statement for 2010 – Korycka, Budziak & Audytorzy Sp. z o.o. and independence of chartered auditors auditing financial statements,
- analysis of the schedule of works concerning the auditing of financial statements for 2010,
- giving positive recommendation for the Supervisory Board concerning auditing of financial statements and reports of the Executive Board for 2010
- analysis of the offers of seven companies concerning auditing of financial statements for 2011
- giving the recommendation to the Supervisory Board concerning the selection of KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. to audit financial statements for 2011,
- analysis of the statement confirming independence of the entity entitled to audit financial statement for 2011 – KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. and independence of chartered auditors performing financial audit
- analysis of the schedule of audit of financial statements for the first half of 2011,
- annual plans of stock-taking,
- results of stock-taking carried out of the property of the Company,
- discussion of results of the audit of financial statements for the first half of 2011 with the participation of chartered auditors of KPMG,
- currency exposure and policy of its hedging,
- hedging transactions concluded in Grupa Apator, their performance and evaluation,
- analysis of possibility and legitimacy of the possibility of introduction of hedge accounting,
- analysis of safety of information and safety of Apator SA, including protection system and protection of the Company.

## **12. Supervision over activity of Apator and Grupa Apator**

The Supervisory Board has been keeping permanent supervision over activity of the Company and the operation of the Executive Board by:

- analysis of documents being received from the Executive Board at the request of the Supervisory Board,

- obtaining the information and detailed explanations of the members of the Executive Board and other employees of the Company during the seats of the Supervisory Board,
- participation the members of the Supervisory Board in the meetings of the Executive Board,
- activity of the Audit Committee,
- activity of chartered auditor who on behalf of the Supervisory Board reviewed and audited financial and accounting documents and financial statements prepared based on them.

In 2011 the Supervisory Board made among other things the supervision over following areas:

- conditions of sale of the property at 21/29 Żółkiewski Street and conclusion of preliminary sales contract with Galeria Copernicus 2 Sp. z o.o.,
- purchase of the plot in the area of Pomeranian Special Economic Zone and construction of a new Company,
- analysis of financial liquidity of Apator SA, particularly in the view of financial expenditures for the construction of a new Company,
- performance of dividend policy including single resign of payment of the advance payment due to the performance of the construction of a new Company,
- change of location of Apator Control sp. z o.o., due to the sale by Apator SA of the property in Toruń at 21/29 Żółkiewski Street,
- strategy of export development in Apator SA and resulting of it the organizational changes (establishment of export section),
- influence of the situation on domestic and foreign markets on sales profitability,
- decision of the Executive Board on refusing the motion of Zbigniew Jaworski - the shareholder to the extend the agenda of the Ordinary Shareholders Meeting of Apator SA on the 20<sup>th</sup> June 2011 due to formal errors found,
- gratuitous acquisition and redemption of some part of shares of Apator SA being in possession of Apator Mining sp. z o.o.,
- risk analysis related to the tender for the supply and implementation of the infrastructure concerning electricity meters for ENERGA – OPERATOR SA,
- performance of the tender won at EnergiaPro (Tauron), significant for Grupa Apator due to the largest implementation of smart metering in Poland on the turn of 2011/2012 ,
- possibility of potential acquisition,
- implementation of CRM system,
- conclusion and performance of hedging transactions,
- remuneration of the Executive Board of Apator SA and the executive boards of entities in Grupa Apator.

### **13. The assessment of internal control system and risk management system significant for the Company**

Internal control system in Apator SA is based on definite division of entitlements, duties and responsibility presented in the Company in the Organizational Regulations, descriptions of the posts

and other regulations like procedures, instructions and orders. The system is under supervision of managers of organizational units, directors of sections and the Executive Boards in the following moods:

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

Internal control is carried out directly by each employee including operating self-assessment system. The employee is controlled by its superior and persons co-operating with him in the scope of quality and correctness of the performance of the duties. The aim of those actions is to provide the compliance of the performed duties with binding procedures and requirements including legal requirements.

For the entire internal control and minimization of existing risk and also for identification of new threats is responsible the Executive Board of the Company.

The internal audit is being performed by Cost and Economic Analysis Department that makes monthly analysis of the costs born by particular organizational units their deviations from the forecast and the reasons of their deviations. The operation of the above departments is controlled by Finance Director.

The Supervisory Board performs the supervision over above aspects at its meetings among other things by:

- analysis of monthly financial statements of Apator SA and entities of Grupa Apator, including monthly consolidated statements,
- analysis of quarterly, semi-annual, annual financial statements of Apator SA and entities of Grupa Apator with consolidated statements included.
- analysis of identified risks,
- cooperation with chartered auditor

One of the main tools of control of internal system 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.

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

- marketing and sales,
- purchasing,
- design,
- manufacturing,
- protection of environment,
- safety and health at work



The following tool of control system is financial and management reporting. The results of operation are presented in financial statements being prepared by Accounting Department of Apator SA.

In Grupa Apator each entity has accounting policy based on the rules of recording of the events used in parent entity. In consequence of the recording of the events kept accounting books are established in particular entities being further the basis to prepare individual financial statements by all entities in Grupa Apator. Individual financial statements are the basis to prepare consolidated statements of Grupa Apator.

The risk areas occurring in Grupa Apator are minimized by internal control systems operating in subsidiaries in similar manner like in Apator SA, implementing new common developments regulated in the guidance of corporate governance, operating of Manufacturing Management Committee and by internal control system such like as:

- common chartered auditor for all the entities in Grupa Apator – firma KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k.
- common certifying body of management system that is Polski Rejestr Statków SA.

Based on annual assessment of the procedures applied, the Supervisory Board states that internal control system in Apator SA and Grupa Apator operates correctly and it is effective.

Significant risks for Apator SA and Grupa Apator:

The main risks are as follows:

- risk related to the change of currency rate,
- credit risk,
- risk related to variable sales and financial fluidity

Export for Grupa Apator is the significant source of revenues. Further to the above hedge transactions are permanent element of business activity. The value of export for the year is estimated based on forecast of traders operating on particular foreign markets and then decisions are made concerning the value of hedging within binding internal regulations related to it.

Currency risk is limited by loans drawn in the Polish zloty. The interest depends on WIBOR rate.

Risk related to sales and fluidity is minimized by use of procedures such like financial control of sales order in BaaN system or the service of receivables in BaaN system. The Supervisory Board states that the main risks are significantly limited in result of control and monitoring carried out by the Executive Board of Apator SA and permanent supervision of the Supervisory Board and Audit Committee.

Other risks related to observation of legal regulations and provisions are also correctly identified and managed.

#### **14. Assessment of activity and financial results of Apator SA and Grupa Apator**

The Supervisory Board on the 15<sup>th</sup> February 2011 approved the plan of activity of Apator SA for 2011 – 2013. Afterwards the Supervisory Board kept permanent supervision over the performance of the plan and on every meeting it analysed current financial and economic results of the Company and particularly the performance of domestic sales and export, costs being born, value of margin, stocks

management and financial resources. The Supervisory Board also made analysis of current financial results of entities in Grupa Apator, plans for their developments and consolidated financial results.

Grupa Apator, in spite of lasting breaking economy achieved in 2011 definitely better financial results than in 2010. Revenues on sales were 537 m PLN, including export 194 m PLN, profit on sale 69 m PLN and net profit 52 m PLN. The share of export on sales increased up to 36,07%. Grupa Apator has been extended by Apator Metra s.r.o. and NEWIND Grupa Apator, but Apator SA being performed the construction of a modern Company in Pomeranian Special Economic Zone.

In opinion of the Supervisory Board financial results achieved in 2011 by Grupa Apator are very good both it regards revenues and value of profitability. They place Grupa Apator on high level among the Polish companies included those listed in the WSE. At the same time the Supervisory Board underlines that Apator SA as one of a few entities consequently publishes forecast of consolidated financial results and makes payment of dividend.

### **15. Assessment of work of the Supervisory Board and the application to General Shareholders Meeting**

In the opinion of the Supervisory Board, it has performed its duties in accordance with all formal and legal requirements and its work contributed in the growth of goodwill and it increased the trust by shareholders.

The Supervisory Board applies to General Shareholders Meeting to approve the report on activity and give a vote of approval to all the members of the Supervisory Board during 2011.

Toruń, the 10<sup>th</sup> May 2012

**Deputy Chairman of Supervisory Board**

**Mariusz Lewicki**