

Grupa Kapitalowa Apator S.A.

Opinion and Report of the Independent Statutory Auditor

Year ending December 31, 2012

Opinion contains 3 pages.

Report supplementing the opinion contains 13 pages

Opinion of the statutory auditor and report supplementing the opinion on the audit of the separate financial statement for the year ended December 31, 2012

OPINION OF THE INDEPENDENT STATUTORY AUDITOR

For the General Meeting of Apator S.A.

Opinion on consolidated financial statement

We have audited the consolidated financial statement of Grupa Kapitałowa, where the parent entity is Apator S.A. with the registered office in Toruń, ul. Gdańska 4A, room C4 (“Grupa Kapitałowa”), composed of the consolidated statement of financial position prepared as at December 31, 2012, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year ended on this day and additional notes to the financial statement concerning the applied accounting principles and other explanatory notes.

Responsibility of the Management and the Supervisory Board

The Management Board of the Parent Entity is responsible the preparation and fair presentation of this consolidated financial statement pursuant to the International Financial Reporting Standards as adopted by the European Union and other applicable regulations and for preparation the Management Report. The Management Board of the Parent Entity is also responsible for internal control as management deems it necessary to enable the preparation of the financial statements that are free of material misstatements, whether due to fraud or error.

Pursuant to the Accounting Act of September 29, 1994 (Dz. U. of 2009 No. 152, item 1223 as amended) (“Accounting Act”) the Management Board of the Parent Entity and the members of the Supervisory Board are required to ensure that the consolidated financial statement and the management report are in compliance with the requirements set forth in the Accounting Act.

Responsibility of the Statutory Auditor

Our task was to express the opinion about this financial statement on the basis of this audit. The audit of the consolidated financial statement was conducted pursuant to provisions of the chapter 7 of the Accounting Act, national financial reporting standards issued by the National Board of Statutory Auditors in Poland and International Financial Reporting Standards. Those regulations require that we comply with ethical requirements and to plan and perform the audit to obtain the reasonable assurance about whether that the financial statements are free of material misstatements.

The audit involves performing procedures to obtain audit evidence about amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risk of material misstatement of the consolidated financial statement whether due to fraud or error. In making those risk assessment, we consider the internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the attached consolidated financial statements of Grupa Kapitałowa of Apator S.A. have been prepared and present fairly, in all material respects, the financial position of the Company as of December 31, 2012, the results of its operations and its cash flows for the fiscal year ending this day in conformity with the

International Financial Reporting Standards as adopted by the European Union, are compliant with all regulations that apply to the consolidated financial statement.

Special explanations on other law requirements and regulations

Management Report of Grupa Kapitałowa

As required under the Accounting Act, we also report that the Management Report of Grupa Kapitałowa includes the information required by Art. 49 of the Accounting Act and of the Ordinance of the Minister of Finances dated 19 February 2009 on the current and periodic information provided by the issuers of securities and conditions of considering as equal the information required by the legal provisions of the non-member country (Dz. U. 2009 No. 33, item 259 as amended) and information is consistent with the consolidated financial statement.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

Registration No. 3546

Chłodna 51
00-867 Warszawa

Rafał Wiza
Key Statutory Auditor
Registration No. 11995
Limited Partner, Proxy

Marek Gajdziński
Statutory auditor
Registration No. 90061
Limited Partner, Proxy

Poznań, April 22, 2013

Grupa Kapitalowa Apator S.A.

Report supplementing the opinion on the audit of the consolidated financial statement for the year ending
December 31, 2012

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Report supplementing contains 13 pages

Report supplementing the opinion on the audit of the consolidated financial statement for the year ending
December 31, 2012

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1. General

1.1. Information about Grupa Kapitalowa

1.1.1. Name of Grupa Kapitalowa

1.1.2. Grupa Kapitalowa Apator SA.

1.1.3. Registered office of the Parent Entity

ul. Gdańska 4A, room C4
87-100 Toruń

1.1.3. Registration of the parent entity in the National Court Register

Registering Court: District Court in Toruń, 7th Commercial Division of the National Court Register

Date: October 24, 2001

Registration No.: KRS 0000056456

Share capital

as of the end of the period: PLN 3 510 702.80

1.1.4. Management of the Parent Entity

The position of the manager of the Parent Entity is held by the Management Board.

The Management Board of the Parent Entity as of December 31, 2012 consisted of:

- Mr Janusz Niedźwiecki- President of the Management Board
- Mr Tomasz Habryka- Member of the Management Board
- Mr Jerzy Kuś - Member of the Management Board

1.2. Information on entities belonged to Grupa Kapitalowa

1.2.1. Entities covered by the consolidated financial statement

As at December 31, 2012 the following entities belonging to Grupa Kapitalowa were included in the scope of consolidation:

Parent entity:

- Apator S.A.

Subsidiaries included to the full method of consolidation:

- Apator Control Sp. z o.o.,
- Apator Mining Sp. z o.o.,
- FAP Pafal S.A.,
- Apator Metrix S.A.,
- Apator GmbH (Germany),
- Apator Rector Sp. z o.o.,
- Apator Powogaz S.A.,
- Apator Telemetry Sp. z o.o.,
- Apator Metra s. r. o. (Czech),

- Apator Metroteks TOV (Ukraine),
- Newind Sp. z o.o.

Joint-controlled entities measured by equity method:

- Apator Elektro (Russia),
- Apator Elektro LCC (Russia),
- ZAO Teplovodomer (Russia)
- George Wilson Industries Ltd. (Great Britain).

The following subsidiaries have been included in the scope of consolidation for the first time in the fiscal year ending on December 31, 2012 due to taking up the control by the Parent Entity:

- George Wilson Industries Ltd. (Great Britain) - the entity included in the consolidated financial statement for the period from June 5 to December 3, 2012.

1.2.2. The entities not included in the scope of consolidation

As at December 31, 2012 all entities belonging to Grupa Kapitałowa were included in the scope of consolidation.

1.3. Information about the statutory auditor and entity authorized to audit financial statements

1.3.1. Information about the statutory auditor

Name and surname: Rafał Wiza
Register No.: 11995

1.3.2. Information about the authorized entity

Company: KPMG Spółka z ograniczoną odpowiedzialnością Sp.k.
Registered office: ul. Chłodna 51, 00-867 Warszawa
Registration No.: KRS 0000339379
Registering Court: District Court for the capital city of Warsaw in Warsaw
12th Commercial Division of the National Court Register, NIP [Tax
Identification Number]: 527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered into the list of the entities authorized to audit the financial statements kept by the National Chamber of Statutory Auditors with the number 3546.

1.4. Information about the consolidated financial statement for the previous fiscal year

The consolidated financial statement of the parent entity for the fiscal year ending December 31, 2011 was audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. the entity authorized to audit financial statements and obtained the opinion without any reservations.

The consolidated financial statement has been approved by the General Meeting on June 18, 2012.

The consolidated financial statement has been submitted to the Registering Court on June 22, 2012 and published in Monitor Polski B No. 1984 of September 7, 2012.

1.5. Scope of activities and responsibilities

This report was prepared for the General Meeting of Apator S.A., seated in Toruń, ul. Gdańska 4A, room C4 and refers to consolidated financial statements composed of the consolidated statement of financial position prepared as at December 31, 2012, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal

year ended on this day and additional notes to the financial statement concerning the applied accounting principles and other explanatory notes.

The parent entity prepares the consolidated financial statement pursuant to the International Financial Reporting Standards, which were approved by the European Union based on resolution of the Extraordinary General Meeting of Shareholders of December 20, 2004.

The audit of the consolidated financial statement was conducted pursuant to the agreement of June 6, 2012 concluded under Resolution of the Supervisory Board of January 23, 2012 referring to the selection of the entity authorized to audit the financial statement.

The audit of the consolidated financial statement was carried out pursuant to the provisions of the chapter 7 of the Accounting Act of September 29, 1994 (Dz. U. of 2009 No. 152, item 1223 as amended) ("Accounting Act"), National Financial Reporting Standards issued by the National Chamber of Statutory Auditors and International Financial Reporting Standards.

The audit of the consolidated financial statement was carried out in the entities belonging to Grupa Kapitałowa in the period from February 25, 2013 to March 15, 2013.

The Management Board of the Parent Entity is responsible for accuracy of the accounting books, for preparing and reliable presentation of the consolidated financial statement pursuant to the International Financial Reporting Standards, which were adopted by the European Union and other applicable regulations and for preparation the Management Report.

Our task was to express the opinion and to prepare the supplementing report referred to this consolidated financial statement on the basis of the audit.

On date of this report the Management Board of the Parent Entity submitted the statement on fairness and clearness of the attached financial statement and that there are not any events not disclosed in the consolidated financial statement which could have an influence on information presented in the consolidated financial statement for the year.

During the audit of the consolidated financial statement the Management Board of the Parent Entity submitted all the required statements, explanations and information and provided us with all documents and information necessary to issue the opinion and to prepare the report. The scope of planned and executed works has not been limited in any manner. The scope and manner of the audit result from the prepared working documents, which are held in the registered office of the authorized entity.

The Key Statutory Auditor and the entity authorized meet the requirement of being independent of the entities belonging to the audited Grupa Kapitałowa in the meaning of Art. 56 sec. 3 and 4 of the Act of May 7, 2009 on the Statutory Auditors, Their Self-Governing Organisation, and Entities Authorised to Audit Financial Statements and on Public Oversight (Dz. U. of 2009, No. 77 item 649 as amended).

1.6. Information on audited entities included to the scope of consolidation

1.6.1. Parent entity

The separate financial statement of the parent entity for the fiscal year ending December 31, 2011 was audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. the entity authorized to audit financial statements and obtained the opinion without any reservations.

1.6.2. Other entities included in the scope of consolidation

Entity's name	The entity authorized to audit	Reporting date	Status of the opinion of the statutory auditor
Apator Control Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	December, 31, 2012	No reservations.
Apator Mining Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	December, 31, 2012	No reservations.
FAP Pafal S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	December, 31, 2012	No reservations.
Apator Metrix S.A,	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	December, 31, 2012	No reservations.
Apator GmbH	It does not require audit.	December, 31, 2012	Not applicable.
Apator Rector Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	December, 31, 2012	No reservations.
Newind Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	December, 31, 2012	No reservations.
Apator Powogaz S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	December, 31, 2012	No reservations.
Apator Telemetry Sp. z o.o.	Gdańska Grupa Audytorów Sp. z o.o.	December, 31, 2012	No reservations.
Apator Metra s.r.o.	KPMG Česká republika, s.r.o.	December, 31, 2012	No reservations.
Apator Metroteks TOV	It does not require audit.	December, 31, 2012	Not applicable.
Apator Elektro	It does not require audit	December, 31, 2012	Not applicable.
Apator Elektro LCC	It does not require audit	December, 31, 2012	Not applicable.
ZAO Teplovodamer	"Biznes-Audyt" OOO	December, 31, 2012	No reservations.
George Wilson Industries Ltd.	Grant Thomton UK LLP	November 30, 2012	No reservations.

2. Financial analysis of Grupa Kapitalowa

2.1. General analysis of the consolidated financial statement

2.1.1. Consolidated statement of financial condition

ASSETS	31.12.2012	%	31.12.2011	%
	PLN' 000	assets	PLN '000	assets
Non-current assets				
Intangible assets	4 400	0.9	4 031	0.9
Goodwill of subsidiaries	66 248	13.1	63 754	13.7
Property, plant and equipment	139 183	27.7	128 795	27.5
Investment property	1 735	0.3	1 859	0.4
Investments in affiliates and joint subsidiaries measured by equity method	6 571	1.3	729	0.2
Other long-term financial assets	525	0.1	-	-
Granted long-term loans	8 175	1.6	-	-
Long-term receivables	1 590	0.3	1 988	0.4
Long-term accrued and deferred assets	61	0.0	31	0.0
Deferred tax assets	20 871	4.1	2 220	0.5
Total non-current assets	249 359	49.4	203 407	43.6
Current assets				
Inventories	94 053	18.6	91 587	19.7
Trade receivables	102 711	20.4	123 704	26.5
Receivables due to corporate income tax	63	0.0	372	0.1
Receivables due to other taxes, subsidies, customs and social insurances	5 535	1.1	7 697	1.7
Other current receivables	6 026	1.2	3 186	0.7
Other short-term financial assets	1 003	0.2	354	0.1
Cash and cash equivalents	43 719	8.7	24 090	5.1
Short-term accrued and deferred assets	1 979	0.4	1 256	0.3
Non-current assets held for re-sale	-	-	10 427	2.2
Total current assets	255 089	50.6	262 673	56.4
TOTAL ASSETS	504 448	100.0	466 080	100.0

* The statement transformed pursuant to the Note 8.37 to the consolidated financial statement

LIABILITIES	31.12.2012	%	31.12.2011	%
	PLN' 00	liabiliti es	PLN '000	liabiliti es
Equity				
Share capital	3 311	0.7	3 511	0.8
Other capitals	186 971	37.1	165 106	35.4
Capital from measurement of hedging transactions and exchange differences from consolidation	961	0.2	(4 991)	1.1
Undivided financial result	107 189	21.2	71 299	15.3
Equity of the shareholders of the parent entity	298 432	59.2	234 925	50.4
NCI	1 160	0.2	1 141	0.2
Total equity	299 592	59.4	236 066	50.6
Liabilities				
Long-term borrowings	12 887	2.6	21 669	4.6
Long-term liabilities	25 425	5.0	20 917	4.5
Provisions and liabilities due to employee benefits	7 012	1.4	11 134	2.4

Other long-term provisions	40	0.0	324	0.1
Total long-term liabilities	45 364	9.0	54 044	11.6
Short-term borrowings	42 833	8.5	58 299	12.5
Trade liabilities	66 263	13.1	59 356	12.7
Liabilities due to corporate income tax	7 606	1.5	2 700	0.6
Liabilities due taxes, customs and social insurances	9 246	1.8	8 862	1.9
Other short-term liabilities	18 902	3.7	26 180	5.6
Short-term provisions for liabilities due to employee benefits	10 348	2.1	9 185	2.0
Other short-term provisions	4 294	0.9	4 388	0.9
Liabilities related to non-currents assets held for sale			7 000	1.5
Total short-term liabilities	159 492	31.6	175 970	37.8
Total liabilities	204 856	40.6	230 014	49.4
TOTAL LIABILITIES AND EQUITY	504 448	100.0	466 080	100.0

* The statement transformed pursuant to the Note 8.37 to the consolidated financial statement

2.1.1. Consolidated statement of comprehensive income

	1.01.2012	%	1.01.2011	%
	31.12.2012	Revenues	31.12.2011	Revenues
	2	from sale	1*	from sale
	PLN'		PLN'	
	000		000	
Revenues	668 824	100.0	537 019	100.0
Cost of sales	(483 950)	72.4	(371 688)	69.2
<i>Gross profit from sales</i>	184 874	27.6	165 331	30.8
Distribution expenses	(31 247)	4.7	(30 445)	5.7
Administration expenses	(75 980)	11.3	(66 008)	12.3
Other operating revenues	18 639	2.8	3 841	0.7
Share in profits of entities included in the scope of consolidation by equity method	2 206	0.3	364	0.1
Costs of restructuring	-		(1 323)	0.2
<i>Profit from operating activities</i>	98 492	14.7	71 760	13.4
Finance income	3 505	0.5	1 770	0.3
Finance cost	(9 839)	1.4	(8 868)	1.7
<i>Profit before tax</i>	92 158	13.8	64 662	12.0
Current income tax	(16 566)	2.5	(13 233)	2.5
Deferred income tax	20 128	3.0	382	0.1
<i>Net loss for the fiscal year</i>	95 720	14.3	51 811	9.6
OTHER COMPREHENSIVE INCOME				
Exchange differences from translation the foreign units	(655)	0.1	1 293	0.2
Profit on hedge accounting	8 139	1.2	(7 445)	1.5
Income tax referring to other comprehensive income	(1 546)	0.2	1 415	0.3
<i>Net other comprehensive income for the fiscal year</i>	5 938	0.9	(4 737)	0.8

<i>Total comprehensive income for the fiscal year</i>	<i>101 658</i>	<i>15.2</i>	<i>47 074</i>	<i>8.8</i>
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* The statement transformed pursuant to the Note 8.37 to the consolidated financial statement

2.2. Selected financial ratios

	2012	2011
1. Return on sales		
<u>Net profit x 100%</u> net revenues	14.3%	9.6%
2. Return on equity		
<u>Profit for the year x100%</u> equity-profit for the year	47.0%	28.1%
3. Debtor's days		
<u>Average trade receivables x 365 days</u> net revenues	69 days	77 days
4. Debt ratio		
<u>Liabilities x 100%</u> equity and liabilities	40.6%	49.4%
5. Current ratio		
<u>current assets</u> current liabilities	1.6	1.5

* Revenues from sales are comprised of revenues from sale of products, goods and materials. *Average trade receivables are the arithmetic average of trade receivables from the beginning to the end of the reporting period, excluding the revaluation allowances.

3. Detailed report

3.1. Accounting principles

The Parent Entity maintains current documentation describing the applied accounting principles adopted by Grupa Kapitałowa and approved by the Management Board of the Parent Entity.

The adopted accounting principles were presented in the notes to the consolidated financial statements to the extent required by the International Financial Reporting Standards as approved by the European Union.

The entities belonging to Grupa Kapitałowa apply the same accounting principles compliant with the principles applied by the Parent Entity.

The financial statements of the entities included in the scope of consolidation were prepared at the end of the same reporting period as the financial statement of the Parent Entity.

3.2. The basis of preparation of the consolidated financial statement

Grupa Kapitałowa Apator S.A. prepared the consolidated financial statements pursuant to the International Standards of Financial Reporting as recommended by the European Union, and other applicable regulations.

The consolidation documents prepared under the requirements of the Minister of Finances of 25 September 2009 on the special requirements for preparation of the consolidated financial statement by the entities other than banks and insurance companies (Dz. U. 2009 No. 169, item 1327).

3.3. Method of consolidation

The applied consolidation method was presented in the Note 5.2. of the notes to the consolidated financial statement.

3.4. Goodwill from consolidation

The method of determination of the goodwill from consolidation was presented in the Note 5.2. of the notes to the consolidated financial statement.

3.5. Consolidation of capitals and determining of NCI

The share capital of Grupa Kapitałowa is the share capital of the Parent Entity.

The calculation of the other items of the equity of Grupa Kapitałowa was made by adding the relevant items of the equity of the subsidiaries included in this financial statement to the relevant items of the equity of the Parent Entity, corresponding to the proportionate share of the Parent Entity in the equity of the subsidiaries as at the end of the reporting period.

The equity of Grupa Kapitałowa includes only these items of the relevant components of the subsidiaries' equity, which are created from the control take up date.

The calculation of the non-controlling interest in the subsidiaries included in the consolidated financial statement was made under the proportionate share of NCI in the equity of the subsidiaries as at the end of the reporting period.

3.6. Consolidation exclusions

The consolidation exclusions referred to the intra-group settlements were made.

During the consolidation the exclusions of the sales between the entities of the Group, other intra-group revenues and operating expenses and the financial costs and revenues were made.

The data, the basis for these exclusions, were derived from the accounting records of Apator S.A. and were reconciled with the information received from the subsidiaries.

3.7. Additional notes to the consolidated financial statement

Information included in the explanatory notes to the separate financial statement including the description of the material accounting principles and other explanatory notes was presented completely and accurately in all material respects. This information should be read in conjunction with the consolidated financial statements.

3.8. Management Report of Grupa Kapitałowa

The Management Board of Grupa Kapitałowa includes, in all material respects, information required by Art. 49 of the Accounting Act and of the Ordinance of the Minister of Finances dated 19 February 2009 on the current and periodic information provided by the issuers of securities and conditions of considering as equal the information required by the legal provisions of the non-member country (Dz. U. 2009 No. 33, item 259 as amended) and information is consistent with the consolidated financial statement.

On behalf of KPMG Audyt Spółka z ograniczoną
odpowiedzialnością sp.k. , Reg. No. 3546,
ul. Chłodna 51, 00, 867- Warszawa

Rafał Wiza
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Poznań, April 22, 2013