



Report of Supervisory Board on activity in financial year 2015

Toruń, May 2016

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## 1. Makeup of Supervisory Board

The makeup of Supervisory Board of Apator SA as at 1<sup>st</sup> January 2015 was as follows:

1. Janusz Niedźwiecki - Chairman of Supervisory Board
2. Mariusz Lewicki - Deputy Chairman of Supervisory Board
3. Janusz Marzygliński - Member of Supervisory Board
4. Danuta Guzowska - Member of Supervisory Board
5. Krzysztof Kwiatkowski - Independent Member of Supervisory Board
6. Marcin Murawski - Independent Member of Supervisory Board

On 22<sup>nd</sup> June 2015 the seventh tenure of Supervisory Board expired, Ordinary General Shareholders Meeting nominated the Supervisory Board for the next tenure in the following makeup:

1. Janusz Niedźwiecki - Chairman of Supervisory Board
2. Mariusz Lewicki - Deputy Chairman of Supervisory Board
3. Janusz Marzygliński - Member of Supervisory Board
4. Danuta Guzowska - Member of Supervisory board
5. Kazimierz Piotrowski - Member of Supervisory Board
6. Marcin Murawski - Independent Member of Supervisory Board

As at 31<sup>st</sup> December 2015 the above makeup did not change.

Current five year tenure of Supervisory Board will expire on the day of Ordinary General Shareholders Meeting to be held in 2020.

## 2. Supervisory Board Meetings

In 2015 the Supervisory Board held 12 meetings where it took its standpoints for the matters included in the agendas and adopted 22 resolutions.

## 3. Committees of Supervisory Board

In order to assure proper supervision over activity of the Company, particularly in the scope of financial reporting, the Audit Committee of the Supervisory Board has been established as the advisory body of the Supervisory Board. The tenure of the members of the Audit Committee is jointly with one of the Supervisory Board.

Since 1<sup>st</sup> January till 22<sup>nd</sup> June 2015 Audit Committee was operating in the following makeup:

- Mariusz Lewicki - Chairman of the Committee,
- Krzysztof Kwiatkowski - Member of Committee,
- Marcin Murawski - Member of Committee.

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

Due to the expiration of the tenure of the Audit Committee, the Supervisory Board at the meeting held on 27<sup>th</sup> July 2015 nominated the following members of Audit Committee for the next tenure:

- Mariusz Lewicki - Chairman of Committee,
- Kazimierz Piotrowski - Member of Committee,
- Marcin Murawski - Member of Committee.

On 17<sup>th</sup> December 2015 Mariusz Lewicki resigned from position of the Chairman of Audit Committee. Its decision he justified the adoption of the new code of Best Practice of WSE listed Companies 2016, pursuant to it, the Chairman of Audit Committee should comply with the criterion of independence. In view of the above the Supervisory Board nominated Marcin Murawski the Chairman of Audit Committee. Further to the above the makeup of the Audit committee since 18<sup>th</sup> December 2015 has been as follows:

- Marcin Murawski - Chairman of Committee (independent member),
- Mariusz Lewicki - Member of Committee,
- Kazimierz Piotrowski - Member of Committee.

The Audit Committee performing its duties in the reporting period held 8 meetings where it adopted 4 resolutions and took its standpoints for the matters included in the agendas.

The scope of works of Audit Committee covered:

- cooperation with statutory auditor that includes analysis of the scope and schedule of works being performed under the financial auditing and analysis of the declaration of the independence of KPMG and its statutory auditors,
- discussion with statutory auditor about the course of financial auditing in Apator and in entities of Apator Group,
- auditing financial statements and the reports of the Management Board for 2014 and making the recommendation for the Supervisory Board,
- supervision over policy of hedging of currency risk and carry out of regular analysis of forwards,
- analysis of the proposals of Management Board aimed at introduction of consolidation of loans in Apator Group (umbrella financing),
- supervision over internal control system,
- supervision over risk management system,
- analysis of the scope of tasks being performed by controlling department both in respect of Apator SA and Apator Group,
- analysis of capital expenditures and the use of investment relief due to activity in Pomeranian Special Economic Zone

Furthermore, Audit Committee recommended Supervisory Board of Apator SA the payment of interim dividend towards dividend from the profit for 2015 in gross amount of PLN 0,30 per share.

The Committee pursuant to the rule III.Z.6 of Best Practice for WSE listed Companies 2016, has made the analysis of justification of organizational separation of internal audit function in Apator SA and made the decision not to separate this function currently.

#### **4. Information on performance by the Supervisory Board the duties related to the Ordinary General Shareholders Meeting of Apator SA held on 22<sup>nd</sup> June 2015**

The Supervisory Board on 14<sup>th</sup> May 2015 gave positive opinion on the motions to Ordinary General Shareholders Meeting in the scope of the approval of:

- reports of Management Board on activity of Apator SA and Apator Group in 2014,
- separate and consolidated financial statements for 2014,
- distribution of the profit of the company in financial year 2014 and the payment of other part of dividend in gross amount of PLN 0,50 per share that is in total amount of PLN 16.553.514,00,
- amendments to §7 of the Statutes of Apator SA due to the conversion of shares made.

Furthermore, the Supervisory Board presented the Ordinary General Shareholders Meeting the report on its activity in 2014 and obtained its approval.

#### **5. Personnel policy being performed by the Supervisory Board – makeup and the rules of remuneration of the Management Board of Apator SA**

Pursuant to § 16 of the Statutes of Apator SA, the makeup of the Management Board is from 1 to 5 members nominated for 3 years for common tenure.

The competence of the Supervisory Board includes:

- establishment the number of the members of the Management Board,
- nomination of the President of Management Board and then at his request other members of the Management Board,
- establishment the remuneration with motivation aspect considered for the members of the Management Board,
- suspension in duties due to important reasons all or particular members of the Management Board,
- dismissal of the members of the Management Board of the Company,
- delegation of members of the Supervisory Board for temporary performance of the duties of the members of the Management Board,

Since 1<sup>st</sup> January 2015 till 30<sup>th</sup> March 2015 the makeup of the Management Board of Apator SA was as follows:

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

On the 30<sup>th</sup> March 2015 Tomasz Habryka resigned from the position of the Member of the Management Board of Apator SA effective since the 31<sup>st</sup> March 2015. Therefore, since the 1<sup>st</sup> April 2015 the makeup of the Management Board of Apator SA was as follows:

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

On the 22<sup>nd</sup> June 2015 Jerzy Kuś resigned from the position of the member of Management Board of Apator SA effective since 23<sup>rd</sup> June 2015. Further to the above since 24<sup>th</sup> June 2015 the Management Board of Apator SA operated in the two person makeup:

- Andrzej Szostak                      – President of Management Board,
- Piotr Nowak                            – Member of Management Board

As at 31<sup>st</sup> December 2015 the above makeup of the Management Board did not change.

The tenure of the Management Board expires on the day of Ordinary General Shareholders Meeting to be held that is on 13<sup>th</sup> June 2016.

In 2015 remuneration system of the Management Board included fixed part (essential) and variable one motivated part in the form of quarterly bonuses and annual award. Quarterly bonus is granted based on achievements gained quarterly financial results but the annual award based on the performance of:

- annual budget,
- strategic initiatives for the year, resulted from the strategy of action being performed for 2014-2019.

Total remuneration paid to the Management Board due to the performance of duties in Apator SA and in subsidiaries in 2015 was PLN 2.480 000 and it included:

- remuneration paid by Apator SA in amount of PLN 2.254 000, with quarterly bonuses and annual award for 2014 in amount of PLN 907 000.
- remuneration paid by subsidiaries in amount of PLN 226.000

Decision on granting the annual award for 2015 the Management Board of Apator SA will be taken by the Supervisory Board after the financial statements and the reports of the Management Board for 2015 have been approved and vote of acceptance of the Management Board has been granted by General Shareholders Meeting.

In opinion of the Supervisory Board the level of remuneration of the Management Board is appropriate in order to obtain and maintain and provide with the motivation of persons with competence necessary for proper management of Apator SA and its capital group. The policy of remuneration is strictly connected to the strategy, short and long term objectives and financial results. The remuneration of particular members of the Management Board is the result of their scope of responsibility and remains in reasonable relation to:

- remuneration of the Management Board in similar public companies,
- market value of the Company.

## **6. Best Practice for WSE Listed Companies**

### **6.1. The application of Best Practice for WSE Listed Companies by Apator SA as at 31.12.2015 and the day of the issue of the report**

Until the end of 2015 the rules of corporate governance have been binding. They were included in Best Practice for WSE Listed Companies being the annex to the Resolution of the Council of Warsaw Stock Exchange no. 19/1307/2012 dated 21<sup>st</sup> November 2012. Apator SA complied with the rules included in the document with the exception of the three ones:

- rule I.12 and rule IV.10 in the respect of exercise the voting and attending general shareholders meeting by use of electronic communication means.
- rule III.6 (but since 23<sup>rd</sup> June 2015 ) at least two members of the Supervisory Board should meet the criteria of being independent of the company and entities related significantly with it.

Since the 1<sup>st</sup> January 2016 set of the rules of corporate governance has been binding. They are included in the Best Practice for WSE Listed Companies 2016 adopted based on the resolution of the Council of Warsaw Stock Exchange dated 13<sup>th</sup> October 2015. The Company has accepted all the rules and recommendations except:

- detail rule II.Z.3 in respect of compliance with the criteria of independence specified in II.Z.4 by at least of two members of the Supervisory Board,
- recommendation IV.R.2 in respect of the possibility of attending the general shareholders meeting by use of electronic communication means particularly by bi-directional communication in the real time.

### **6.2. Application of Best Practice for WSE Listed Companies by the Supervisory Board in 2015**

In 2015 there was no case of event when any of the rules accepted for the use of the Best Practice for WSE Listed Companies was broken the Supervisory Board. The members of the Supervisory Board performed their duties personally related to the meetings of the Supervisory Board and announced pursuant to the legal regulations about purchase and disposal of shares of Apator SA. The members of the Supervisory Board were guided in their activity by the interest of the Company and independence of their opinions and judgements. There were no situations where any member of the Supervisory Board had to state about the possibility of existence the relations of economic nature, familiar or other with the shareholder having the shares representing not less than 5% of total number of voices at general shareholders meeting that relation could have the influence on its standpoint for the matter being decided by the Supervisory Board. In the reporting period also there were no situations when in result of them the members of the Supervisory Board had to announce about existing conflict of interest or the possibility to its occurrence and in the effect had to abstain from taking the floor during discussion at Supervisory Board meeting and from voting on resolution where the conflict of interests arose.

The remuneration of the members of Supervisory Board due to performance of their duties in Supervisory Board remained in reasonable relation to economic results of Apator SA. Total remuneration paid to the members of the Supervisory Board in 2015 was PLN 772 000 and it included:

- remuneration paid by Apator SA (PLN 453 000),
- remuneration paid by other entities of Apator Group (PLN 319 000).

Until Ordinary General Shareholders Meeting of Apator SA was held on 22<sup>nd</sup> June 2015, the Chairman of Supervisory Board has received the remuneration in amount of PLN 6 000 monthly but other members of Supervisory Board have received the remuneration in amount of PLN 5500 monthly each for the performance of their duties.

On 22<sup>nd</sup> June 2015 the Ordinary General Shareholders Meeting unified the remuneration for all members and increased their monthly amount up to PLN 7000.

### **6.3. Evaluation of performance of the informative duties by Apator SA concerning the application of rules of corporate governance**

Based on the evaluation of the Supervisory Board, the Company performs its informative duties concerning the application of the rules of corporate governance i.e.:

- it published the report on application in 2015 the rules of corporate governance. The report pursuant to § 91 para 5 point 4 of the Resolution of the Minister of Finance dated 19<sup>th</sup> February 2009 was prepared in form of separated part of the Report of Management Board on the activity of the Company in 2015. The contents of the report are presented on the website in the tab of Investor Relations.
- it published on 4<sup>th</sup> January 2016 through EBI system in form of the report, the information on the application of new rules by the Company and recommendations of the Best Practice for WSE Listed Companies 2016. The contents of the report are presented on the website in tab of Investor Relations.

## **7. Evaluation of financial statements of Apator SA and Apator Group for 2015**

Apator SA prepares separated and consolidated financial statements pursuant to the standards of IAS/IFRS and the resolution of Minister of Finance dated the 19<sup>th</sup> February 2009 on current and regular information. The financial statements for 2015 were audited by KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. The Supervisory Board was supervising the process of preparation of financial statements. The Supervisory Board based on recommendation of Audit Committee dated 21<sup>st</sup> April 2016 made the evaluation of the financial statements of Apator SA and Apator Group prepared by the Management Board. The Supervisory Board found that presented data in regular financial reports are reliable, correct and real and they are prepared pursuant to principles of accounting used continuously based on correctly kept accounting books.

## **8. Supervision over the activity of Apator and Apator Group**

The Supervisory Board carries out permanently the supervision over activity of the Company and operation of the Management Board by:



- 
- analysis of materials received from the Management Board on the request of the Supervisory Board,
  - obtaining the information and detail clarifications from the members of the Management Board and other employees of the company during the meeting of the Supervisory Board,
  - activity of the Audit Committee,
  - activity of the statutory auditor, who on behalf of the Supervisory Board carried out the audit of financial-accounting documentation and prepared financial statements based on it.

The areas of supervision of the Supervisory Board in 2015:

- perspectives of development and performance of the strategy of activity of the Company and Apator Group including particularly the strategy of development of gas metering line and conditions of important contracts concluded for the supply of gas meters to Dutch market of total value of EUR 28 m,
- changes in economic and political environment and its influence on activity of Apator Group, particularly in the scope of sales capabilities (Russian market, energy sector - changes in personnel of the Polish Power Holdings, threat of limitation of investment programme),
- current position and financial results of Apator SA and entities of Apator Group,
- current review of the decisions of the Management Board of Apator SA of adopted resolutions,
- performance of financial budgets and strategic initiatives for 2015,
- financial position of Apator Rector sp. z o.o., level of its losses caused by the problems regarding the performance of delayed long-term contracts,
- performance of consolidated financial results forecast for 2015 announced to the public,
- dividend policy,
- performance of acquisition projects including three ones successfully completed (Miitors, Fellows, GWi),
- advancement of developments in metering and switchgear line,
- performance of activity aiming at the limitation of negative influence of appreciation of USD on the level of costs (changes in design of products, renegotiations the conditions of the supply and assurance of currency USD),
- development strategy of IT in Apator Group,
- personnel policy of Apator Group and awarding system,
- improvement of the rules of management of Apator Group (implementation of new corporate governance covering the amendments to the statutes and regulations of activity of supervisory boards and management boards),
- implementation of the requirements of new code of the Best Practice for WSE Listed Companies 2016,
- evaluation of CSR policy and sponsoring.

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## 9. Evaluation of internal control system, risk management system, supervisory system over compliance with legal requirements and functioning of internal audit

Internal control system includes:

- functional control being performed systematically and permanently by all the employees of the company under their duties and entitles entrusted,
- following control being performed by managers of the organizational units of the Company.

The Management Board of the Company that makes the evaluation of the effectiveness of the functioning of the system is responsible for the comprehensive internal control, reduction to minimum the existing risk and also for identification of new threats.

The Supervisory Board and Audit Committee make the evaluation and exercise the supervision over internal control system and risk management of the Company by:

- analysis of monthly separate and consolidated financial statements in relation to budget assumptions,
- analysis of quarterly, semi-annual and annual financial statements of Apator SA and entities of Apator Group with consolidated financial statement included,
- analysis of the risks identified,
- co-operation with statutory auditor.

The control is performed in capital group first of all by the implementation of new, joint solutions regulated by corporate guides and:

- functioning of Steering Committee of Apator Group aimed at indication of directions of the development, analysis of financial results, market position, changes in regulation environment and the status of performance of the strategy for development of Apator Group and the strategy for development of the particular business lines,
- functioning of Financial Committee composed of the representatives of finance from particular entities of the group aimed to supervise over financial processes in the group and their further integration,
- functioning of Committee for Financial risks for the support of control mechanisms and unified financial risk management,
- Functioning of Manufacturing Management Committee being the forum of exchange of information, experience and joint solutions for manufacturing processes and quality control,
- Functioning of internal control system (such as the audit of financial statements by statutory auditor and auditing certifying management systems).

Under the management system operating based on ISO 31000 standard the following risks have been identified:

- 1) strategic risks:
  - risks related to not to achieve strategic goals,

- risks related to the integration of entities acquired within the acquisition processes being performed,
- 2) operational risks:
- risk related to the performance of long term contracts,
  - economic risks,
  - quality level risk,
  - risk related to commoditisation of solutions and technology,
  - risks related to regulation, risks related to lack of technical standards for modern technologies (smart metering, automation of power grid),
  - risk related to the loss of key employees,
- 3) financial risks:
- risks related to foreign currencies, their impact on the increase of costs of manufacturing,
  - risk related to financial liquidity,
  - tax risk,
- 4) other categories of risk:
- risk related to organization of the capital group and corporate governance.

The above risks are correctly identified, monitored and managed.

There is no separate organization unit for internal auditing in the structure of the Company but these functions are being performed by ISO internal audits and the results of the audits are submitted to the Audit Committee. On the other hand current control system has been operated within the compliance system that is performed by legal service with the participation of managers and employees based on their professional duties.

The Supervisory Board issues positive opinion about the functioning of internal control system, risk management system and also supervision over the activity that is pursuant to the law.

#### **10. Evaluation of the rationality of the policy in respect of sponsoring activity, charity activity or other similar one being performed**

The Supervisory Board issues positive opinion about the sponsoring activity being performed by the Company aimed at:

- increase of positive perception of the firm on local, domestic and foreign ground,
- creation of desired image of the modern and dynamically operated firm based on innovative developments and technologies being promoted by the development and creative initiatives
- creation of positive relations with the environment by the support of valuable initiatives and undertakings related to the culture, art and sport.

In 2015 pursuant to the policy accepted, assuming to allocate for sponsoring the value of 0,5% net profit of Apator SA, Company performed the following actions:

- 
- performance of Pasjopolis - author scholarship programme aimed at giving financial support for young talents in the Sciences and Humanities,
  - patronage over subjective contests (Euroelektra),
    - support of scientific events (Festival of Science and Art in Toruń, Explory Festival of Science)
    - patronage over jubilee of 70 years of the Nicolaus Copernicus University in Toruń
    - sports sponsoring (Fencing Academy)

Moreover, Apator SA conducts the charity activity aimed at the support of the pro social institutions and organizations acting for the socially excluded persons and performing the defined social missions. The permanent beneficiaries are institutions, which business activity is conducted in the direct neighbourhood of the company, including among others: Better World Foundation in Skłodzewo, Help for Family and Earth Foundation, Children's Hope Hospice, Light Hospice Association, Caritas of Toruń Diocese, Foundation of the Spirit and The Association of Care About Abandoned Children – named Blessed the Priest Br.Markiewicz.

#### **11. Evaluation of the activity and financial results of Apator SA and Apator Group**

The Supervisory Board exercised permanent supervision over performance of activity plan and current financial and economical results of the Company were analysed at every meeting, particularly the performance of domestic sales and export, costs incurred, the level of the margin, working capital management and financial liquidity. The Supervisory Board analysed also current financial results and financial results of entities in Apator Group and the plans of their development.

In result of performance of strategy of activity in 2015 Apator Group finalised successfully three acquisition processes: GWi Ltd (the United Kingdom), Miitors ApS (Denmark), Fellows (Poland). In addition, the Fellows has purchased 100% of shares in iMeters sp. z o.o. based on investment contract signed with the partners.

Apator Group achieved in 2015:

- revenues on sales - PLN 769 m, including export – PLN 341 m,
- profit on sales – PLN 76 m,
- EBITDA – PLN 111 m,
- net profit – PLN 63 m

In the structure of Apator Group the following processes took place based on assortment:

- metering segment was dominated – increase of acquisition revenues (GWi) and organic ones occurred (mainly electricity meters line),
- automation of power grid segment – organic increase in switchgear and in supervisory and control occurred (operation of Apator Elkomtech in the structure of the group for entire 2015) and the decrease of sales occurred in ICT line (problems of Apator Rector)
- decrease of sales occurred in mining line due to crisis of the branch in non-core segment

The following factors had the significant influence on financial results of Apator Group in 2015 :

- 
- high net loss incurred by the subsidiary - Apator Rector, caused by the delays and definitely higher than assumed the costs of performance of key long-term contracts.
  - decrease of margins, particularly in areas electricity meters caused by very competitive market and high price pressure,
  - appreciation of USD exchange rate that had considerable influence on increase of prices of materials which was followed by the increase of manufacturing costs.

In spite of the above negative factors, the Supervisory Board assesses positively the position of Apator Group and underlines that it is good and steady and financial results achieved give Apator Group high position in standing of the Polish companies including WSE Listed Companies.

## **12. Self-evaluation of the activity of the Supervisory Board**

The personal composition, competences and professional experience of the members of the Supervisory Board assure effective supervision over all the areas of activity of Apator SA and its capital group. The Supervisory Board pursuant to the rules resulting out of the Best Practice for WSE listed Companies, apart from the fulfilment of supervisory function, it gave the support to the Management Board by knowledge and expert opinion for strategic areas. The cooperation relies on trust and joint action in respect of concern of the interest of the Company and its all stakeholders.

The Supervisory Board considers that guiding in its proceedings by interest of the Company and its capital group, it fulfilled its duties properly and pursuant to legal and formal terms, providing appropriate supervision over all the aspects of the activity.

The Supervisory Board applies to the General Shareholders Meeting to approve the report of Supervisory Board on its activity and to vote on approval of all the members of Supervisory Board in 2015.

**Chairman of Supervisory Board**

**Janusz Niedźwiecki**