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## **1. Makeup of the Supervisory Board**

Since 1<sup>st</sup> January 2012 till 31<sup>st</sup> December 2012 and on the date of hereby report i.e. 14<sup>th</sup> May 2013 the makeup of the Supervisory Board is as follows:

1. Janusz Marzygliński - Chairman of the Supervisory Board
2. Mariusz Lewicki - Deputy Chairman of the Supervisory Board
3. Danuta Guzowska - Member of the Supervisory Board
4. Krzysztof Kwiatkowski - Member of the Supervisory Board
5. Ryszard Wojnowski - Member of the Supervisory Board
6. Eryk Karski - Member of the Supervisory Board

The Supervisory Board of Apator SA is nominated for five years on common tenure. The year 2012 was the third one of the activity of the Supervisory Board of the seventh tenure, nominated by General Shareholders Meeting on 21<sup>st</sup> June 2010. The tenure of the Supervisory Board expires on the date of the Ordinary General Shareholders Meeting to be held when the financial statement for 2015 is being approved.

## **2. The Meetings of the Supervisory Board in 2012**

The Supervisory Board fulfilling its duties had in its reporting period 11 meetings during them it adopted 27 resolutions and took positions in matters in agenda. Meetings took place on the following dates: 23<sup>rd</sup> January, 30<sup>th</sup> March, 10<sup>th</sup> May, 18<sup>th</sup> June before General Shareholders Meeting to be held, 18<sup>th</sup> June after General Shareholders Meeting held, 10<sup>th</sup> August, 5<sup>th</sup> September, 5<sup>th</sup> October, 23<sup>rd</sup> October, 18<sup>th</sup> December, 19<sup>th</sup> December 2012.

Minutes of meetings of the Supervisory Board were made and stored with other documentation in the place of activity of the Company in Ostaszewo.

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

The members of the Supervisory Board fulfilled their duties personally at the meetings of the Supervisory Board in the makeup enabling to adopt the resolutions including:

- at six meetings – attendance 100 per cent
- at three meetings – attendance 83 per cent
- at two meetings – attendance 67 per cent

All absences were excused.

Pursuant to the rules of corporate governance the members of the Supervisory Board attended the General Shareholders Meetings in the makeup enabling to give essential answer any possible questions.

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

The Supervisory Board gave positive opinion on motions raised to Extraordinary General Shareholders Meeting in the scope:

- closing of the Program for the repurchase of own shares in order to their redemption dated 20<sup>th</sup> June 2011, where the Company did not purchase any shares on WSE,
- liquidation of the fund of redemption of shares
- consent given for gratuitous acquisition of 2.000.000 shares from Apator Mining Sp. z o.o. in order to their redemption without remuneration,
- opening the Program for gratuitous acquisition of shares in order to their redemption without remuneration where Apator SA acquired 2.000.000 shares from Apator Mining Sp. z o.o.

#### **5. Information on fulfilment of the duties related to Ordinary General Shareholders Meeting of Apator SA held on 18<sup>th</sup> June 2012**

On 10<sup>th</sup> May 2012 the Supervisory Board gave positive opinion to motions raised to Ordinary General Shareholders Meeting in the scope:

- reports of the Executive Board on activities of Apator SA and group of Apator in 2011,
- separate and consolidated financial statements for 2011,
- distribution of the profit of the Company for 2011 and the payment of dividend in gross value of 0,75 PLN per share i.e. in total amount of 24.830.271,00 PLN,
- redemption of 2.000.000 bearer shares gratuitous acquired from Apator Mining Sp. z o.o.,
- reduction of the share capital of Apator SA due to redemption of shares,
- amendments to § 7 of the Statutes of Apator SA regarding the reduction of the share capital to the amount of 3.310.702,80 PLN and acceptance of the uniform text of the Statutes of the Company,
- amendments to § 8 and § 9 of the Regulations of General Shareholders Meetings regarding the appointment of the Chairman of General Shareholders Meeting by the person opening General Shareholders Meeting but not by Vote Counting Commission,
- closing the Program for gratuitous acquisition of own shares for their redemption without remuneration dated 23<sup>rd</sup> January 2012 where the Company acquired 2.000.000 bearer shares from Apator Mining Sp. z o.o.,
- opening the Program for gratuitous acquisition of next own shares in number of 3.600.000 from Apator Mining Sp. z o.o. for their redemption, however the resolution has not been adopted by General Shareholders Meeting.

Moreover, The Supervisory Board presented to Ordinary General Shareholders Meeting the report on its activity in 2011 and asked about its approval.

#### **6. Human resources policy – makeup of the Executive Board of Apator SA**

The competence of the Supervisory Board covers:

- establishment the number of the members of the Executive Board of the Company,
- appointment and dismissal of the Executive Board,
- appointment of the President of the Executive Board,
- suspension in the performance of the duties due to serious reasons all or particular members of the Executive Board,

- delegation of the members of the Supervisory Board to temporary fulfilment of the duties of the members of the Executive Board,
- establishment the remuneration of the Executive Board taking into account its motivating nature.

In 2012 the Company was managed by the Executive Board with the makeup of:

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

The tenure of the Executive Board lasts three years and it ends on the date of Ordinary General Shareholders Meeting of Apator SA to be held on 24<sup>th</sup> June 2013.

Remuneration of the Executive Board in 2012 was in total 2.044.000 PLN including extras and awards that were in amount of 902.000 PLN that is 44%.

The remuneration of the members of Executive Board was established based on transparent rules and it took into account:

- care about provision of effective management of the Company,
- motivating nature of the remuneration

Remuneration resulted from the scope of responsibility of particular members of the Executive Board and they were in reasonable relation to:

- the level of remuneration of Executive Boards in similar public companies,
- the market value of the Company

In the reporting period the Supervisory Board did not use the entitles specified in art. 383 of Polish Commercial Companies Code that is;

- it did not suspend particular members of the Executive Board from the performance of their duties
- it did not delegate members of the Supervisory Board to temporary fulfilment of duties of members of the Executive Board.

In opinion of the Supervisory Board , the Executive Board performed in reporting period and it still performs its duties pursuant to all formal and legal requirements and its work brings positive effects that cause the increase of the goodwill of Apator SA and group of Apator.

The Supervisory Board submits the motion to General Shareholders Meeting to give the vote of approval to all members of the Executive Board.

## **7. The status of usage of Best Practices of WSE Listed Companies by the Supervisory Board at 31.12 2012 and on the date of hereby report**

Apator SA in 2012 respected the rules included in the document “Best Practices of WSE listed Companies” with the exception:

- rule I.1 regarding broadcasting of the course of General Shareholders Meeting via Internet,
- rule IV.10 regarding the attendance of the shareholders in General Shareholders Meeting by use of electronic communication means

Since 1<sup>st</sup> January 2013 Apator SA respects the rules included in the document amended “Best Practices of WSE listed Companies” 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 the General Shareholders Meeting using of electronic communication means by:
  - 1) broadcasting of the course of General Shareholders Meeting in real time,
  - 2) bidirectional communication 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 Company does not apply the above rules due to lack of interest by shareholders in such a solution and the necessity to bear extra costs by the Company. In order to make possible to shareholders to get familiar with the course of the debates, the Company makes some recording of the course of the debates in video and makes it public on its website address – [www.apator.com](http://www.apator.com).

#### **8. The usage of “Best Practices of WSE Listed Companies” by the Supervisory Board in 2012**

The Supervisory Board acts pursuant to the rules of corporate governance. During the last year there was no case of breaching by the Supervisory Board any of accepted rules of “Best Practices of WSE listed Companies”

The members of the Supervisory Board were performing their duties personally related to General Shareholders Meetings and according to law regulations they advised about purchase or sales transactions of shares of Apator SA. Moreover, some part of them participated in the Executive Board Meetings.

The remuneration of members of the Supervisory Board were in reasonable relation to economic results of Apator SA and they were 402.000 PLN. The Chairman of the Supervisory Board received 6000 PLN per month but each member of the Supervisory Board received 5500 PLN per month.

The members of the Supervisory Board in their activity were guided by the interest of the Company and independent opinions and judgements.

There were no situations where any member of the Supervisory Board would have to state of the possibility of occurrence any links of economic nature, family or other one that could have the influence on its position concerning the issue to be solved by the Supervisory Board with the shareholder holding shares representing not less than 5% of the total number of votes at the General Shareholders Meeting.

In the reporting period there were no situations as well in result of them the members of the Supervisory Board would have to advise about the occurrence of the conflict of interests or the possibility to arise of such one and in effect they would have to restrain from taking floor in discussion at the Supervisory Board Meeting and from voting on the resolution on the issue where the conflict of interests had occurred.

## **9. Appointment of the entity for auditing of financial statements for 2012.**

The Supervisory Board of Apator SA at the meeting on 23<sup>rd</sup> January 2012 after having known with recommendation of the Audit Committee appointed KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k to make review of separate and consolidated financial statements for 2012-2013. The above entity audited also the financial statements for 2011.

## **10. The assessment of financial statements in Apator SA and group of Apator for 2012**

Apator SA prepares separate and consolidated financial statements pursuant to International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). Moreover financial statements are prepared pursuant to the Regulation of Minister of Finance dated 19<sup>th</sup> February 2009 (with later amendments) regarding current and regular information being transferred by the issuers of securities and conditions of the information to be considered as equivalent one required by law of the country not being the member of the EU.

The Supervisory Board supervised over preparation of financial statements. The Supervisory Board based on positive recommendation of the Audit Committee dated 29<sup>th</sup> April 2013 made the assessment of financial statements prepared by the Executive Board of Apator SA and group of Apator. The Supervisory Board states that financial data presented in financial statements for all reporting periods in 2012 are reliable, correct and real and they are prepared according to binding accounting rules being applied permanently based on correct accounting books kept.

## **11. The report on activity of Audit Committee**

Under the Supervisory Board, Audit Committee acts as advising body, particularly in financial reporting. The tenure of Audit Committee is common for all its members and it is the same as the tenure for the members of the Supervisory Board. Minutes of the meetings are made at the meetings of Audit Committee that are stored with other documentation of the Supervisory Board in the headquarters of the Executive Board of the Company. Since 1<sup>st</sup> January till 31<sup>st</sup> December 2012 and at the date of preparation of hereby report, Audit committee acted in the following makeup:

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

Krzysztof Kwiatkowski is independent member of Audit Committee. Audit committee performing its duties had 7 meetings in the reporting period when adopted 3 resolutions and took its standpoint in the matter regarding the agenda. The meetings took place in the following terms: 23<sup>rd</sup> January, 30<sup>th</sup> March, 27<sup>th</sup> April, 10<sup>th</sup> May, 10<sup>th</sup> August, 30<sup>th</sup> August and 18<sup>th</sup> December.

Audit committee in 2012 considered the following issues:

- analysis of statement confirming independence of the entity entitled to audit financial statements for 2011 – KPMG Sp. z o.o. sp. k. and independence of statutory auditors making audit of financial statements,
- report on recommendations of statutory auditor,
- analysis of the schedule of works regarding the audit of financial statements for 2011
- positive recommendation to be given the Supervisory Board regarding the auditing of financial statements and reports of the Executive Board for 2011

- discussion on results of the audit of financial statements for 2011 with participation of statutory auditors of KPMG,
- analysis of the results of inventory of the components of the property,
- analysis of the offers for auditing of financial statements for 2012,
- giving the recommendations concerning the appointment of KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k. for auditing of financial statements for 2012-2013 to the Supervisory Board,
- analysis of the schedule of works concerning auditing of financial statements for the first half of 2012,
- results of the inventory carried out of the property of the Company,
- discussion on results of auditing of financial statements for the first half of 2012 with participation of statutory auditors of KPMG,
- currency exposure and its hedging policy,
- analysis of accounting policy,
- analysis of management system,
- value of hedging transactions in group of Apator, its performance and evaluation,
- analysis of insurance contracts concluded,
- proceeding after the control carried out by Tax Audit Office,
- analysis of risk management and internal control,
- analysis of the schedule concerning works in respect of auditing of financial statement for 2012,

## **12. Supervision over the activities of Apator and group of Apator**

The Supervisory Board supervises over activity of the Company on permanent basis and the operation of the Executive Board by:

- analysis of documents received from the Executive Board on the request of the Supervisory Board,
  - getting the information and detail explanations from members of the Executive Board and other employees of the Company during the debates at the Supervisory Board Meetings,
  - attendance of members of the Supervisory Board the Executive Board Meetings,
  - activity of the Audit Committee,
  - activity of the statutory auditor who on behalf of the Supervisory Board made audit and review of financial and accounting documentation prepared base on it financial statements.
- In 2012 the Supervisory Board supervised inter alia the following areas:
- process of transfer of the activity to new Company in Pomeranian Special Economic Zone at Ostaszewo,
  - analysis of financial liquidity of Apator particularly in the view of financing of investment expenses related to the construction of a new Company,
  - take-over of GWi Ltd. by Apator Metrix SA,
  - nomination of the candidate for the President of the Executive Board for the tenure 2013-2015,
  - analysis of the resolutions of the Executive Board,
  - performance of dividend policy including the payment of interim dividend forward the expected dividend from the profit for 2012,
  - conclusion and performance of hedging transactions,
  - the level of remuneration of the Executive Board of Apator SA and the Executive Boards of entities in group of Apator,

- restructuring of Apator Elektro in Moscow.

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

Internal control system of Apator SA is based on specified division of the entitles, duties and the responsibility being announced in the Company by Organizational Regulations, description of posts and other regulations included in procedures, instructions and orders. The system is supervised by the managers of organizational units, directors of sections and the Executive Board of the Company in the mode:

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

Internal control is carried out directly by every employee including functioning self-assessment system. Moreover, the employee is being controlled by its direct superior and persons cooperating with it in the aspect of quality and correctness of duties being performed. The target of those actions is to ensure the compliance of the actions performed with binding procedures and requirements including legal requirements. The Executive Board of the Company is responsible for the entire internal control carried out, making minimal exposure of the risk level and also for identification of new threats. Internal audit is being performed in the Company by Costs and Analysis Department that every month makes analysis the costs bored by particular organization units and their deviations from planned assumptions and the reasons of the deviations. The works are managed by Finance Director.

The Supervisory Board supervises over the above aspects at its meetings inter alia by:

- analysis of monthly financial statements of Apator SA and the entities in group of Apator including monthly consolidated financial statements,
- analysis of quarterly, semi-annual and annual financial statements of Apator SA and the entities of group of Apator including consolidated financial statements,
- analysis of risks identified,
- cooperation with statutory auditor

One of the main tools of internal control is BaaN IV Integrated Management System operating both in Apator SA and in subsidiaries: FAP Pafal SA, Apator Metrix SA, Apator Powogaz SA and Apator Control sp. z o.o.

The next tool of internal control is implemented management system based on ISO standards 9001:2000, ISO 14001 and the standard 18001 Occupational Health and Safety Management Systems. The supervision is carried out by quarterly and annual reports on functioning of the system in main processes:

- marketing and sale,
- purchasing,
- design,
- manufacturing,



- environment protection,
- occupational health and safety at work

The next tool of control system is financial and management reporting. The results of activity are presented in financial statements prepared by Accounting Department of Apator SA. In group of Apator each entity has its accounting policy based on the principles applied of registration of events occurred in parent entity. In consequence of the registrations made, accounting books are established for particular entities in the group being further the base to prepare separate financial statements by all the entities in the group. Separate financial statements are the base to prepare consolidated financial statements of group of Apator.

The risk areas occurring in group of Apator are reduced by internal control systems operating in subsidiaries in similar manner like it is in Apator SA by implementation of new, common solutions regulated by the corporate guidelines, functioning of Manufacturing Management Committee and by system of external control such like:

- common statutory auditor for all entities in group of Apator – KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k.
- common certifying body of Management System – Polish Register of Shipping

Based on annual assessment made of the procedures applied, the Supervisory Board states that internal control systems in Apator SA and in group of Apator operate correctly and effectively.

In Apator SA operates risk management system based on international standard ISO 31000 with the usage of “Bow-Tie” method. Risk management is subject to the assessment and supervision of Audit Committee of the Supervisory Board and it is the integral part of Management System in Apator SA. The effectiveness of the operation of the system is monitored within internal audits of Management System. In the Company were identified risks with probability and effects scales. The reference to the scale of effectiveness is approximate value of annual profit on sales of Apator SA since the important part of the net profit are dividends from the entities. Further risk values were estimated and the level of their tolerance was specified. In effect of those actions the risk map has been made that allows unambiguously to specified key risks.

Risk Manager was appointed in the Company who is responsible for risk management system. Risk Manager manages the registration of identified risks and it keeps the registration of incidents and enters amendments to the risk map.

Important risks for Apator and entities in group of Apator:

The main risks are as follows:

- risk related to currency exchange rate,
- credit risk,
- risk related to the changeability of selling and financial liquidity

Export is significant source of revenues for group of Apator. Further to the above hedging transactions are permanent element of business activity. The value of export for given year is assumed based on estimations of traders acting on particular foreign markets and next the decisions on the level of hedging are made under binding internal regulations. Credit risk is limited by taking credits in Polish zloty. Interest rate depends on WIBOR. The risk related to sales and financial liquidity is being reduced by usage of procedures of proceeding like orders of financial control of sales in BaaN system or service of receivables in BaaN system. The Supervisory Board states that in result of control and monitoring carried out by the Executive Board of Apator SA and permanent supervision of the Supervisory Board and Audit Committee the main risks are materially limited.

Other risks including those related with the compliance with binding law regulations are also correctly identified and managed.

#### **14. The assessment of activity and financial results of Apator SA and group of Apator**

On 23<sup>rd</sup> January 2012, the Supervisory Board approved activity plan of Apator SA for the period 2012-2014. Next, the Supervisory Board supervised on permanent basis over performance of that plan and at every meeting it analyzed current financial and economical results of the Company, particularly the performance of the home sales and export, costs incurred, margin, stock management and financial means management. The Supervisory Board analyzed also current financial results of entities in group of Apator, growth plans and consolidated financial results.

Group of Apator in spite of lasting slow-down of the economy achieved in 2012 the highest in its history financial results. The revenues from sales were 669 m PLN including export of 241 m PLN, profit on sales was 78 m PLN and net profit 96 m PLN. The share of export in sales in 2012 was 36%. Group of Apator was extended by GWi Ltd - manufacturer of gas meters with headquarters at Coventry in the United Kingdom.

In 2012, Apator SA completed the investment being performed since 2011 – construction of the modern Company in Pomeranian Special Economic Zone and transferred its activity to new location. Modern manufacturing Company gives new perspectives for Apator SA. The application of modern technology and automated machine park will cause the increase in scale and the range of activity and owing to the activity conducted in economic zone gives the possibility to make use of some relief – return up to 50% of expenditure incurred as the tax shelter.

In opinion of the Supervisory Board financial results achieved in 2012 by group of Apator are very good both taking into account the revenues and profitability achieved. Taking into account the above elements they place the group of Apator at the high level among the Polish companies including WSE listed companies. At the same time the Supervisory Board emphasizes that Apator SA as one of the few companies announces consequently forecast of consolidated financial results and makes payment of dividend.

## **15. The assessment of the activity of the Supervisory Board and the motion to General Shareholders Meeting**

The Supervisory Board considers that it fulfilled its obligations complying with all formal and legal requirements and its work contributed to the increase of growth of the goodwill of the Company and increased the confidence of shareholders.

The Supervisory Board gathers to the General Shareholders Meeting to approve the report on activity and give the vote of approval to all the members of the Supervisory Board for 2012.

**Chairman of the Supervisory Board**

**Janusz Marzygliński**