Report of Management Board on activity of Apator SA in 2014
2014
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Content

1. General information .......................................................................................................................... 4

2. Information on organization relationships of Apator SA ................................................................. 4

2.1. Structure of Apator Group .......................................................................................................... 4

2.2. Changes in essential principles of the enterprise of the issuer and its capital group and changes in its structure in 2014 .......................................................................................................... 5

3. Indication the entity for auditing of financial statements and its remuneration ............................... 6

4. The statement of Management Board of Apator SA in the scope of appointment of the entity entitled for the auditing of financial statements ...................................................................................... 7

5. The statement of the Management Board of Apator SA in the scope of making financial statement and the Management Board report ................................................................. 7

6. Description of the essential economic and financial values ............................................................. 8

6.1. The assessment of factors and unusual events having the influence on financial results in 2014 ................................................................................................................................. 8

6.2. Most important achievements and failures of the Issuer in financial year .................................. 8

6.3 Information on the markets and sales ............................................................................................ 9

6.3.1 Essential trends in economy and sectors where Apator SA operates ........................................... 9

6.3.2 Analysis and structure of sales ..................................................................................................... 11

6.4 Financial results ............................................................................................................................. 13

6.5 Analysis of financial position ........................................................................................................ 15

6.6 Employment ................................................................................................................................ 15

6.7 Investments in non-financial asset ................................................................................................. 16

6.8 Investments in financial assets ....................................................................................................... 16

6.9 Assessment of the possibility to perform of investment plans .......................................................... 16

6.10 Dividend ..................................................................................................................................... 17

6.11 Prospects and drivers of development of activity taking into account the elements of strategy .................................................................................................................................................. 17

6.11.1 Elements of strategy activity of Apator SA .............................................................................. 17

6.11.2 Factors of development ............................................................................................................ 18

6.11.3 Factors of risk and threats ......................................................................................................... 18

7 Process of purchases, sources of procurement ................................................................................... 22

8 Assessment of management of financial resources ........................................................................... 23

9 Loans and borrowings ....................................................................................................................... 25

9.1 Information on concluded and terminated contracts of loans and borrowings in financial year .......... 25

9.2 Information on borrowings granted in financial year .................................................................... 26

10 Information on granted and received sureties and guarantees in financial year .............................. 27

11 Contracts concluded between Apator SA and persons in management ............................................ 29
Enclosure: Declaration on application of corporate governance

1. Shareholders of Apator SA holding directly or indirectly huge blocks of shares
2. The description of the main characteristics of internal control systems and risk management being applied in reference to the process of preparation of separate and consolidated financial statements
3. List of the holders of any securities giving special control rights including their description
4. Limitations of exercise of voting right based on shares
5. Indication of any limits regarding to the assignment of ownership rights of shares of Apator SA
6. Description of the rules for appointing and recalling the members of the managing bodies and their rights, in particular the right to make a decision regarding the issuance or buy-out of shares
7. General Meeting
8. Management Board
9. Description of the amendments to the Statutes of Apator SA
10. Rules of operation of General Shareholders Meeting
11. The composition of management and supervisory bodies of Apator SA and changes that occurred during recent fiscal year with description of their operation
12. Management structure Apator SA as at 31st December 2014
13. Audit Committee of the Supervisory Board of Apator SA
14. Management Board

Signatures
1. General information

Firma Apator was founded in 1949. Since 1993, it has been operating as joint stock company established by the employees of the former state owned company. The business activity of Apator SA covers design, manufacturing and sale of metering equipment and systems and switchgear. Apator SA is entered in National Court Register, Register of Entrepreneurs under number KRS no. 0000056456. All the activity is located in Pomeranian Special Economic Zone in Ostaszewo.

Since 24th April 1997 the shares of Apator SA has been quoted on Warsaw Stock Exchange in Warsaw. The trading with shares is performed in continuous quotations system. The Company is classified to electrical machines sector.

Shares of the Company are included in the following indexes:
- mWIG40,
- RESPECT Index.

2. Information on organization relationships of Apator SA

Information on organization or capital relationships of the Issuer and other entities and definition of its main domestic and foreign investments (securities, financial instruments, intangibles and properties) including capital investments made beyond its group of related entities and the description of method of their financing.

2.1. Structure of Apator Group

Parent entity of Apator Group is Apator SA. The diagram below shows the structure of Apator Group on the 31st December 2014.

After reporting period:
- on 26th February 2015 subsidiary - Apator Metrix SA and National Industry Group Ltd. concluded the contract of purchase of 50% shares in George Wilson Industries Ltd. (GWi). Thus Apator Metrix SA became the owner of 100% shares in GWi;
- on 1st April 2015 subsidiary - Apator Powogaz SA acquired 100% shares in Miitors ApS in Danish company
2.2. Changes in essential of management principles of the enterprise of the issuer and its capital group and changes in its structure in 2014

1) Apator SA – changes in management principles:

In 2014 Apator SA were acting based on four sections: operating, financial, switchgear and metering equipment and systems.

On 6th May 2014 the Supervisory Board of Apator SA made the decision of the appointment of Piotr Nowak to the Member of Management Board of APATOR SA – Chief Financial Officer since 1st July 2014. Extension of the makeup of Management Board is related to the performance of the strategy of Apator Group in 2014-2019. The Member of Management Board – Chief Financial Officer is responsible for the integration of financial areas within Apator Group, growth of efficiency of financial management and seeking the sources of the growth of value of capital group. In 2014 Chief Financial Officer made the restructuring of financial section and established new department – Controlling Department and Financial Committee where the members are chief accountants of the entities of Apator Group. The meetings of the Financial Committee are held once per month. The task of Financial Committee is to coordinate actions in finance, exchange of information, cooperation and jointed initiatives.

Since 1st July 2014 the Management Board of Apator SA has been acting with the following composition:

Andrzej Szostak – Chief Executive Officer,
Tomasz Habryka – Member of Management Board,
Jerzy Kuś – Member of Management Board,
Piotr Nowak – Member of Management Board

After reporting period i.e. 1st February 2015 Tomasz Habryka took the post of Chief Executive Manager of Elkomtech SA. Further to the above after he transferred his duties, on 31st March 2015 Tomasz Habryka resigned from his function of the Member of Management Board of Apator SA. Since 1st April 2015 the Management Board of Apator SA has been acting in three person makeup.

2) Apator Elkomtech SA – conclusion of the contract of purchase of shares:

On the 1st April 2014 Apator SA acquired 100% of shares of Apator Elkomtech SA with headquarters in Łódź that is the leading supplier of IT systems of SCADA class and cooperating with them other remote control engineering equipment, protection equipment and other power grid equipment for dispersed systems and providing the possibility of remote control and the supervision of power grid in the full scale voltage.

Purchase price of shares was in total PLN 98, 4 m while Apator SA took over with Apator Elkomtech SA its cash in amount of PLN 7, 8 m. The acquisition of shares of Apator Elkomtech SA has been financed by long-term loan.

The purchase of the company is the result of performance of development strategy of Apator Group that for the segment of automation of grid assumes:

Comprehensive service of customers of power engineering sector in the scope of smart equipment and systems,
Offering of comprehensive tool for the automation of operation of the whole power engineering grid for all levels of voltage,
Provision the possibility of current diagnostics of grid and flexible its management.

On 26th January 2015 the change of the name to Apator Elkomtech SA was registered.
3) **Apator Rector sp. z o. o. – purchase of shares:**

On 30th June 2014 Apator SA acquired 30% shares in subsidiary - Apator Rector sp. z o. o. for the amount of PLN 17, 9 m. The assignment of the property rights took place on 1st July 2014. Apator SA currently has 100% shares in Apator Rector sp. z o. o.

The purchase of the above shares took place in conditions specified in the investment contract dated 30th December 2010 between Apator SA and two non-corporate persons.

4) **Apator GmbH – increase of the capital:**

On 31st January 2014 the company capital was increased in subsidiary - Apator GmbH (Germany) from Eur 50 000 to Eur 70 000.

5) **FAP Pafal SA – decrease of the capital, restructuring of the company:**

On 12th February 2014 Apator SA sold FAP Pafal SA 111 000 its shares for the amount of PLN 2.997 000. The purchase cost of the shares was PLN 2.897 000. The shares with the others purchased by the company in 2013 were redeemed in the fourth quarter 2014. The restructuring process of FAP Pafal SA has been making where the manufacturing of electronic electricity meters is being transferred to Apator SA, located in Pomeranian Special Economic Zone. The activity of FAP Pafal SA since the II quarter 2015 has been focused on manufacturing of inductive electricity meters and the activity related to the secondary certification and installation of electricity meters.

6) **Changes after reporting period:**

   a) In consolidated annual financial statement of Apator Group for 2014 (and comparatively for 2013) the change in classification of business lines to the segments of Apator Group: ICT line has been transferred from metering segment to automation of grid segment;
   
   b) On 26th February 2015 subsidiary - Apator Metrix SA and National Industry Group Ltd. concluded the contract of purchase 50% of shares in George Wilson Industries Ltd. (GWi) for the amount of GBP 5,4 m (PLN 30,6 m) ; while Apator Metrix SA became the owner 100% of shares in GWi;
   
   c) On 12th March 2015 Apator SA sold FAP Pafal SA 59 000 its shares for their redemption for the amount PLN 1.593 000 (PLN 27,00 per share); the purchase cost of the shares was PLN 1.539 (PLN 26,10 per share); redemption process is being performed;
   
   d) On 1st April 2015 subsidiary - Apator Powogaz SA purchased for the amount PLN 25,5 m (Eur 6,2 m) 100% of shares in Danish company - Mitors ApS; total price at the level of goodwill of the company was PLN 28,8 m (i.e. Eur 7 m) – the different is the refinancing of loans towards the shareholders of loans and other adjustments of price; the company acts in metering sector and it deals with the design of the modern ultrasonic water meters for cold and warm water, flow transducers and heat meters.

3. **Indication the entity for auditing of financial statements and its remuneration**

Auditing of separate annual financial statement was performed by entitled entity for auditing of financial statements – KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. with headquarters in Warsaw based on the appointment.
made by Supervisory Board of Apator SA on 12th December 2013. Audit was conducted based on contracts dated 7th January 2014 of auditing and review interim and annual separate and consolidated financial statements for the financial years 2014-2016.

Based on above contracts for financial year 2014 remuneration of entitled entity was as follows:

For auditing of separate financial statement and review of consolidated financial statement for the first half 2014 is in net amount PLN 46 000 (for the first half 2013: PLN 46 000);
For auditing of separate financial statement and consolidated financial statement for financial year 2014 is in net amount PLN 83 000 (for financial year 2013: PLN 69 000).

Moreover, Apator SA covers the cost of travel, meals and accommodation of the employees performing tasks assigned. For the auditing and review of interim financial statements, the amount should not exceed the net amount of PLN 9 500 but for the auditing and review of annual separate and consolidated financial statements, the net amount of PLN 15 000.

4. The statement of Management Board of Apator SA in the scope of appointment of the entity entitled for the auditing of financial statements.

The Management Board of Apator SA in the following makeup:
Andrzej Szostak – Chief Executive Officer,
Piotr Nowak – Member of Management Board,
Jerzy Kuś – Member of Management Board

states that the entity entitled to audit the financial statements, KPMG Audyt spółka z ograniczoną odpowiedzialnością Sp. k., that performed the audit of the annual separate financial statement, was appointed in compliance with applicable law. The Supervisory Board of Apator SA appointed the entity to audit and review the financial statements on 12th December 2013 pursuant to § 20 of the Statutes of Apator SA i.e. in a manner that assures its independence to perform its tasks. The appointment of the entity entitled to audit financial statements was performed pursuant to the applicable regulations and professional standards.

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. - entered into the register of the entities entitled to audit financial statements with KIBR number 3546, as well as members of its Management Board and statutory auditors carrying out the financial audit for Apator SA and its subsidiaries, meet the requirements of fairness and independency specified in Art. 56 of the Act of 7th May 2009 on statutory auditors and their self-government, entities authorized to audit financial statements and public supervision.


The Management Board of Apator SA in the following makeup:
Andrzej Szostak – Chief Executive Officer,
Piotr Nowak – Member of Management Board,
Jerzy Kuś – Member of Management Board

states that pursuant to its best knowledge, the financial statement for 2014 of Apator SA and the comparative data were prepared pursuant to the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and the related interpretations published in a form of the regulations of the European Commissions. Apator SA
applies the provisions of the Accounting Act and the executive regulations under this Act in the field not regulated by the IAS/IFRS.

The financial statement reflects the assets and financial condition of Apator SA and its financial results in a reliable, accurate and clear manner. The detailed principles of preparing these statements are included in the explanatory notes to the separate financial statements.

The Management Report of Apator SA includes an accurate description of the development, achievements and standing of the Company, including a description of the basic risks and threats.

6. Description of the essential economic and financial values

6.1. The assessment of factors and unusual events having the influence on financial results in 2014

Unusual events in Apator SA:
1) In 2014 Apator SA established the provision in amount of PLN 417 000 for the receivables from the warehouse being in bankruptcy:
   a) Ampli SA in amount of PLN 317 000 – on 29th July 2014 the bankruptcy was announced with the possibility to make a deal with creditors,
   b) Elektrotechnika Mors sp. z o. o. in amount of PLN 100 000 – on 4th September 2014 the bankruptcy was announced with the possibility to make deal with creditors.
2) On 9th April 2014 Bank Handlowy w Warszawie SA granted Apator SA the loan in amount of PLN 98.412 000 for financing the purchase of Apator Elkomtech SA. The operation of the bank loan has significant influence on financial costs (interest) and cash flow (interest and capital instalments).

6.2. Most important achievements and failures of the Issuer in financial year

Achievements:
1. Growth of revenues on sales achieved at home by 27.263 000 related to PGE and Tauron tenders won for electricity meters.
2. Maintenance y/y of good financial results – growth in volume:
   − Gross profit on sales by PLN 3.949 000 (by 8, 3%),
   − Profit on sales by PLN 2.314 000 (by 16, 5%),
   − EBITDA margin by 1.190 000 (by 5%).
3. Taking the initiative aiming at mitigation of negative results of difficult situation on Russian market (growth of domestic sales, restrain of growth of fixed costs).
5. The commencement of business integration process between lines of switchgear, ICT and supervisory control.
7. Development of systems and solutions of smart metering of electricity meters – development of PRIME open technologies (by our own) and OSGP (in cooperation with Echelon/NES). Share of Apator SA in consortium
performing the project Smart City Wrocław for Tauron Dystrybucja (joined contracting with the option of the supply of about 350,000 smart electricity meters in the system where 40% is to be manufactured by Apator SA).

Failures:
1. Decrease of revenues on sales to foreign markets: mainly to Russia (by PLN 4,646,000) – rouble devaluation; decrease of import competitiveness is evident first of all in switchgear line.
2. Lower values of margins than in 2013 achieved (in percentage): mainly due to different than in 2013 product mix (growth of sales of low margin electricity meters) – high price erosion and pressure on margins.

6.3 Information on sales markets and sales

6.3.1 Essential trends in economy and sectors where Apator SA operates

The increase of growth rate, temperate but higher than in two previous years was noticed in Poland in 2014 at slight improvement of the economic trend in European economy. The main driver of growth was domestic demand both for consumption and investments. According to initial estimations made, gross domestic product in 2014 increased by 3, 3% per year when it increased by 1, 7% in 2013. Production sold in industry in total in 2014 was higher than in the last year by 3, 2% (1, 8% in 2013). In 2014 in relation to 2013 the increase of production of investment goods by 7, 4% and consumption fixed goods by 5, 7% were noticed. The sales of goods related to power engineering decreased by 3, 7%. Construction-assembly production performed by the enterprises dealing mainly with construction of buildings in 2014 was lower by 4% than in previous year. The decrease of prices of production sold in industry in 2014 in relation to previous year was 1, 5% (1, 3% in 2013). Prices decreased mainly in sections: mining and quarrying (by 4, 7%) and industrial processing (by 1, 6%).

Metering segment – electricity metering line:

Manufacturing sold of electricity meters in 2014 increased about 16% (Central Statistical Office). Apator SA and Pafal SA (metering electricity line) in much degree participated in this growth. The growth concerned first of all residential electricity meters without communication and it results mainly of slow development of smart electricity meters (there is still lack of technical specification for Poland). Small tenders for smart electricity meters and AMI infrastructure are invited and some of them were decided at the beginning of 2014: Energa (III stage of implementation), in Tauron Dystrybucja (Smart City Wrocław project), in PGE Dystrybucja (suppliers of smart electricity meters and concentrators to branch offices in Łódź and Białystok) and in Enea, where technical consultations were held. Further to „joined” tender for balance electricity meters, the risk related to obtain order increased a bit (one ordering party). There is still lack of official announcement about technical specification prepared for smart electricity meters. There is also lack of officially approved schedule of implementation of AMI systems and smart electricity meters in Poland what causes some confusion among priorities of R&D and brings some uncertainty among potential suppliers. The President of Energy Regulatory Office in Poland suspended to make any decision concerning the financing of AMI structure. Moreover, new competitors in “budget” segment of residential electricity meters appeared on the Polish market in 2014

In 2014 clearly seen revival occurred on the market of smart electricity meters in high developed European countries. Big tenders related to the implementations have been invited in such countries like; the Netherlands, Denmark,
Norway, Greece, Belgium. In the United Kingdom the tenders have been invited by the largest sellers of energy for the supply of smart electricity meters pursuant to SMETS2 national technical specification. The number of implementations planned reaches several million units per year but the date of completion of the implementation project will be postponed again. Germany is going to implement large number of smart electricity meters. The European forecast for the market of smart electricity meters are very good, however significant increase of orders is expected to be about 2016-2019. Estimated growth of the European market for smart electricity meters in this period can reach even several dozen percent annually in higher developed countries of European Union. Some of European manufacturers of electricity meters open new manufacturing companies in France and the United Kingdom. Apator Group participates in consultations concerning many projects related to the performance of the idea of smart grids and smart metering in Poland and abroad. The example of the organization aiming at acceleration of implementation works of smart grids in Poland is: Consortium Smart Power Grids Poland and Smart Grids Section at the Polish Chamber of Commerce for Electronics and Communications. The Ministry of Economy accepted the document “List of Strategic Projects for the power engineering infrastructure” within Infrastructure and Environment Operation Programme 2014-2020 being the Project pipeline for power engineering. In the programme, implementation projects of smart electricity meters and investments in smart power engineering were taken into account.

At the beginning of 2014 Apator joined international organization ESMIG (European Smart Metering Industry Group) with headquarters in Brussel that has significant influence on European standards of Smart Metering and Smart Grids. Lack of standardization is the main obstacle to the development of European markets of smart metering and smart grids.

In 2014 Apator became the member of OSGP Alliance and it was accepted to G3-PLC Alliance. Taking into account the fact that Apator was earlier the member of PRIME Alliance, Apator became the member of three of four dominating organizations where the latest open communication standards are established making use of power grids as transmission medium (PLC). Apator is going to develop the products pursuant to the standards and promote them both at home and abroad.

First electricity meters pursuant to OSGP open standard are being supplied by Apator already in the first quarter 2015 (Smart City Wroclaw). Accession to OSGP Alliance and G3-PLC Alliance is the next step in performance of strategic intentions and the building position of Apator Group as the supplier of smart metering equipment and systems.

**Automation of power grid – switchgear line:**

Domestic sale of switchgear is correlated with the number of building permits issued. The demand for disconnectors and switches being used in electric terminals, substations and switchboards is generated to a great degree by the number of houses and flats put into operation. Number of building permits issued increased in 2014 by about 13% y/y, proclaiming gradual growth of the market. It should be mentioned that the Polish Government accepted in August 2014 the project of amendment to construction law that simplifies and makes the investment process shorter what can have positive influence on the market.

The condition of the industry has certain influence on revenues in switchgear line. The production sold in industry in 2014 was higher by 3, 2% than a year before (Central Statistical Office).

Further to switchgear Apator was in 2014 first of all the supplier of the equipment to complex systems for safe distribution of electrical energy and it cooperates first of all with business customers. (B2B).

The largest group of switchgear customers are companies dealing with installing and mounting (integrators). The infrastructure investments have the most impact on the results of this sector like; new and being modernized industrial objects, public buildings, sport stadiums, housing estates, main power supply points, new and modernized power grids, office buildings, fair objects, hotels etc. The firms perform the integrator activity in the scope of the

<table>
<thead>
<tr>
<th>Nazwa jednostki:</th>
<th>Apator SA</th>
<th>Strona 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poziom zaokrągleni:</td>
<td>wszystkie kwoty wyrażone są w tysiącach złotych polskich (o ile nie wskazano inaczej)</td>
<td></td>
</tr>
</tbody>
</table>

**List of Strategic Projects for the power engineering infrastructure**

- **Infrastructure and Environment**
- **Smart Grids.**
establishment of power grids and complicated power engineering equipment such like substations or switchboards.

The size of this segment of the market is estimated about PLN 2 bn annually (source: Elektrosystemy – May 2014). The largest share in market of integrators have large WSE listed companies that Apator have been cooperating for a long time (e.g. ZPUE, Elektrobudowa, Ekektromontaże and others).

The important group of customers for switchgear line are large electrical wholesalers. In 2014 the liabilities were growing of these entities and the fierce price war took place and it caused significant problems with financial liquidity. In relation to 2013 that was the year of drops for distribution sector (-4%), 2014 brought some revival in goods and electrical product sector. The initial assessment of sales on wholesale market indicates 10% increase of sales in sector in 2014 in relation to the same period last year. New player on wholesale market is the network of wholesalers of Elektro Omega that includes over 30 members (separate wholesalers not integrated so far). Sales via internet have been developing. More and more popular becomes the ETIM comprehensive classification system of electronic products (shareholders of ETIM Polska offering the solution are 12 electrical engineering distributors representing 3/4 of the market).

6.3.2 Analysis and structure of sales

Apator SA sales its products mainly to institutional recipients and industry

The basic part of revenues in metering segment (metering line of electrical energy) is being achieved in result of tenders won. They are invited by distribution systems operators (electricity distribution companies). It is the element that makes revenues depending on that sector.

In switchgear line there is no dependence on the recipients due to their dispersion; the largest group of customers are electrical wholesalers.

In 2014 the sale in total where the revenues exceeded the value of 10% of Apator SA concerned the following recipients:

PGE Dystrybucja SA – sale was PLN 35.416 000 that is 19, 02% of sale in total,

Tauron Dystrybucja Pomiary sp. z o. o. – sale was PLN 30.812 000 that is 16, 55% of sale in total.

There are no formal relations between Apator SA, entities of Apator Group and:

- PGE Dystrybucja SA and entities of PGE Group,
- Tauron Dystrybucja Pomiary sp. z o. o. and entities of Tauron Group

Total revenues on sales of Apator SA were in 2014 at the level PLN 186.205 000 that is higher by PLN 18.343 000 (by 10, 93%) in relation to 2013. The change has been performed by:

- increase of sales of metering equipment by PLN 23.943 000 (with domestic sales by PLN 25.473 000 included),
- decrease of sales of switchgear by PLN 5.600 000 (with foreign markets by PLN 7.391 000 included)

Apator SA performed in 2014 the following:
- domestic sales PLN 149.954 000 (increase by 22, 22% that is by PLN 27.263 000 y/y):
  Increase of domestic sales concern mainly the metering equipment and it is related to large contracts of the supply of residential electricity meters to PGE and Tauron, increase of sales of printed circuit boards within the group (to subsidiary - Pafal SA under the contract with E.ON) and Elf type heat meters (to subsidiary - Apator
Domestic sales of switchgear increased by PLN 1.790 000 and it is the effect of change in prices and quantities of sales.

- Sales on foreign markets in amount of PLN 36.251 000 (decrease by 19, 75%, that is by PLN 8.920 000 y/y), including:
  - to European Union at the value PLN 20.075 000 (increase by 14,65%, that is by PLN 2.565 y/y),
  - to other countries at the value PLN 16.176 000 (decrease by 41,52%, that is by PLN 11.485 000 y/y)

Sales abroad in 2014 was 19, 47% of total revenues on sales (in 2013 it was 26, 91%). The decrease of sales concerned mainly switchgear and it is the result of decrease of orders from Russia due to political crisis and lack of cash (also due to devaluation of rouble) for the performance of important investments. Moreover, among other things further to the situation it has appeared more and more Russian competition that offers lower prices for some switchgear products. Total sales to Russia decreased by PLN 4.646 000 y/y. Other changes in sales to foreign markets concerned the following countries:

- Sierra Leone – decrease of sales by PLN 3.014 000 due to the completion of performance of the contract of sales single and three phase LEW type electricity meters to United Business Systems Limited in 2013;
- Germany – decrease of sales by PLN 2.058 000 was related to the change of the method of sales of switchgear (RBK and RA) to WEG in Brazil in 2013 the sales was performed via Apator GmbH, currently the supplies are performed directly to Brazil sales growth to Brazil by PLN 2.395 000 y/y;
- Turkey – decrease of sales by PLN 3.465 000 is related to the lower number of contracts of switchgear concluded in 2014;
- Hungary – decrease of sales by PLN 1.144 000 was related to the completion of the contracts of the supply of electricity meters for E.ON and ELMU-EMASZ distribution electricity companies; in 2014 these companies have prepared the procedures to tenders for the following years;
- Lithuania – increase of total sales by PLN 2.054 000, including: electricity meters by PLN 1.665 000 (performance of the contract for AB Lesto electricity distribution company) and switchgear by PLN 389 000.

In total sales:

- Sales of products and services was PLN 175.436 000 (increase by 13, 48% that is by PLN 20.842 000 y/y),
- sales of goods and materials: PLN 10.769 000 (decrease by PLN 18, 83% hat is by PLN 2.499 000 y/y).

Sales of materials and goods are decreasing every year in Apator SA. It is the result of the fact that the current electricity meters (they are significant items in the products sold) were manufactured in subsidiary - Pafal SA, and next sold by Apator SA. Pursuant to the development strategy being performed the manufacturing of electronic electricity meters are systematically being moved to Apator SA. The manufacturing of inductive electricity meters and rendering services of secondary certification and installations of electricity meters will remain in Pafal SA.

The main countries where Apator SA exported its products were shown in the bar chart below.
6.4 Financial results

In 2014 Apator SA achieved the following results:

The structure of sales according to the assortment groups with the division into home and export is shown in the table below.

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
<th>Change</th>
<th>Progress y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metering segment (metering of electricity)</td>
<td>116 943</td>
<td>93 000</td>
<td>23 943</td>
<td>125,75%</td>
</tr>
<tr>
<td>home</td>
<td>108 672</td>
<td>83 200</td>
<td>25 472</td>
<td>130,62%</td>
</tr>
<tr>
<td>export</td>
<td>8 271</td>
<td>9 800</td>
<td>-1 529</td>
<td>84,40%</td>
</tr>
<tr>
<td>share of export of metering equipment in revenues in total</td>
<td>4,44%</td>
<td>5,84%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automation of power grid segment (switchgear)</td>
<td>69 262</td>
<td>74 862</td>
<td>-5 600</td>
<td>92,52%</td>
</tr>
<tr>
<td>home</td>
<td>41 282</td>
<td>39 491</td>
<td>1 791</td>
<td>104,54%</td>
</tr>
<tr>
<td>export</td>
<td>27 980</td>
<td>35 371</td>
<td>-7 391</td>
<td>79,10%</td>
</tr>
<tr>
<td>share of export of switchgear in revenues in total</td>
<td>15,03%</td>
<td>21,07%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenues</td>
<td>186 205</td>
<td>167 862</td>
<td>18 343</td>
<td>110,93%</td>
</tr>
<tr>
<td>home</td>
<td>149 954</td>
<td>122 691</td>
<td>27 263</td>
<td>122,22%</td>
</tr>
<tr>
<td>export</td>
<td>36 251</td>
<td>45 171</td>
<td>-8 920</td>
<td>80,25%</td>
</tr>
<tr>
<td>share of export in total in revenues in total</td>
<td>19,47%</td>
<td>26,91%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Report of Management Board on activity of Apator SA in 2014

Profit and loss account

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>Progress y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PLN’ 000</td>
<td>PLN’ 000</td>
<td>%</td>
</tr>
<tr>
<td>Revenues on sales of products, goods and materials</td>
<td>186 205</td>
<td>167 862</td>
<td>110,93%</td>
</tr>
<tr>
<td>Manufacturing costs of products, goods and materials sold</td>
<td>134 445</td>
<td>120 051</td>
<td>111,99%</td>
</tr>
<tr>
<td>Gross profit on sales</td>
<td>51 760</td>
<td>47 811</td>
<td>108,26%</td>
</tr>
<tr>
<td>Selling costs</td>
<td>10 274</td>
<td>9 524</td>
<td>107,87%</td>
</tr>
<tr>
<td>Overheads</td>
<td>25 187</td>
<td>24 302</td>
<td>103,64%</td>
</tr>
<tr>
<td>Profit on sales</td>
<td>16 299</td>
<td>13 985</td>
<td>116,55%</td>
</tr>
<tr>
<td>Result on other operating activity</td>
<td>-937</td>
<td>785</td>
<td>-119,36%</td>
</tr>
<tr>
<td>Profit on operating activity</td>
<td>15 362</td>
<td>14 770</td>
<td>104,01%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>24 890</td>
<td>23 700</td>
<td>105,02%</td>
</tr>
<tr>
<td>Result on financing activity</td>
<td>35 965</td>
<td>36 469</td>
<td>98,62%</td>
</tr>
<tr>
<td>Result before tax</td>
<td>51 327</td>
<td>51 239</td>
<td>100,17%</td>
</tr>
<tr>
<td>Current income tax</td>
<td>-540</td>
<td>-604</td>
<td>89,40%</td>
</tr>
<tr>
<td>Deferred income tax</td>
<td>-1 789</td>
<td>665</td>
<td>-269,02%</td>
</tr>
<tr>
<td>Net profit</td>
<td>48 998</td>
<td>51 300</td>
<td>95,51%</td>
</tr>
</tbody>
</table>

The following factors and events had the influence on the value of financial results in 2014 in relation to 2013:

- higher revenues on sales (by PLN 18.343 000 y/y) – described in point 6.3.2.;
- decrease of gross profitability on sales (from 28,48% to 27,80% in 2014 y/y) – it is the result of:
  - business mix in sales of electricity meters: in 2014 significant growth in quantity of sales of residential electricity meters occurred (contracts with PGE and Tauron), that have lower margin than prepayment electricity meters (being sold in significant higher quantities in 2013); residential electricity meters are under high price pressure of the competition and further price erosion could be seen in 2014.
  - decrease of sales of switchgear products that bring the company good margin - it regarded foreign markets in 2014 (Russia, Turkey – reasons described in 6.3.2.);
- improvement of profitability of the result on sales (from 8,33% to 8,75% in 2014 y/y) caused by lower increase in relation to increase of sales, the overheads (increase by PLN 885 000 where about the half of it regards transactional costs related to the acquisition of Apator Elkomtech SA) and sales costs (increase by PLN 750 000 mainly due to commissions granted and increased depreciation of new investments);
- occurrence in 2014 negative (PLN -937 000) in result of other operating activity (in 2013 positive value PLN 785 000) due to lower other operating revenues; in 2013 occurred the additional revenues: PLN 500 000 of compensation from Pomeranian Special Economic Zone and sale of fixed assets in amount of PLN 534 000 (machines, equipment, vehicles);
- slightly lower (by PLN 504 000 y/y) values of the result on financial activity, mainly due to negative result on exchange differences PLN -172 000 in relation to positive result in 2013 in amount of PLN 150 000;
- considerably lower net profit in 2014 in relation to 2013 (by PLN 2.302 000), at similar values of gross result before tax – due to considerable growth y/y of deferred income tax (by PLN 2.454 000); growth of the item is the result of the estimation made at the end of 2014 of remaining to use the relief of income tax (due to the activity in Pomeranian Special Economic Zone) and the usage of it in the future.
6.5 Analysis of financial position

Cash on 31st December 2014 was in amount of PLN 3,716,000. The source of the cash is:
Cash at the beginning of 2014: PLN 1,354,000;
Essential operating activity: PLN 23,311,000 – the value is the result of:
  – adjustments of the result for the mount of PLN 26,467,000 (main adjustment regarded the revenues on dividend obtained from subsidiaries in amount of PLN 39,951,000),
  – changes in working capital in amount of PLN -2,653,000 (mainly: increase of engagement in stock by PLN 1,425,000, increase of receivables by PLN 3,518,000 and increase of liabilities by PLN 1,559,000);
- investment activity: PLN -87,952,000 – the value has been generated by:
  – investment expenditures for subsidiaries (acquisition 100% of Apator Elkomtech SA and the increase of share to 100% of Apator Rector sp. z o. o.) in amount of PLN 116,568,000,
  – investment expenditures for fixed tangible assets and intangibles in amount of PLN 12,261,000,
  – dividends from subsidiaries in amount of PLN 39,951,000,
  – receipts from the sale of own shares of subsidiary - Pafal SA for their redemption in amount of PLN 2,997,000,
  – borrowing granted in amount of PLN 2,000,000 towards the subsidiary - Apator Rector sp. z o. o.;
- financial activity: PLN 67,033,000 – the value is the result of:
  – loans taken in amount of PLN 112,233,000 (mainly: long term loan for the acquisition of Apator Elkomtech SA in amount of PLN 98,412,000) and the repayment of loans in amount of 20,000 000 due to: repayment of the first instalment of long-term loan in amount of PLN 10,000 000 and the repayment of revolving loan in amount of PLN 10,000,000,
  – dividend paid to shareholders in amount of 19,849,000 (remaining part of dividend for 2013 and interim dividend for 2014).

The cash flow presented of Apator SA proves about positive financial position of Apator SA allowing to invest and to make repayment of the liabilities on time.

<table>
<thead>
<tr>
<th>Ratios</th>
<th>Formula</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt</td>
<td>loans and borrowings – cash and equivalents – short-term borrowings granted</td>
<td>122,181</td>
<td>34,348</td>
</tr>
<tr>
<td>Net debt / EBITDA</td>
<td>Loan and borrowings – cash and equivalents – short-term borrowings granted / EBITDA</td>
<td>4.91</td>
<td>1.45</td>
</tr>
<tr>
<td>Capex</td>
<td>tangible and intangible investment expenditures</td>
<td>10,567</td>
<td>12,472</td>
</tr>
<tr>
<td>Working capital</td>
<td>(current assets – cash) – (short-term liabilities – short-term loans and borrowings)</td>
<td>31,277</td>
<td>26,961</td>
</tr>
</tbody>
</table>

6.6 Employment

Employment on 31st December 2014 was 544 persons and it increased by 32 persons in relation to the level of employment on 31st December 2013. The increase of employment was caused mainly by the increase of employment in manufacturing area – increase by 27 persons. The increase was related to the increase in manufacturing of electricity meters based on contracts concluded.

Average employment in 2014 were 532 jobs and it increased by 33 jobs in relation to 2013.
6.7 Investments in non-financial asset

Investment expenditures in non-financial fixed asset in 2014 reached the value of PLN 10,567,000 (in 2013: PLN 12,472,000). It covered the expenditures on machines and equipment and devices for manufacturing of products in amount of PLN 7,8 m. Other expenditures on intangibles were (PLN 1,5 m), construction tasks and others (PLN 1,3 m).

6.8 Investments in financial assets

Investment in financial fixed asset of Apator SA in 2014 concerned the following entities:

- Apator Elkomtech SA – acquisition of the entity,
- Apator Rector sp. z o. o. – increase of shares to 100%,
- Pafal SA – sale of own shares of Pafal SA for their redemption,
- Apator GmbH – increase of equity

Except the above changes in Apator Group in 2014, no merger or other acquisition of entities, restructuring, division or discontinue activity were performed. After reporting period the entities in Apator Group made the following:

- subsidiary - Apator Metrix SA acquired remaining 50% of shares in GWi (currently 100%),
- Apator SA sold Pafal SA subsequent shares for their redemption; the redemption of shares is currently in process,
- Apator Powogaz SA acquired 100% of shares in Danish company - Miitors ApS.

The detailed description of the above investments is described in point 2.2.

6.9 Assessment of the possibility to perform of investment plans

Non-financial asset:

Investment plan of non-financial asset of Apator SA in 2015 is in amount of PLN 17,9 m, mainly:

- PLN 5,7 m – investments in new machines and equipment,
- PLN 7,7 m – tooling (investments mainly in switchgear),
- PLN 1,9 m – intangibles (migration of current integrated management system to new version),
- PLN 1,0 m – research & development

The objective of the above expenditures is long-term increase of revenues on sales or they have impact on the profitability on higher profitability of the manufacturing process. Moreover, some of them have reconstruction character.

The source of financing of the above investments is the own cash of Apator SA

Financial asset

Currently Apator SA does not plan any investment in financial fixed asset in 2015.

Apator SA can afford from financial point of view the above investment expenditures and they are not threats to the maintenance of its validity, particularly in the respect of timely repayments of liabilities.
6.10 Dividend

Dividend from the profit in 2013:

The profit for 2013 was paid in gross amount of PLN 0, 60 per share that is in total PLN 19, 9 m. The interim dividend towards the dividend was paid on 23rd December 2013 in gross amount of PLN 0,30 per share, remaining part of dividend was paid on 8th July 2014 in gross amount of PLN 0,30 per share.

Declaration of payment of dividend from the profit for 2014:

The Management Board declares the payment of dividend from the profit for 2014 in gross amount of PLN 0, 80 per share. The final decision will be made on 22nd June 2015 at Ordinary General Shareholders Meeting. On 12th December 2014 the interim dividend was paid towards dividend in gross amount of PLN 0, 30 per share.

Total, currently declared value of dividend from the profit in 2014 is in gross amount of PLN 0, 80 per share that is in total PLN 26, 5 m.

6.11 Prospects and drivers of development of activity taking into account the elements of strategy

6.11.1 Elements of strategy activity of Apator SA

Apator SA acts pursuant to the development strategy of Apator Capital Group for 2014-2019. The development of activity of Apator SA is focused on two essential segments of Apator Capital Group:

- metering equipment and systems (in metering of electricity business line),
- automation of power grid operation (remote monitoring and control, automation and protection, smart switchgear)

Development strategy for 2014 – 2019:

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Change of business model</td>
<td>Division into metering segment and automation of power grid segment</td>
</tr>
<tr>
<td></td>
<td>Extension of automation of power grid segment by by control and supervisory systems - takeover of Elkomtech</td>
</tr>
<tr>
<td></td>
<td>Counterbalance of business model</td>
</tr>
<tr>
<td>Target value of revenues over PLN 1, 5 bn (average annual increase 15, 1%)</td>
<td>Revenues: PLN 725 m, increase by 6%</td>
</tr>
<tr>
<td>Average annual growth rate of EBITDA in the range 10% – 15%</td>
<td>EBITDA: PLN 131 m, increase by 23%</td>
</tr>
<tr>
<td>Over 60% of revenues from foreign markets</td>
<td>Share of export: 45% - no threat to the target in spite of difficult situation in Russia</td>
</tr>
<tr>
<td>50% EBITDA from electricity distribution sector</td>
<td>36% EBITDA from electricity distribution sector</td>
</tr>
</tbody>
</table>
6.11.2 Factors of development

Factors that will have the influence on the development of Apator SA (within Apator Group) at least for the next financial year cover:

- Development of smart equipment and systems:
  - development of PRIME and OSGP open technologies (in cooperation with Echelon/nes);
  - performance of Smart City Wroclaw project of Tauron Dystrybucja within the consortium (about 350 000 of smart electricity meters in the system, where 40% is to be performed by Apator Group);
  - development of smart switchgear supported by competences of Apator Elkomtech SA (business and organization integration process).

Development of the concept of strategic processes (finance, marketing, IT, HR, purchases) – making common some of functions in Apator Group in order to optimize the costs and to improve operational efficiency.

6.11.3 Factors of risk and threats

Corporation risks identified in Apator SA cover the following areas:
strategic area,
human resources area,
financing area,
operating area,
political and legal area

The most significant risks:
1) Risk preventing to achieve strategic goals for 2014 – 2019

The status of performance of the strategy has been monitoring by the Management Board and Supervisory Board based on analysis of progress made for short-term and long–term of strategic initiatives and the performance of financial results during months, quarters, semi-annual and annual periods.

The Management Board of Apator SA considers that the progress in performance of strategic objectives is correct however it can see the risks related to implementation of technology for smart metering, the place in value chain and the breakthrough on export markets.

Moreover, as it concerns the delays in the performance of the long-term contracts by Apator Rector sp. z o. o. (ICT line) for power industry and increase of costs of making software, the significant risk appeared preventing to achieve financial results assumed in that line. The delays in performance of long-term contracts are the result of the fact that the company incurs the costs of current activity but due to delays in performance of particular stages of the contracts, invoicing of the sales is being postponed to later period. In order to prevent against the occurrence of such a risk several actions have been taken. Apator Group gives support to the activity of Apator Rector sp. z o. o., that is its significant business line due to product developments, references and possibilities of further development. Rector sp. z o. o. made the plan of repair actions; parent entity gives the support in order to achieve the objectives of the programme. Moreover, it gives financial support necessary to maintain financial liquidity.

2) Risk of faulty investments

Creation and implementation of innovative technologies, products and services are inherent related to the increase of R&D. The market is not always able to accept the suggested solutions.

In order to reduce the risk, close cooperation with customers is being carried out, for example during sector workshops or technical consultations. In December 2014 technical consultations were completed concerning common
technical specification for smart metering. The environment of producers expects the announcement of obligatory standard that would reduce the risk related to metering of electricity. There are also programmes for trial pilot implementations of innovative products and services on a small scale.

Strategic risks are being monitored pursuant to the management methodology by objectives.

3) Risk of loss of financial liquidity
There is both the risk of lack of possibility to settle current liabilities and long-term loss of liquidity in this risk group. The risk is being managed by current and periodical analysis of coming receivables and timely settlement of liabilities, maintenance of appropriate values of covenants specified in credit contracts.

4) Risk of loss of receivables
Risk is related to temporary more difficult financial position of entities of electrical sector struggling with growing stocks and lack of possibility to obtain the receivables from its end users.

Risk is being minimalized by use of multifaceted monitoring of the sector and particular partners and introduction and maintenance of partnership relations with customers. The hedging by bills of exchange, reports of business information agencies, analysis of current conduct in CRM and monitoring of the press news are also applied. Moreover, the risk of loss of receivables is related to the situation in Ukraine and Russia. The parent entity and Apator Group have been monitoring the status of receivables from these countries and reduce their value.

5) Risk of loss of key employees
Sector of advanced technologies where parent entity and Apator Group operate is ruled by competence and knowledge of key employees without who the company would not be able to operate. The maintenance of loyalty and prevention of possible loss of key employees first of all regards the departments; R&D, domestic sales and export and operating departments is important objective of management of this group of risks.

In order to minimalize the risk, the programme for creation and strengthening of professional competence is being implemented. In 2014 partner contracts with technological companies in the sector were used that allowed to make use temporary of external sophisticated specialists acting in very narrow and hermetic fields, particularly in the scope of R&D. Cooperation with key universities of technology is being continued. The actions leading to create the loyalty of employees are also undertaken.

6) Currency risk
There are risks related to the change of exchange rate of currency in export and in import in this group.

The management of the risk is being performed by established hedging policy that via internal regulations covers all the entities of Apator Group: the entities have to use natural hedging but the currency exposure is being hedged for the period of following months in number of 24 months – first 12 months to 80% of exposure and for the number of following 12 months to 60% of exposure.

Apator SA on 31\textsuperscript{st} December 2014 had the hedging contracts for the value of EUR 4.300 000 (forwards) with the following deadlines:

- in 2015: EUR 2.500 000 at weighted average exchange rate – PLN 42,
- in 2016: EUR 1.800 000 at weighted average exchange rate - PLN 4, 33

Weighted average exchange rate for all the contracts in EUR being performed for 2015-2016 is PLN 4, 38

Moreover, Management Board of Apator SA points out that depreciation of PLN in relation to USD that commenced in the second half of 2014 with particular increase on the turn of 2014 and 2015 has negative impact on prices of raw materials and materials and at the same time on financial result more import based activity, particularly those concerning the import of electronic components from Asia.
7) Risk of interest rates
First of all the risk is related to taking loans and the debt service particularly in case of M&A transactions. Currently the risk is important from Apator SA point of view in connection with long-term loan taken for the purchase 100% shares of Apator Elkomtech SA in amount of PLN 98, 4 m in the first quarter 2014. The interest rate of the loan is based on WIBOR rate for the six month deposits increased by the margin. The calculation of interests and their payment is made quarterly and capital is paid every half year till December 2018.

In order to hedge the above interest rate against the risk of change, Apator SA and the bank concluded the transaction of the change of IRS (Interest Rate Swap) interest rates, pursuant to it the payment of interest calculated based on WIBOR 3M variable interest rate, will be changed to interest rate payments calculated based on fixed interest rate of the following base amounts:
- 50% of capital (i.e. PLN 49,2 m) at amount factor IRS on the level 1,88%,
- 25% of capital (i.e. PLN 24, 6 m) at amount factor IRS on the level 1, 67%.

IRS transaction was concluded to 31st December 2018

8) Risks related to the achievement and maintenance of quality of products assumed and SLA assumed for new innovative products.
This group of risks is related first of all to products and services being brought to the market where there is a risk related to the occurrence of errors that can cause the failures. The risks are related to financial and reputation consequences causing possible loss of customers.
It have been identified the possibility of occurrence the errors in firmware and software and human errors in manufacturing, possibility of occurrence of bottlenecks, acceptance of invalid components or invalid materials for manufacturing, lack of completeness of the plans of searching and testing ,errors in design of a new product or incorrect performance of a new product by a customer.
As preventive action many and different measures have been taken such e.g. automated determination of versions of products and the software, monitoring the process of supplies of components with their detailed identification, inspection, analysis and testing of batches of components, audits at sub-suppliers, unification, application of aging analysis, alternative means of transportation and permanent rising of quality within ISO system. A number of reconstruction means have been also specified such like: pre-tests of sample batches at customer, replacement of batches of products at customer or compensations (owing to identification of products carried out in GROMIT system).
In management system of Apator Group within risk management (ERM / ISO 31000) the register of incidents related to quality is being kept and updated. In 2014 no serious incidents exceeding accepted levels were identified.

9) Logistics of supplies – risk related to lack of key components for the manufacturing of the products in the company
This group of risk is first of all related to temporary lack of components or lack of components in time. The risk is limited first of all by conclusion of safe long-term contracts, making use of the policy of alternative supplies and suitable design policy for electronic products and creation of information system and early warning about the activity of sub-suppliers. Moreover, close relations are kept with customers in the scope of information about their possibility to achieve feasible dates of performance of orders, detail inspection of big batches of products, acceptance tests of key components, certification of suppliers, alternative transport. Suitable means of reconstruction are also used basing on the change of the manufacturing schedule and the application of multi shift manufacturing and better use of machines and equipment after the „delayed” component has come. Open and transparent information policy in relation to customers is also conducted where could be the problem of supplies to be delayed. Monitoring of the suppliers is also made in the process of auditing. In 2014 no serious incidents exceeding accepted permissible levels in ERM system were identified.
10) Sales – implementations, integration of ICT systems, technically advanced products and services

This group of risks is related first of all to the performance of very complicated implementation and integration projects by Apator SA that require not only to provide the products physically but also the system integration, implementation at customers, installation and maintenance of assumed level of functionality and effective operation of the system and guaranteed long-term steady operation, safety and service. Large implementation projects of the systems that are the products of Apator SA include not only equipment but also telecommunication area and IT area. Such multi element implementations require often the support of external partners (no single company has proper resources and competence) and advanced management of one off and unique projects covering very latest technologies. In order to minimize these risks in the company formalised management of projects based on procedures and instructions of management system have been introduced. Apator has implemented the methodology of projects management and it has dedicated persons for the supervision and performance of the actions pursuant to accepted methodology. In case of complicated projects every time independent analysis and assessment of risks that are the bases for decisions concerning management to be made.

11) M&A – acquisition of Elkomtech SA

The programme of strategic initiatives being performed, reduced the risks related to integration of new entity in Apator Group - Apator Elkomtech SA in 2014. The registration of the new name of the company – Apator Elkomtech SA in January 2015, finished the stage of formal and legal integration process.

12) Lack of technical standards for very latest technologies (smart metering, automation of power grid operation)

Currently open standards are preferred but there is still no common technical specification both in Poland and in the most EU countries, in spite of technical consultations on common technical specification were completed at the end of 2014. The suppliers expect its official announcement. There are many technical standards often manufacturer’s ones. There are entire areas where there is still lack of proper standardisation (e.g. PLC communication, data safety).
The Company reduces the risk actively engaging in cooperation with the Polish and European sector organizations. (e.g., Polish Chamber of Commerce for Electronics and Telecommunication, European Smart Metering Industry Group, G3-PLC Alliance, that have real impact on creation of technical standards. The company also participated in 2013 and 2014 in social consultations of Energy Regulatory Office – the Polish Energy Regulatory office for example in consultations concerning Common Technical Specification for Poland held during Energy Market Workshops no. 1 (November – December 2014).
Apator took also floor during public speeches and in conferences where the issue of standardization in smart metering was discussed. Since there is still lack of official Polish standard for smart metering we failed to reduce the standardization risk. The limitation of that risk is connected currently in high degree with the attitude of Energy Regulatory Office (URE) in this scope and also the support of government institutions for standardization initiatives. The next area where there is lack of standardization and where the company is going to play the active role of the player is automation of power grids operation.

13) Political risks

Threats related to changes of political situation in Europe and in the world were qualified to this group of risks. In 2014, the highest influence had the change of political situation in Russia and Ukraine that caused the lack of cash in financial system and it had the influence on decrease of sales of switchgear. Apator Group has slight possibilities to impact on the reasons for change of political situation; however it has the influence on application of reconstruction means related to the allocation of sales and greater activity on other geographical markets.
14) Public tenders – legal risks

In this group of risks are threats related to the application and possible amendments to the regulations – the Act of Public Tender Law where provisions have the influence on activity of the Apator SA and Apator Group (public tenders of power sector). There are threats related to concentration of sales and great pressure on the lowest prices (price has often 100% of significance).

Further to participation in public tenders in 2014 new threats to Apator SA were found related to the arrangement of the first „coordinated” tender for balance electricity meters by several distribution entities in common. In opinion of the Company "coordination" of tenders and arrangement of common orders (concentration of purchases) by independent power holdings may breach the balance of competition in the future, increasing excessively the tender strength of ordering parties towards the manufacturers of equipment. Apator pointed out that problem during technical consultations during the workshops of Polish Power Transmission and Distribution Association and also as the member of chambers of commerce (e.g. Polish Chamber of Commerce for Electronics and Telecommunication).

The Company acts against risks related to tenders by active participation in sector organizations and large sector events (conferences, congresses) and also it helps in arrangement of meetings with European sector organizations aiming at presenting the situation and benchmarking versus high developed European markets. In 2014 the Company actively participated in technical consultations arranged by power holdings actively reducing risks related to public tenders.

7 Process of purchases, sources of procurement

The largest suppliers of Apator SA in 2014 of materials, services and goods were:
FAP Pafal SA (subsidiary) – services, goods (electricity meters), materials,
Wenzhou Textiles Foreign Trade Co. – materials,
Reliance Technology Development Ltd. – materials

No one of the suppliers exceeded the value of supplies at least by 10% of revenues on sales in total of Apator SA in 2014.

In relation to the place of procurement 63% of purchases in value (73% in 2013) were made at home that is from business entities registered in Poland. Direct import was 37% (16% from EU and 21% from outside of EU); in 2013 it was respectively 27% of direct import (11% from EU and 16% outside of EU).

In respect of the structure of purchases of materials, goods and services the largest group are electronic components that together with electrical engineering are 45% (in 2013: 36%). The second material group are plastics, chemical raw materials and their derivatives with share of 16% (in 2013: 16%). The next significant group are non-ferrous metals with 10% share (in 2013: 14%), which is main raw material used for manufacturing of switchgear.

Situation concerning the prices of materials in the world economy in 2014 presented steady level of electronic components in source currencies (USD, EUR). However, depreciation of PLN in relation to USD commenced in the second half of 2014 with particular increase on the turn of 2014 and 2015 has the influence on level of prices of raw materials and materials: copper, plastics and electronic components.

Dependence of Apator SA on suppliers:

Apator SA is dependent on manufacturers of silicon systems (mainly micro controllers), that is related to the lack of proper equivalents of the same technical parameters. Expiration of supplies from the manufacturer at the first stage
would cause the necessity to purchase the same elements at higher price from distribution and brokers markets (higher risk to receive the older version of systems or from recycling), and after the previous version is exhausted the manufacturing of electronic electricity meters could be stopped. Possible solution based on other silicon systems would be manufacturing of other type of already designed electricity meter (upon the consent of a customer) or implementation of a new electricity meter.

8 Assessment of management of financial resources

The assessment of management of financial resources with particular consideration of capability of meeting the liabilities taken and specification of possible threats and actions that the issuer undertook or is going to undertake in order to counteract such threats has been presented below.

1) Management of financial resources:

The main financial assets in Apator SA are: cash on bank accounts and in hand, commercial receivables and other ones. The main loan risk of the company is first of all related to commercial receivables. The loan exposure in this scope is spread over large number of consumers.

Actual and forecast cash flows are monitored on current basis in order to eliminate loan risk related to deferred payment deadline to business partners of the company. Sales values, payment deadlines, hedging of receivables repayment and financial position of customers of the company are subject to the analysis.

Special procedures have been introduced to the management of financial resources of the company at operating level. In order to eliminate or to limit the risk of insolvency of a customer, the instruction of financial control of sales orders is being performed that:

- regulates the principles of sale,
- defines the principles of hedging of trade credit,
- introduces suitable procedures in the scope of monitoring and vindicating of receivables,
- imposes the obligation of verifying the situation of current and potential customers,
- gives personal entitlements to grant and change the status of customers, blocking of orders, sales and releasing blocked orders.

The tool supporting the control of receivables to the end of 2014 was BaaN integrated system. Since 1st January 2015 ERP LN system has been introduced.

Procedures related to the risk of insolvency of customers have been introduced in the Company including:

- information on occurrence of threatened receivables for meetings of directors;
- information on overdue receivables for meetings of managers;
- making weekly reports on financial position for the Management Board and Directors including information on receivables and their age, value of liabilities, balance on bank accounts, value of loans used, the amount of inflows and current significant information related to the financing of the Company;
- reporting of age of receivables to sales offices;
- making short-term and long-term detailed set of expected revenues and expenses;
- making weekly report on financial liquidity of the Company and Apator Group.
Risk of exchange rate of currencies limits the principles specified in corporate guideline for all the entities of Apator Group where:

- type of hedging instruments to use in the group and principles of their application have been determined,
- permissible values of the volume in relation to value of currency exposure have been determined,
- principle of current reporting on any changes in hedging has been introduced.

Loan risk related to derivatives is limited due to the fact that the party of these transactions are banks having got high assessment of the quality of loans prepared by international rating agencies.

The hedging of the cash value is performed based on the instruction of cash transactions where:

- conditions of storage, transport and stock-taking of cash in hand have been determined,
- principles of cash payment from hand, principles of granting the credit cards and the method of settlement of expenses incurred by employees.

Operation of electronic bank systems is being performed pursuant to principles that are obligatory in the banks: verification of persons entitled to operate bank systems preventing the transfer of cash from bank accounts of the Company.

2) **Assessment of financial resources:**

Analysis of essential profitability ratios confirms steady financial condition of Apator SA.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit on sales</td>
<td>27,80%</td>
<td>28,48%</td>
<td>-0,69</td>
</tr>
<tr>
<td>Profit on sales</td>
<td>8,75%</td>
<td>8,33%</td>
<td>+0,42</td>
</tr>
<tr>
<td>EBIT</td>
<td>8,25%</td>
<td>8,80%</td>
<td>-0,55</td>
</tr>
<tr>
<td>EBITDA</td>
<td>13,37%</td>
<td>14,13%</td>
<td>-0,75</td>
</tr>
<tr>
<td>Net profit</td>
<td>26,31%</td>
<td>30,56%</td>
<td>-4,25</td>
</tr>
</tbody>
</table>

Profitability ratios for 2013 – 2014 are positive at all levels, however in 2014 they are lower than in 2013. The reasons for the decrease of all margins have their source in gross result on sales and they are as follows:

- decrease of high margin sales of switchgear on foreign markets (particularly in Russia);
- increase of domestic sales of residential electricity meters where the high price and margin pressure are from competition;
- low sales of higher margin (than in case of residential ones) of prepayment electricity meters.

Result on sales was 0,42 p. p. higher than in 2013 being the result of actions taken aiming at restraining the increase of sales costs (decrease of share in revenues on sales from 5,7% to 5,5% in 2014) and particularly: overheads (decrease of share in revenues on sales from 14,5% to 13,5% in 2014).

Other values of margins are consequently lower y/y (reasons are described in point 6.4.). In the following periods it should be taken into account that similar values of margins will be durably maintained (particularly it regards gross result on sales and result on sales), caused by systematic increase of share of residential electricity meters (traditional and smart in the future) in revenues in total on sales. In this sales segment margins and prices are under great risk to be eroded. The measures taken aiming to counteract theses phenomena, will concentrate on the volume of sales and the decrease costs of manufacturing.

The method of financing the activity of Apator SA changed in 2014 in relation to 2013 and previous years. In 2014 equity was still in majority; however it was not such high level like in 2013. It is shown in the table below:
The above change resulted in the increase of the level of debt due to long-term loan taken to finance the acquisition of Apator Elkomtech SA. All the ratios evaluating the debt comparing the situation at 2014 with the situation at the end 2013 changed but they do not reach the values that could be the threat to financial liquidity and solvency of the Company. The level of crediting is spread over the time both it concerns repayment of instalments and the payment of interest additionally correlated with the dates of dividends inflow from subsidiaries, allow Apator SA to perform the liabilities resulting of current activity safely.

Data included in the table below indicate the increase of debt of Apator SA, but at the same time they confirm its safe level.

Information on cash flow presented in the cash flow statement and in point 6.5 of hereby report indicates the sources of origin and the values obtained cash by the Company and its use.

9 Loans and borrowings

9.1 Information on concluded and terminated contracts of loans and borrowings in financial year

At the end of 2013 and 2014 Apator SA had the following debt due to the loans taken:

<table>
<thead>
<tr>
<th>Loans</th>
<th>31st December 2014</th>
<th>31st December 2013</th>
<th>Change y/y</th>
<th>Progress y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>value in PLN’ 000</td>
<td>structure in %</td>
<td>value in PLN’ 000</td>
<td>structure in %</td>
</tr>
<tr>
<td>Long-term loans, including granted by:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Handlowy w Warszawie SA</td>
<td>65 912</td>
<td>51,53%</td>
<td>0</td>
<td>0,00%</td>
</tr>
<tr>
<td>Short-term loans, including granted by:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Handlowy w Warszawie SA</td>
<td>61 990</td>
<td>48,47%</td>
<td>35 702</td>
<td>100,00%</td>
</tr>
<tr>
<td>Raiffeisen Bank Polska SA</td>
<td>9 935</td>
<td>16,03%</td>
<td>15 849</td>
<td>44,39%</td>
</tr>
<tr>
<td>Total</td>
<td>127 902</td>
<td>100,00%</td>
<td>35 702</td>
<td>100,00%</td>
</tr>
</tbody>
</table>

*) methodology of counting of ratios has been described in point 6.5
The above mentioned loans were granted in Polish currency. In 2014 no bank terminated the loan contract to Apator and Apator SA fulfilled its obligations resulting of loan contracts concluded.

On the day of financial report Apator SA does not have any debt in form of borrowings.

On 19th March 2014 Apator SA and Bank Handlowy w Warszawie concluded the long-term loan contract. Based on the contract concluded and annex signed on 9th April 2014, bank granted Apator SA the bank loan in amount of PLN 98.412 000 for the financing the acquisition 100% of shares of Przedsiębiorstwa Wdrożeń Postępu Technicznego Elkomtech SA (currently Apator Elkomtech SA). The loan has been granted for 5 years. Calculation of interest and they payment are made quarterly. The loan was released on 31st March 2014. Apator SA submitted the declaration about subject to enforcement including to the highest amount PLN 118.094 000 within the obligations resulting of the long-term loan credit.

Detailed conditions concerning loan contracts of Apator SA have been described in point 7.13 of separated annual financial statement for 2014 of Apator SA (Annual Statement R – 2014).

### 9.2 Information on borrowings granted in financial year

The status of the borrowings granted by Apator SA was presented in the table below.

<table>
<thead>
<tr>
<th>Borrowings granted</th>
<th>31st December 2014</th>
<th>31st December 2013</th>
<th>Change y/y</th>
<th>Progress y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>value in PLN'000</td>
<td>structure in %</td>
<td>value in PLN'000</td>
<td>structure in %</td>
</tr>
<tr>
<td>Long-term borrowings granted</td>
<td>0</td>
<td>0,00%</td>
<td>0</td>
<td>0,00%</td>
</tr>
<tr>
<td>Short-term borrowings granted</td>
<td>2 005</td>
<td>100,00%</td>
<td>85</td>
<td>100,00%</td>
</tr>
<tr>
<td>including: to related entities</td>
<td>2 005</td>
<td>100,00%</td>
<td>85</td>
<td>100,00%</td>
</tr>
<tr>
<td>Total</td>
<td>2 005</td>
<td>100,00%</td>
<td>85</td>
<td>100,00%</td>
</tr>
</tbody>
</table>

On 28th July 2014 the contract of granting the borrowing by Apator SA to Apator Rector sp. z o.o. was concluded. Under the contract the borrowing was granted for the period since 1st August 2014 till 31st July 2015 in amount of PLN 2.000 000. On 31st December 2014 the balance of the borrowing covered PLN 2.000 000 of the main amount and PLN 5 000 of interest calculated.

<table>
<thead>
<tr>
<th>Entity taking the borrowing</th>
<th>Reason</th>
<th>Amount of borrowing pursuant to the contract</th>
<th>Currency</th>
<th>Date of borrowing granted</th>
<th>Due date</th>
<th>State as at 31.12.2014</th>
<th>Interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apator Rector sp. z o. o.</td>
<td>Borrowing granted for current activity</td>
<td>2 000</td>
<td>PLN’000</td>
<td>2014-08-01</td>
<td>2015-07-31</td>
<td>2 005</td>
<td>WIBOR 1M + margin 0,90% annually</td>
</tr>
</tbody>
</table>

Information on borrowings granted by Apator SA has been presented also in point 7.8 of annual separate financial statement for 2014 of Apator SA (annual financial statement R – 2014).
10 Information on granted and received sureties and guarantees in financial year

 Granted and valid guarantees of Apator SA were presented in the table below.

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Guarantee granted by</th>
<th>Reason</th>
<th>Amount of guarantee as at 31.12.2014 PLN’ 000</th>
<th>Date of guarantee granted</th>
<th>Validity date of guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG CNS Co. Korea</td>
<td>Raiffeisen Bank</td>
<td>Correct performance of agreement</td>
<td>5 252</td>
<td>2014-09-19</td>
<td>2026-12-31</td>
</tr>
<tr>
<td>Energa Gdańsk</td>
<td>Bank Handlowy</td>
<td>Correct performance of agreement</td>
<td>30</td>
<td>2009-08-03</td>
<td>2015-09-19</td>
</tr>
<tr>
<td>RWE STOEN Warszawa</td>
<td>TU Hermes SA</td>
<td>Warranty and quality guarantee</td>
<td>218</td>
<td>2010-12-09</td>
<td>2016-01-15</td>
</tr>
<tr>
<td>RWE STOEN Warszawa</td>
<td>TU Hermes SA</td>
<td>Warranty and quality guarantee</td>
<td>121</td>
<td>2011-05-01</td>
<td>2016-04-15</td>
</tr>
<tr>
<td>EnergiaPro SA Wroclaw</td>
<td>TU Hermes SA</td>
<td>Warranty and quality guarantee</td>
<td>58</td>
<td>2012-07-01</td>
<td>2017-06-30</td>
</tr>
<tr>
<td>RWE STOEN Warszawa</td>
<td>TU Hermes SA</td>
<td>Warranty and quality guarantee</td>
<td>639</td>
<td>2013-05-01</td>
<td>2016-04-15</td>
</tr>
<tr>
<td>AB LESTO VILNIUS</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
<td>99</td>
<td>2013-09-27</td>
<td>2015-09-27</td>
</tr>
<tr>
<td>AB LESTO VILNIUS</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
<td>130</td>
<td>2013-09-27</td>
<td>2015-09-27</td>
</tr>
<tr>
<td>AB LESTO VILNIUS</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
<td>124</td>
<td>2013-09-27</td>
<td>2015-09-27</td>
</tr>
<tr>
<td>PGE Dystrybucja Lublin</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
<td>21</td>
<td>2014-01-03</td>
<td>2015-01-30</td>
</tr>
<tr>
<td>PGE Dystrybucja Lublin</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
<td>42</td>
<td>2014-01-03</td>
<td>2015-01-30</td>
</tr>
<tr>
<td>PGE Dystrybucja Lublin</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
<td>22</td>
<td>2014-01-03</td>
<td>2015-01-30</td>
</tr>
<tr>
<td>PGE Dystrybucja Lublin</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
<td>12</td>
<td>2014-01-03</td>
<td>2015-01-30</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nazwa jednostki:</th>
<th>Apator SA</th>
<th>Strona 27</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poziom zaokrąglenia:</td>
<td>wszystkie kwoty wyrażone są w tysiącach złotych polskich (o ile nie wskazano inaczej)</td>
<td></td>
</tr>
<tr>
<td>Beneficiary</td>
<td>Guarantee granted by</td>
<td>Reason</td>
</tr>
<tr>
<td>------------</td>
<td>----------------------</td>
<td>--------</td>
</tr>
<tr>
<td>PGE Dystrybucja Lublin</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Lublin</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Lublin</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Lublin</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Łódź-Teren Hermes</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Łódź-Teren Hermes</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Rzeszów Hermes</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Rzeszów Hermes</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Skarż.-Kamienna Hermes</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Skarż.-Kamienna Hermes</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Warszawa Hermes</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Zamość Hermes</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Białystok Hermes</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Zamość Hermes</td>
<td>TU Hermes SA</td>
<td>Correct performance of agreement</td>
</tr>
<tr>
<td>PGE Dystrybucja Lublin</td>
<td>TU Hermes SA</td>
<td>Payment of deposit</td>
</tr>
<tr>
<td>RWE STOEN Warszawa</td>
<td>TU Hermes SA</td>
<td>Warranty and quality guarantee</td>
</tr>
<tr>
<td>Enea Poznań</td>
<td>TU Hermes SA</td>
<td>Payment of deposit</td>
</tr>
</tbody>
</table>

Nazwa jednostki: Apator SA
Waluta sprawozdawcza: złoty polski (PLN)
Poziom zaokrągleń: wszystkie kwoty wyrażone są w tysiącach złotych polskich (o ile nie wskazano inaczej)
Report of Management Board on activity of Apator SA in 2014

Guarantees that were granted subsidiaries:
In 2014 Apator SA did not grant any guarantee subsidiaries.

Guarantees that were received from subsidiaries:
In 2014 Apator SA did not receive any guarantee from subsidiaries.

Guarantees and sureties received towards Apator SA were shown in the table below.

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Ordering party</th>
<th>Granting party</th>
<th>Reason</th>
<th>Amount of guarantee as at 31.12.2014 PLN’ 000</th>
<th>Date of guarantee granted</th>
<th>Validity date of guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>RWE STOEN Warszawa</td>
<td>TU Hermes SA</td>
<td>Payment of deposit</td>
<td></td>
<td>150</td>
<td>2014-11-17</td>
<td>2015-01-16</td>
</tr>
</tbody>
</table>

Total including: granted ones in 2014 10 688

Guarantees granted by subsidiaries where the party is Apator SA:

On 20th March 014 subsidiary - Apator Powogaz SA and Bank Handlowy w Warszawie SA concluded the contract of surety under civil law to the amount of PLN 100 m. Surety is the hedging of the repayment of long-term loan to the amount of PLN 98,4 m taken by Apator SA for the acquisition of the shares of Apator Elkomtech SA. Surety was granted until 30th June 2019. Due to surety granted, Apator Powogaz SA has been receiving from Apator SA the commission in amount of 1, 3% per annum.

11 Contracts concluded between Apator SA and persons in management

In Apator SA there are no untypical contracts concluded between the Company and persons in management in the scope of compensation in case:

- resign or dismissal from the post without any important reason,
- when recall or dismissal is the result of merger by taking over by the Issuer

Persons in management of Apator SA are the employees of the Company based on employment contracts. In case of resign or dismissal from the post, the parties settle their liabilities based on obligatory regulations particularly labour
12 Shares being in possession of persons in Management Board and Supervisory Board of Apator SA

12.1 Supervisory Board

The shares of Members of Supervisory Board of Apator SA in entities of Apator Group are shown in the table below.

<table>
<thead>
<tr>
<th>Description</th>
<th>Status as at 31st December 2014</th>
<th></th>
<th>In other entities of Apator Group</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In Apator SA</td>
<td></td>
<td>Number of shares</td>
<td>Nominal value of shares in PLN</td>
</tr>
<tr>
<td></td>
<td>In other entities of Apator Group</td>
<td>Number of shares</td>
<td>Nominal value of shares in PLN</td>
<td></td>
</tr>
<tr>
<td>Janusz Niedźwiecki</td>
<td>436 518</td>
<td>43 651,80</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Mariusz Lewicki</td>
<td>2 049 000</td>
<td>204 900,00</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Janusz Marzygliński</td>
<td>1 042 731</td>
<td>104 273,10</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Danuta Guzowska</td>
<td>1 520 279</td>
<td>152 027,90</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Krzysztof Kwiatkowski</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Marcin Murawski</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5 048 528</td>
<td>504 852,80</td>
<td>0</td>
<td>-</td>
</tr>
</tbody>
</table>

12.2 Management Board and Proxies

The shares of members of the Management Board and Proxies of Apator SA in entities of Apator Group are shown in the table below.

<table>
<thead>
<tr>
<th>Description</th>
<th>Status as at 31st December 2014</th>
<th></th>
<th>In other entities of Apator Group</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In Apator SA</td>
<td></td>
<td>Number of shares</td>
<td>Nominal value of shares in PLN</td>
</tr>
<tr>
<td></td>
<td>In other entities of Apator Group</td>
<td>Number of shares</td>
<td>Nominal value of shares in PLN</td>
<td></td>
</tr>
<tr>
<td>Andrzej Szostak</td>
<td>0</td>
<td>0,00</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Tomasz Habryka</td>
<td>0</td>
<td>0,00</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Jerzy Kuś</td>
<td>200</td>
<td>20,00</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Piotr Nowak</td>
<td>0</td>
<td>0,00</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Miroslaw Klepacki</td>
<td>0</td>
<td>0,00</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Krzysztof Małec</td>
<td>99</td>
<td>9,90</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>299</td>
<td>29,90</td>
<td>0</td>
<td>-</td>
</tr>
</tbody>
</table>
13 Proceeding in progress before the court, entity competent for arbitration proceeding or public administration entity.

Proceeding (including two or more) regarding liabilities and receivables of Apator SA or related entities being in progress before the court, proper entity for the proceeding of arbitrage or public administration entity regarding the Issuer and subsidiaries are not 10% of equities of the Issuer.

14 Information on transactions concluded on conditions other than market ones

In 2014 Apator SA or other its subsidiary did not conclude any transactions with related entities that would be other ones than market conditions and their character is the result of current operating activity of Apator SA and subsidiaries. Cooperation between entities of Apator Group is being performed on market conditions and it mainly concerns:

- electronic electricity meters – cooperation Apator SA and FAP Pafal SA,
- switchgear – cooperation of Apator SA and OOO Apator Elektro,
- heat meters – cooperation of Apator SA and Apator Powogaz SA,
- water meters, heat meters and heat cost allocators – cooperation of entities of Apator Powogaz Group,
- plastic moulded pieces for gas meters – cooperation of Apator SA and Apator Metrix SA,
- gas meters – cooperation of Apator Metrix SA and GWi,
- export to German market and other countries via Apator GmbH – Apator SA, Pafal SA, Apator Metrix SA.

Dividends are transferred between entities of Apator Group in the scope of financial activity. In 2014 Apator SA received dividends from subsidiaries in total amount of PLN 39.951 000, i.e. by 9% higher than in the same period of the previous year. Dividends from entities covered the following amounts:

- PLN 38.373 000 from results in 2013,
- PLN 1.578 000 interim dividend towards dividend paid by Apator Mining from results in 2014

On the other hand Apator SA made payment the subsidiary - Apator Mining sp. z o.o. the following dividends:

- PLN 2.160 000 from results in 2013 (PLN 1.080 000 due to interim dividend paid in December 2013 and PLN 1.080 000 due to the second part of dividend in July 2014),
- PLN 1.080 000 due to interim dividend towards dividend from the results in 2014

15 Information on contracts concluded important for the activity of the Issuer

15.1 Contracts concluded among shareholders

Apator SA has no knowledge about any contracts concluded among shareholders.
15.2 Trade contracts

In 2014 Apator SA concluded the following trade contracts (the value over 10% of equities of Apator SA) important for the activity of the Company:

- In the period of 12 months till February 2014 the entities of Apator Group (Apator SA included) and Tauron Dystrybucja SA concluded contracts that in total met the criterion of important contract. Total value of the contracts was in net amount PLN 27, 9 m and it regarded the supply of electricity meters.
- On 19th March 2014 Apator SA and Bank Handlowy w Warszawie SA concluded long-term loan contract. The contract regards granting of the loan in amount PLN 98, 4 m to finance the acquisition 100% of shares of Przedsiębiorstwa Wdrożeń Postępu Technicznego Elkomtech SA (currently Apator Elkomtech SA) with headquarters in Łódź. The loan was granted for the period of five years and it will be repaid since 31st December 2014 in nine semi-annual equity instalments.
- On 24th March 2014 Apator SA signed 16 contracts with PGE Dystrybucja SA Branch Offices for the supply of electricity meters in 2014 of the value PLN 30 m with the option of supplies in 2015 in amount of PLN 29 m. PGE made use of the option in September 2014.
- On 30th May 2014 Apator SA and WorldIT Systems sp. z o.o. with headquarters in Warsaw concluded the contract. The subject of the contract was design and supply of electricity meters in OSGP technology pursuant to requirements of "Smart City Wrocław" projects. Final value of the contract was determined in annex dated 17th September 2014 in net amount of PLN 28, 4 m and on 19th September 2014 the conditions to avoid suspension were met. The supplies are being performed till the end 2016.
- On 25th July 2014 Apator SA and Tauron Dystrybucja Pomiary Sp. z o. o. concluded two contracts of total value PLN 33, 9 m for the supplies of single and three phase static direct electricity meters. The performance of supplies is being carried out till 15th June 2015.
- On 4th September 2014 Apator SA and Bank Handlowy w Warszawie signed the annex to important contract of overdraft. The annex regarded the extension of time of the validity of the contract till 10 August 2016 and the change of the value of the margin of the bank.

After reporting period in 2014:

- On 14th January 2015 Apator SA and RWE Stoen Operator Sp. z o. o. concluded the contract of the value PLN 21, 3 m. It regards the supply of electricity meters that will be performed till January 2017.

15.3 Contracts of collaboration or cooperation

In case of post-paid electronic electricity meters Apator SA cooperates with subsidiary - FAP Pafal SA. The base for cooperation is the contract concluded by Apator SA and FAP Pafal SA on 1st March 2005. (with later annexes). The contract defines general conditions of cooperation in the scope of supplies of printed circuit boards with elements and subassemblies by Apator SA to FAP Pafal SA. Number of supplies is performed pursuant to current orders placed and prices are agreed on market conditions. The contract was concluded on indefinite period. Detailed conditions of the contract concluded do not differ from conditions commonly used for appropriate type of contracts.

- On 4th January 2010 Apator SA and subsidiary - AP Pafal SA concluded cooperation contract. The subject of the cooperation of Apator SA is:
  - sales of products of subsidiary -- FAP Pafal SA,
  - rendering of design services for FAP Pafal SA.

The contract of cooperation was concluded on indefinite period and its conditions do not differ from typical ones.
In connection with restructuring of Pafal SA being processed, the transfer of manufacturing of electronic electricity meters to Apator SA has been performed, mutual turn over due to the above contracts have the lower value than some years ago. They are in total:

- for 2014: PLN 28,520,000
- for 2013: PLN 24,254,000,
- for 2012: PLN 49,772,000,
- for 2011: PLN 52,865,000.

- On 30th June 2009 Apator SA and subsidiary Apator Powogaz SA concluded cooperation contract. The subject of the contract is the possibility to make selling each other of the products, goods or services of the equipment and devices related to heat meters and water meters. The cooperation contract was concluded on indefinite period and its conditions do not differ from typical ones for such type of transactions on the market. In 2014 mutual trade resulting of the above contract was PLN 10,734,000 (in 2013: PLN 7,733,000).

- On 2nd April 2013 Apator SA and subsidiary- Apator Metrix SA concluded the contract of manufacturing and provision of plastic moulded pieces for gas meters by Apator SA. The contract was concluded for indefinite period and its conditions do not differ from typical ones for such type of transactions on the market. In 2014 the value of sales by Apator SA owing to performance of the above contract was PLN 1,977,000 (in 2013: PLN 1,179,000).

### 15.4 Insurance contracts

In Apator Group, property and third party liability insurance is comprehensive concluded for the entities of the Group. Since 1st July 2014 the comprehensive programme is obligatory in this scope:

1) insurance contracts concluded with pool of insurers; PZU SA/STU Ergo Hestia SA concerning:

- insurance of the third party liabilities related to the activity and introduction of the product to the market,
- insurance of property against all risks,
- insurance of loss of the profit under property insurance against all risks,
- insurance of machines against damages,
- insurance of electric machines against electrical damages,
- insurance of electronic equipment against all the risks,
- insurance of property in transportation.

The contracts have been concluded for the period of two years with two separate annual settlement periods: since 1st July 2014 till 30th June 2015 and since 1st July 2015 till 30th June 2016.

Total value of insurance premiums of entities due to increased value of insurance is PLN 524,000 but total value of insurance is PLN 579 m (values regard to the period since 1st July 2014 till 30th June 2015).

2) Contracts were concluded with PZU SA:

- Transport insurance – for the period since 1st July 2014 till 30th June 2015,
- journey insurance – for the period since 1st July 2014 till 30th June 2016

Total value of insurance premiums of entities due to increased value of insurance is PLN 137,000 but total value of insurance is PLN 3 m (values regard to the period since 1st July 2014 till 30th June 2015)
3) Other contracts were concluded with:

- AIG Europe Limited Sp. z o.o. – under essential policy
- ACE European Group Ltd. Sp. z o. o., HCC International Insurance Company PLC and TUiR Allianz Polska SA – under second layer policy

The contracts regard to the insurance of responsibility of members of management of the entities.

Total value of premiums due to the above increased insurance is PLN 123,000 but total value of insurance is PLN 100 m (values regard the period since 1st July 2014 till 30th June 2015).

Insurance contracts of property and third party liability do not include provisions concerning special conditions that would differ from conditions commonly used for such type of contracts.

16 Information on issue of securities of Apator SA

In 2014 Apator SA did not make any issue of securities.

17 Information on contracts that may cause changes in proportions of the shares of current shareholders

Apator SA has no knowledge about any contracts including ones that would be included after the balance day resulting in the future in the changes in proportions of shares being in the possession of current shareholders and bondholders (Apator SA has not issued the bonds).

18 Control system for the programme of shares of employees

Apator SA does not perform any programme concerning the shares of employees.

19 Forecast of results of Apator SA

Apator SA does not publish separate forecast of results. Consolidated forecast of Apator Group is being announced. The degree of performance of the forecast is described in the Management Board’s report on activity of Apator Group in 2014.

Enclosure: Declaration on application of corporate governance

The set of principles of corporate governance is available on the website of Giełda Papierów Wartościowych SA w Warszawie, address: http://gpw.pl/lad_korporacyjny_na_gpw and on the website of Apator SA, the address: http://www.apator.com.
In 2014, Apator SA respected the rules, declared by the Management of Apator SA on 18th December 2012 (included in “Best Practices of WSE Listed Companies”, being the enclosure to the Resolution of Warsaw Stock Exchange Management Board no. 19/1307/2012 dated 21st November 2012), with exception:

- rule I.12 regarding provision to shareholders the possibility to vote personally or by plenipotentiary during General Shareholders Meeting, being beyond the place of General Shareholders Meeting held and by use of electronic communication means
- rule IV.10 regarding the attendance of the shareholders the General Shareholders Meeting using of electronic communication means:
  1. broadcasting the course of General Shareholders Meeting in real time,
  2. bidirectional communications in real time where the shareholders are allowed to take floor during the course of the General Shareholders Meeting being in other place than the place of the debates are held.

The Management Board of Apator SA has made the decision due to lack of interest of the shareholders of the above solutions and necessity to incur by the Company additional costs. In order to make available the shareholders to familiarize with course of the meeting, the company makes some recording of the course of the debates on video and makes it public on its website address – www.apator.com.

The principles after 31st December 2014 did not change.

### 1. Shareholders of Apator SA holding directly or indirectly huge blocks of shares

Below are shown the list of shareholders of Apator SA holding directly or indirectly huge blocks of shares (over 5% of votes at general shareholders meeting) with indication of the number of shares being held, their percentage share in capital of the company, number of votes resulting of it and their percentage share in total number of votes at general shareholders meeting.

<table>
<thead>
<tr>
<th>Description</th>
<th>Registered shares</th>
<th>Bearer shares</th>
<th>Total shares</th>
<th>Number of votes</th>
<th>Share in capital</th>
<th>Share in votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apatrer Mining</td>
<td>0</td>
<td>3 600 000</td>
<td>3 600 000</td>
<td>3 600 000</td>
<td>10,87%</td>
<td>6,40%</td>
</tr>
<tr>
<td>Mariusz Lewicki</td>
<td>1 164 669</td>
<td>884 331</td>
<td>2 049 000</td>
<td>5 543 007</td>
<td>6,19%</td>
<td>9,85%</td>
</tr>
<tr>
<td>Tadeusz Sosgórnik</td>
<td>993 102</td>
<td>907 401</td>
<td>1 900 503</td>
<td>4 879 809</td>
<td>5,74%</td>
<td>8,67%</td>
</tr>
<tr>
<td>Danuta Guzowska</td>
<td>954 214</td>
<td>566 065</td>
<td>1 520 279</td>
<td>4 382 921</td>
<td>4,59%</td>
<td>7,79%</td>
</tr>
<tr>
<td>Zbigniew Jaworski</td>
<td>760 848</td>
<td>569 100</td>
<td>1 329 948</td>
<td>3 612 492</td>
<td>4,02%</td>
<td>6,42%</td>
</tr>
<tr>
<td>Janusz Marzygiński</td>
<td>818 092</td>
<td>224 639</td>
<td>1 042 731</td>
<td>3 497 007</td>
<td>3,15%</td>
<td>6,21%</td>
</tr>
<tr>
<td>Others</td>
<td>3 033 205</td>
<td>18 631 362</td>
<td>21 664 567</td>
<td>30 764 182</td>
<td>65,44%</td>
<td>54,66%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7 724 130</td>
<td>25 382 898</td>
<td>33 107 028</td>
<td>56 279 418</td>
<td>100,00%</td>
<td>100,00%</td>
</tr>
</tbody>
</table>
1.1 The description of the main characteristics of internal control systems and risk management being applied in reference to the process of preparation of separate and consolidated financial statements

The separate financial statement of Apator SA and consolidated financial statement of Apator group are prepared by the Accounting and Tax Department of Apator SA, operating under the Chief Financing Officer Division. The consolidated and separate financial statements are prepared pursuant to the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) and they include interpretations endorsed by the Commission for International Financial Reporting Interpretations. Moreover, the prepared financial statements are based on the Resolution of the Ministry of Finance of 19th February 2009 (with later amendments) on the current and regular information being transferred by the issuers of securities and conditions to be considered as equivalent information by law of the state not being the member of the EU.

Financial reporting and accountancy in the companies of the Apator Group i.e. the reporting and accounting in the companies: Apator SA, FAP Pafal SA, Apator Metrix SA, Apator Powogaz SA and Apator Control sp. z o. o. is performed using the Integrated Management System Baan IV (since 1st January 2015 new version of the system ERP infor LN completely compatible with the previous version of the system) which configuration is suitable to binding accounting rules in Apator SA and it includes instructions and control mechanisms providing consistency and integrity of data including among other things; controls of data consistency, controls of entitlements. Integrated Management System enables to control the correctness of operations registered, allowing identification of persons entering and accepting particular transactions. The access to financial data is limited by the system of entitlements. The entitlements for access to the system are given in the scope depending on the role assigned and the scope of responsibility of the person and they are subject to strict control.

Each company in Apator Group has its accounting policy that is based on the commonly accepted principles of the Apator Group. They determine the main principles for recording events. But the basic elements of the statement preparation process are the common accounting principles that are accepted by all entities of the Apator Group, based mainly on the solutions applied by the parent entity - Apator SA. As a consequence of these records, the accounting books of the relevant companies, which further serve as a base for the separate financial statements of all entities of the group, are created. The separate financial statements serve as a base for the preparation of the consolidated financial statements of the Apator Group. In the process of consolidation of statements uniform principles and procedures concerning consolidation of financial data provided among other things by unified electronic reports, automated data validation in these reports.

The following risks have been defined in the process of preparation of the financial statements:

- Incorrect input data,
- Improper presentation of data,
- Effects of error estimations made by independent consultants (actuaries, appraisers),
- At the stage of financial data consolidation - improper integration of data from the companies, which did not implement the ERP integrated management system, with the data of the companies, where the system operates.

All the aforementioned risks are minimized by the internal and external control systems and by the common for all the entities of Apator group accounting principles. The party directly responsible for minimizing risk and identifying new risks is the Management Board of Apator SA that makes the assessment the effectiveness of internal control system in preparation of financial statements on current basis. The assumption of effective internal control system for financial
reporting the provision with the correctness of the financial information included in the financial statements and their proper presentation. This correctness is ensured by verifying compliance with the regulations and guidelines of the financial law and the internal regulations, as well as through audit based on EN ISO 9001:2008. The internal control is also performed directly by each employee (using the self-assessment system), its supervisor and cooperating persons as well as by the managers of the organizational units concerning the quality and correctness of the activities performed by the relevant employees (segregation of duties, multi-level approval of data, verification of correctness of data received). The aim is to assure the compliance of these activities with the procedures and mechanisms of internal control.

At each stage of preparation of the financial statements, one of the basic control mechanisms (external) is periodical verification of the financial statements carried out by the independent statutory auditor and, in particular, a review of the interim financial statements and an audit of the annual financial statements. The entity which will be the statutory auditor of the Apator SA and the Apator Group is elected in such a manner as to assure independency in the performance of its tasks. All companies of the Apator Group are audited by the same entity authorized to audit the financial statements. The results of reviews and audits are presented by the auditor to Management Board and the Audit Committee of Supervisory Board.

The Auditing Committee of the Supervisory Board of Apator SA participates in the process of monitoring the efficiency of the internal control system. Its essential task is to advise the Supervisory Board on the following issues:

- Separate and consolidated financial reporting,
- Internal control,
- Risk management and cooperation with the statutory auditors.

The commencement the procedure regarding of internal audit unit coming into life covering Apator Group in 2015

The financial data, which serve as the base for financial statements and periodic reports, are used also in the monthly financial and operating reporting. Upon closing the monthly settlement period, the senior management (management board, directors), under the supervision of the Supervisory Board, performs a monthly analysis of the financial results of the Apator SA, the relevant companies of the Apator Group and the consolidated results of the Apator Group. The analysis of the results achieved is made by comparing these results with the accepted business assumptions contained in the annual budget, budget of the relevant period and development strategy. The identified deviations are analysed on an ongoing basis to view their influence on the current results of the Apator Group, after which possible corrective measures are taken. Moreover, the Apator Group performs an annual review of the business plans, pertaining to both all entities of the capital group and the entire the Apator Group. All in senior and middle level management are engaged in the budgeting process, which includes all operating areas. The prepared budget is accepted by the management board of the company and approved by the supervisory board.

Based on the assessment made of the applied procedures, the Management Board of Apator SA states that as of 31st December 2014, there were no circumstances which could have negatively affected the efficiency of the internal control regarding the preparation of the financial statements.
1.2 List of the holders of any securities giving special control rights including their description.

Each bearer share entitles to the right of one vote; however the registered shares are preferred shares in such a manner that one registered share entitles to the right of four votes at the General Shareholders Meeting. The principles of disposal of the registered shares or their conversion are specified in the Statutes of Apator SA.

As of 31\textsuperscript{st} December 2014 the share capital consisted of 33 107 028 shares of the nominal value equal to PLN 0.10 each. The following table presents the shareholding of Apator SA at the end of 2014.

<table>
<thead>
<tr>
<th>Shares and votes</th>
<th>Status as at 31\textsuperscript{st} December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of shares</td>
</tr>
<tr>
<td>Registered shares</td>
<td>7 724 130</td>
</tr>
<tr>
<td>Bearer shares</td>
<td>25 382 898</td>
</tr>
<tr>
<td>Total shares</td>
<td>33 107 028</td>
</tr>
</tbody>
</table>

As of the date of this financial statement (after the balance day), i.e. 23\textsuperscript{rd} April 2015, upon conversion of 163.519 registered shares on 20\textsuperscript{th} January 2015, the preferred shares constitute 22.84% of the share capital and 54.21% of votes at the General Shareholders Meeting of Apator SA.

1.3 Limitations of exercise of voting right based on shares

There are no limitations regarding the exercise of voting rights, such as:

- limitation to the exercise of voting rights by the shareholders holding specified part or number of votes,
- time limitations pertaining to the exercise of voting rights,
- provisions under which, with the cooperation of the company, the securities-related equity rights are separated from the holding of securities.

1.4 Indication of any limits regarding to the assignment of ownership rights of shares of Apator SA

The registered preferred shares are subject to limitation to their disposal. These shares may be disposed by the shareholders and their heirs or legal successors only in favour of the shareholders holding the registered shares. The disposal of the registered shares in favour of persons other than the shareholders holding the registered shares requires the consent of the Management Board. If the Management Board does not consent for the transfer of shares, it should, within 60 days, determine another purchaser; determine the price pursuant to the bearer share price of the date of application. If, within 60 days of the date of written application for the consent for the shares' disposal, the Management Board does not express its opinion, the disposal will not be limited.

The bearer shares are not subject to any limitations regarding the transfer of their ownership.
1.5 Description of the rules for appointing and recalling the members of the managing bodies and their rights, in particular the right to make a decision regarding the issuance or buy-out of shares

1.5.1 General Meeting

Pursuant to the Statutes of Apator SA, the sole competence of the General Meeting of Apator SA is to decide on the:

- issuance of shares, convertible bonds or senior bonds,
- acquisition of shares for their redemption,
- increase or decrease of share capital.

1.5.2 Supervisory Board

The Supervisory Board of Apator SA acts under regulations of the polish Commercial Companies Code, the Statutes of Apator SA and the regulations of the Supervisory Board of Apator SA on the website of Apator SA: www.apator.com, in the folder “Investor’s Relations”.

The Supervisory Board supervises all areas of the business activity of the Company. It does not have the right to give binding orders to the Management regarding the running of business of the Company. The Supervisory Board performs its duties collegially, but it may appoint their members to perform the relevant supervision tasks individually.

The members of the Supervisory Board of Apator SA are appointed and recalled by the General Shareholders Meeting, which establishes the number of members of the Supervisory Board and their remuneration. The members of the Supervisory Board should have proper knowledge and experience. The Supervisory Board may be composed of 5 to 7 members, appointed by the General Meeting for the joint term in office of 5 years. Reduction of the number of Supervisory Board members during the term of office to not less than 5 members does not cause the necessity to complete the composition of the Supervisory Board.

The Supervisory Board elects a Chairman and Deputy Chairman at the first meeting.

The members of the Supervisory Board are obliged to non-compete. The members of the Supervisory Board cannot be: Members of the Management Board, Proxy, Liquidator, and Managers of the unit or plant, Chief Accountants employed by the company, Legal Advisers or Lawyers of a person who is subordinate to the member of the Management Board. Moreover, the members of the Management Board and/or subsidiary Liquidators cannot be members of the Supervisory Board.

It is permissible to adopt the resolutions in written or using the direct communication means at distance by the Supervisory Board. In order to have valid resolution of the Supervisory Board it is required to inform all members of the Supervisory Board on contents of the resolutions. The adoption of the resolutions in this manner is not applied to election of Chairman and Deputy Chairman of the Supervisory Board, appointment of the Member of the Management Board and recalling and suspending the member of the Management Board.

Resolutions in this manner, in writing or using the distance communication means are adopted by the absolute majority of votes at participation of:

- at least 3 members of five person composition,

<table>
<thead>
<tr>
<th>Nazwa jednostki:</th>
<th>Apator SA</th>
<th>Strona 39</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pozniam zaokrąglenia:</td>
<td>wszystkie kwoty wyrażone są w tysiącach złotych polskich (o ile nie wskazano inaczej)</td>
<td></td>
</tr>
</tbody>
</table>
1.5.3 Management Board

The Management Board of the Company acts under the provisions of the Polish Commercial Companies Code and the Management Board Regulations. The Statutes and the Regulations of the Management Board of Apator SA are available on website of Apator SA: www.apator.com in the folder entitled “Investor’s Relations”.

The members of the Management Board of Apator SA are appointed and recalled pursuant to the provisions of the Polish Commercial Companies Code and the provisions of the Statutes. The Management Board of Apator SA is composed of one to five members appointed by the Supervisory Board for three years of the joint term of office. The Supervisory Board adopts resolutions on:

- Determining the number of members of the Management Board of the Company,
- Appointing and recalling the Management Board of the Company,
- Appointment of the President of the Management Board,
- Suspending the performance of tasks by all or relevant members of the Management Board, for important reasons,
- Delegation of members of the Supervisory Board to temporary performance of the activities of the members of the Management Board,
- Determining the remuneration for the Management Board, including the nature of its motivation.

The members of the Management Board may be recalled by the Supervisory Board or General Meeting any time before the terms of office expires. It has no prejudice to their claims under the employment contract.

The Management Board manages the entire business activity of the Company, represents the Company to third parties, it manages its assets and all issues not reserved for other bodies. It is responsible for the proper keeping of accounting books and strictly observes the provisions of the Statutes, Regulations of Management Board as well as the resolutions of the Company’s bodies. Whence performing its activities, the Management Board takes the Company’s interests into consideration. The tasks of the Management Board are governed by the President. The resolutions of the Management Board are adopted by the absolute majority of votes. In the event of a tie, the President’s vote is decisive.

Each member of the Management Board is independently, or by proxy, entitled to submit statements pertaining to the property rights and duties of the Company as well as to sign documents. Each member of the Management Board is entitled and obliged to handle the issues of the Company, not exceeding the usual activity of the Company.

The Proxy is appointed by the Management Board. The proxy can be recalled by any Member of the Board.

The Members of the Management Board and Proxies are obliged to non-compete.

The Supervisory Board adopts the Management Board Regulations.

The Management Board is not authorized to make decisions pertaining to the issuance or buyout of shares.
1.6 Description of the amendments to the Statutes of Apator SA

The amendment to the Statutes of Apator SA, under paragraph 14 item 14 of the Statutes is in the competences of the General Shareholders Meeting and may be adopted by the majority of 3/4 votes. In case of intention to make the amendment to the Statutes, the notice on convening the General Shareholders Meeting will include the current provisions and the content of the proposed amendments. The General Shareholders Meeting may authorize the Supervisory Board, under the resolution of amendments to the Statutes, to establish a uniform text amended of the Statutes or to introduce any other editorial amendments.

Amendments to the Statutes become effective upon their entry into the National Court Register. The Management Board is obligated to report the amendments to the Statutes as it is its responsibility. Pursuant to par. 430 of the Polish Commercial Companies Code, the Management Board is obliged to inform about the amendments to the Statutes within 3 months upon adoption of the relevant resolution by the General Meeting, but Art. 22 of the National Court Register Act undertake to submit the motion for entry to the Register not later than within 7 days from the date justifying this entry.

1.7 Rules of operation of General Shareholders Meeting

The manner of operation of the general shareholders meeting, its basic rights and description of the rights of shareholders and the manner of their performance, in particular the rules following the regulations of the general shareholders meeting, unless this information follows directly from the law, are specified below.

The General Shareholders Meeting of the Company operates under the provisions of the Polish Commercial Companies Code and the Regulations of General Meeting. The Statutes and the Regulations of the Management Board of Apator SA are available on website of Apator SA: www.apator.com in the folder entitled “Investor’s Relations”.

The General Shareholders Meetings can be ordinary and extraordinary. The Ordinary General Shareholders Meeting is convened once per year, at the latest at the end of June.

The General Shareholders Meetings are convened by announcement in the manner specified by the Polish Commercial Companies Code for public companies, at least 26 days in advance of the General Shareholders Meeting to be held. The right to participate in the General Shareholders Meeting is only for persons who are shareholders of the company 16 days before the date of the General Shareholders Meeting to be held (as of the registration date of participation in the meeting):

- persons authorized by registered shares and share certificates, and the pledgees and users, who are entitled to vote by shares, have the right to participate in the General Shareholders Meeting if they are listed in the share register on the registration date of the General Shareholders Meeting.
- list of persons authorized by bearer shares to participate in the General Shareholders Meeting is determined by the Company based on the list drawn up by the National Depository of Securities SA under the conditions specified by the Polish Commercial Companies Code.

The shareholders can participate in the General Shareholders Meeting and exercise the right to vote individually or by proxies; they are also entitled to vote differently, using each of the owned shares. Each registered share of A series is preferred and it entitles to four votes, however each bearer shares entitles to one vote.

The shareholders representing at least half of the share capital or at least half of the total votes are entitled to convene the Extraordinary General Shareholders Meeting by appointing the chairman of this meeting.

The shareholder or shareholders representing at least 1/20 of the share capital are authorized to:
request to convene the Extraordinary General Shareholders Meeting and incorporate the specified issues into the agenda of this meeting. The request to convene the Extraordinary General Shareholders Meeting should be submitted to the Management Board in writing or by e-mail;

request to incorporate the specified issues into the agenda of the next General Shareholders Meeting. This request should be reported to the Management Board not later than 21 days in advance of the date of the General Shareholders Meeting. The Management Board is obliged to announce changes in agenda, introduce at the request of shareholders, immediately, but not later than within 18 days in advance of the date of the General Shareholders Meeting. The announcement is made in a manner appropriate for convening the General Shareholders Meeting;

before the date of the General Shareholders Meeting, to submit to the Company in writing or by e-mail, the drafts of the resolutions referring to the issues incorporated into the agenda of General Shareholders Meeting or issues to be incorporated to the agenda of General Shareholders Meeting. The Company immediately presents the drafts of resolutions on its website. Each shareholder is entitled to submit the resolution draft concerning the issues from the agenda during the General Shareholders Meeting.

The following persons should participate in the General Shareholders Meeting:

- members of the Supervisory Board and the Management Board, in a composition that enables the substantial answering of the questions asked during the meeting,
- statutory auditor, if the financial matters of the Company are subject matter of this meeting.

Unless the provisions of the Polish Commercial Companies Code state otherwise, the general shareholders meeting is valid regardless of the number of shareholders presented.

The General Shareholders Meeting may adopt the resolutions only for the issues included in the agenda, except for the resolutions on order issues, which may refer only to the issues related with conducting of the meeting. The resolution on discontinuing to resolve an issue from the agenda may be adopted only when there are important reasons. In such case the request must be justified. The General Shareholders Meeting may not adopt the resolution on excluding from the agenda or discontinuing the consideration of the issues which are incorporated into the agenda upon the request of the shareholders.

The resolutions are adopted by the absolute majority of votes, unless the provisions of the Statutes or the Polish Commercial Companies Code state otherwise. Voting is open, except for situations described in Art. 420 of the Polish Commercial Companies Code, the secret balloting is ordered for:

- elections and in case of motions on recalling the members of the Company's bodies,
- motions on holding the aforementioned liable,
- on personal matters,
- at the request of but one shareholder or proxy present at the General Shareholders Meeting.

The resolutions of the General Shareholders Meeting are binding for all shareholders.
1.8 The composition of management and supervisory bodies of Apator SA and changes that occurred during recent fiscal year with description of their operation.

1.8.1 Management structure Apator SA as at 31st December 2014.

GENERAL SHAREHOLDERS MEETING

Supervisory Board
Janusz Niedźwiecki,
Mariusz Lewicki, Janusz Marzygliński, Danuta Guzowska, Krzysztof Kwiatkowski, Marcin Murawski

Management Board
Andrzej Szostak,
Tomasz Habryka, Piotr Nowak, Jerzy Kuś

1.8.2 Supervisory Board

The composition of Supervisory board of Apator SA in 2014 remained unchanged at it was as follows:

- Janusz Niedźwiecki - Chairman of Supervisory Board,
- Mariusz Lewicki - Deputy Chairman of Supervisory Board,
- Janusz Marzygliński - Member of Supervisory Board,
- Danuta Guzowska - Member of Supervisory Board,
- Krzysztof Kwiatkowski - Member of Supervisory Board,
- Marcin Murawski - Member of Supervisory Board.

The term of office of current Supervisory Board expires on the day of Ordinary General Shareholders Meeting to be held in 2015.

The shareholding structure of the Members of Supervisory Board at the end of 2014 was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Status as at 31st December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares</td>
</tr>
<tr>
<td>Janusz Niedźwiecki</td>
<td>436 518</td>
</tr>
<tr>
<td>Mariusz Lewicki</td>
<td>2 049 000</td>
</tr>
<tr>
<td>Janusz Marzygliński</td>
<td>1 042 731</td>
</tr>
<tr>
<td>Danuta Guzowska</td>
<td>1 520 279</td>
</tr>
<tr>
<td>Krzysztof Kwiatkowski</td>
<td>0</td>
</tr>
<tr>
<td>Marcin Murawski</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5 048 528</td>
</tr>
</tbody>
</table>
Members of Supervisory Board of Apator SA perform functions in supervisory bodies of entities in Apator Group (as at 31st December 2014):

- Janusz Niedźwiecki - Member of Supervisory Board of Apator Metrix SA;
- Mariusz Lewicki - Chairman of Supervisory Board of Apator Mining Sp. z o. o. Chairman of Supervisory Board of Apator Metrix SA, Deputy Chairman of Supervisory board of Apator Elkomtech SA;
- Janusz Marzygliński - Chairman of Supervisory Board of Apator Rector Sp. z o. o. Chairman of Supervisory Board of Powogaz SA

Remuneration of the Members of Supervisory Board was not the significant item in operation costs of the Company and they did not have serious influence on its financial result. The remuneration obtained in 2014 was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Remuneration from APATOR SA</th>
<th>Remuneration from other entities of Apator Group</th>
<th>Total remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PLN’ 000</td>
<td>PLN’ 000</td>
<td>PLN’ 000</td>
</tr>
<tr>
<td>Janusz Niedźwiecki</td>
<td>147*</td>
<td>36</td>
<td>183</td>
</tr>
<tr>
<td>Mariusz Lewicki</td>
<td>66</td>
<td>121</td>
<td>187</td>
</tr>
<tr>
<td>Janusz Marzygliński</td>
<td>66</td>
<td>96</td>
<td>162</td>
</tr>
<tr>
<td>Danuta Guzowska</td>
<td>66</td>
<td>0</td>
<td>66</td>
</tr>
<tr>
<td>Krzysztof Kwiatkowski</td>
<td>66</td>
<td>0</td>
<td>66</td>
</tr>
<tr>
<td>Marcin Murawski</td>
<td>66</td>
<td>0</td>
<td>66</td>
</tr>
<tr>
<td>Total</td>
<td>477</td>
<td>253</td>
<td>730</td>
</tr>
</tbody>
</table>

* including the amount of PLN 75 000 due to remuneration as the compensation pursuant to the contract of the non competition clause after completion the employment contract (President of Management Board of Apator SA)

The conduct of Supervisory Board is determined by the Polish Commercial Companies Code, the Statutes of Apator SA and Regulations of the Supervisory Board of Apator SA. The Statutes and the Regulations are available on the website of Apator SA: www.apator.com in the folder entitled “Investor’s Relations”.

Pursuant to the provisions of the Statutes, the Supervisory Board meets once per quarter or more often, if needed, upon the invitation of the Chairman of the Supervisory board. In 2014, 9 meetings of the Supervisory Board of Apator SA were held. The Members of the Supervisory Board performed their duties personally in a composition enabling them to adopt resolutions.

The members of the Management Board of Apator SA participated in the session of the Supervisory Board in a number enabling to answer substantively the questions. Moreover, the Management Board provided the Supervisory Board with sufficient information on all important matters referring to the business activity of Apator SA and the Apator Group.

At the meetings of the Supervisory Board the resolutions were adopted of the issues, which were specified by the agenda sent to the members of the Supervisory Board in the notice.

The business activity of the Supervisory Board focused on the matters significant for the business activity of the Apator SA and the Apator Group. The Supervisory Board constantly supervises the business activity of the Apator SA and Management Board by:
analysis of materials provided by the Management Board, upon the request of Supervisory Board,

obtaining the information and detailed explanations from the Members of the Management Board and other employees of the company during the sessions of the Supervisory Board,

participation of the Members of Supervisory Board in the sessions of the Management Board,

activity of Audit Committee

activity of the statutory auditor, who on behalf of the Board, reviewed and audited the financial documents and the financial statements.

The Auditing Committee operates within the Supervisory Board, but the Nomination Commission and Remuneration Commission were not appointed.

1.8.3 Audit Committee of the Supervisory Board of Apator SA

On 23rd September 2009 the Supervisory Board of Apator SA appointed the Auditing Committee, which is composed of three members including the Chairman who is appointed among its members.

The goal of the Auditing Committee is collaboration with the statutory auditors and consultancy for the Supervisory Board on the following issues:

- separate and consolidated financial reporting,
- internal control and risk management.

The main tasks of the Auditing Committee include:

- monitoring of the financial reporting process (audit of the accounting standards accepted, circulation of information, prepared documents and planned amendments in that scope);
- monitoring of the efficiency of the internal control systems, internal audit and risk management systems;
- monitoring of the performance of audit activities;
- monitoring of the independency of the statutory auditor to audit the financial statements.

The detailed principles of the Auditing Committee’s activity are specified by the Regulations of the Auditing Committee of the Supervisory Board of Apator SA, which is available on its website: , in the tab “Investor’s Relationships”.

In 2014, the Auditing Committee acted in the following composition:

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

Krzysztof Kwiatkowski and Marcin Murawski meet the criterion of independency from Apator SA.

Pursuant to the Regulations, the meetings of Auditing Committee are held not less than two times per year, prior financial reports (interim and annual). In 2014 there were 5 meetings held of the Audit Committee.
1.8.4 Management Board

Till 30\textsuperscript{th} June 2014 Management Board of Apator SA operated in the three person composition:

Andrzej Szostak – President of Management Board,
Tomasz Habryka – Member of Management Board,
Jerzy Kuś – Member of Management Board

On 6\textsuperscript{th} May 2014 Supervisory Board of Apator SA made the decision to appoint Piotr Nowak – the Member of Management Board – Chief Financial Officer since 1\textsuperscript{st} July 2014. In the view of the above since 1\textsuperscript{st} July 2014 the Management Board was in four person composition:

Andrzej Szostak – President of Management Board,
Tomasz Habryka – Member of Management Board,
Jerzy Kuś – Member of Management Board,
Piotr Nowak – Member of Management Board

After reporting period, on 30\textsuperscript{th} March 2015 Tomasz Habryka resigned from the Member of the Management Board of Apator SA with effect from 31\textsuperscript{st} March 2015. Resign was resulted of the appointment of Tomasz Habryka the President of subsidiary Apator SA on 1\textsuperscript{st} February 2015. The Management Board of Apator SA operates in three person composition:

Andrzej Szostak – President of Management Board,
Jerzy Kuś – Member of the Management Board,
Piotr Nowak – Member of Management Board.

In 2014, in Apator SA the power of proxy was given to the following persons:

Janina Karaszewska-Zandrowicz – Deputy Financial Director; on 6\textsuperscript{th} October 2014 the Management Board of Apator SA withdrew the independent proxy,
Miroslaw Klepacki – Switchgear Director,
Krzysztof Malec – Production Director; since 1\textsuperscript{st} April 2015 Chief Operating Officer

Shareholding of shares of Apator SA by Members of Management Board and proxies is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Status as at 31\textsuperscript{st} December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares</td>
</tr>
<tr>
<td>Andrzej Szostak</td>
<td>0</td>
</tr>
<tr>
<td>Tomasz Habryka</td>
<td>0</td>
</tr>
<tr>
<td>Jerzy Kuś</td>
<td>200</td>
</tr>
<tr>
<td>Piotr Nowak</td>
<td>0</td>
</tr>
<tr>
<td>Miroslaw Klepacki</td>
<td>0</td>
</tr>
<tr>
<td>Krzysztof Malec</td>
<td>99</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>299</strong></td>
</tr>
</tbody>
</table>

The members of Management board and Proxies are members of the bodies of subsidiaries (as at 31\textsuperscript{st} December 2014):
The remuneration of the Members of the Management Board is determined on the basis of clear procedures and principles considering its motivation nature and to provide the effective and fluent management of the Company. The remuneration corresponded to the responsibility criteria pertaining to the position held, staying reasonably proportionate to the level of remuneration in similar companies in a comparable market. The remuneration obtained by the Members of the Management Board in 2014 is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Remuneration from Apator SA</th>
<th>Remuneration from other entities of Apator Group</th>
<th>Total remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Essential remuneration</td>
<td>bonuses and awards</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PLN'000</td>
<td>PLN'000</td>
<td>PLN'000</td>
</tr>
<tr>
<td>Andrzej Szostak</td>
<td>598</td>
<td>373</td>
<td>1 090</td>
</tr>
<tr>
<td>Tomasz Habryka</td>
<td>364</td>
<td>273</td>
<td>731</td>
</tr>
<tr>
<td>Jerzy Kuś</td>
<td>360</td>
<td>291</td>
<td>687</td>
</tr>
<tr>
<td>Piotr Nowak (since 1.07.2014)</td>
<td>240</td>
<td>60</td>
<td>305</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1 562</strong></td>
<td><strong>997</strong></td>
<td><strong>2 813</strong></td>
</tr>
</tbody>
</table>

While making decisions on issues of the company, the Members of the Management Board act within the limits of justified economic risk, i.e. after all information, analyses and opinions are considered that in the opinion of Management Board should be considered due to the interest of the company. Taking into account justified long-term prospectus, the business of the shareholders, debtors, employees and other entities and persons collaborating with the Company’s business activity, as well as the interest of the local society. The Management Board operated with due diligence in order to make any transactions with the persons, whose interests affected the interest of the Company were under the market conditions.
Report of Management Board on activity of Apator SA in 2014

Signatures

23rd April 2015.

Andrzej Szostak

Chief Executive Officer, Managing Director

23rd April 2015

Jerzy Kuś

Member of Management Board, Metering Equipment and Systems Director

23rd April 2015

Piotr Nowak

Member of Management Board, Chief Financial officer