



Report of the Executive Board on Activity of Grupa Apator in 2022

Covering the Report of the Management Board on the activities of Apator SA

Toruń, 27 April 2023



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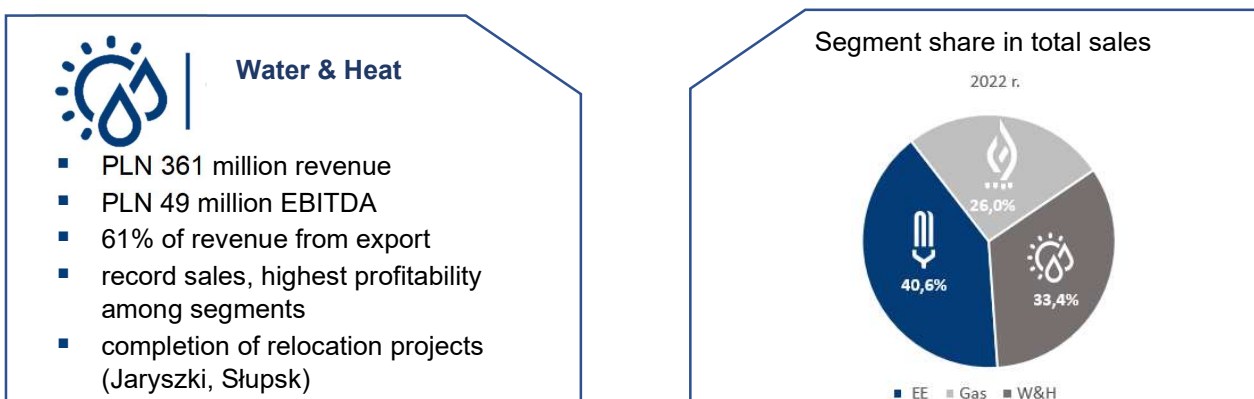
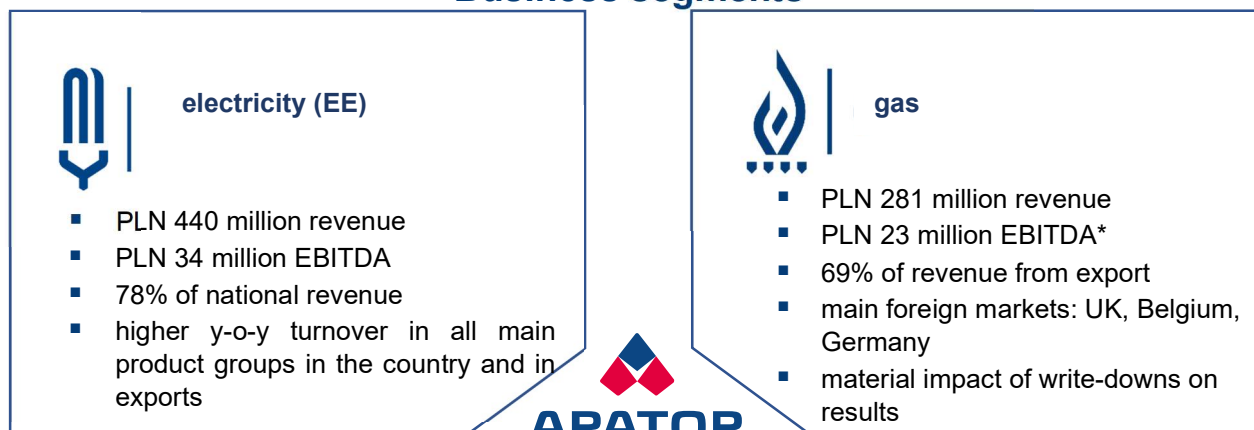
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| Name of the organisational unit: | Apator Group | | |
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Apator Group as of 2022



Business segments



*) EBITDA and net profit adjusted by the impact of one-off events

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1. Business model and organisation of the group of companies

1.1. Organisation of the Apator Group

The Apator Group is an international group of manufacturers and distributors of measuring devices and systems, as well as suppliers of innovative solutions for the automation of the power, water and gas networks.



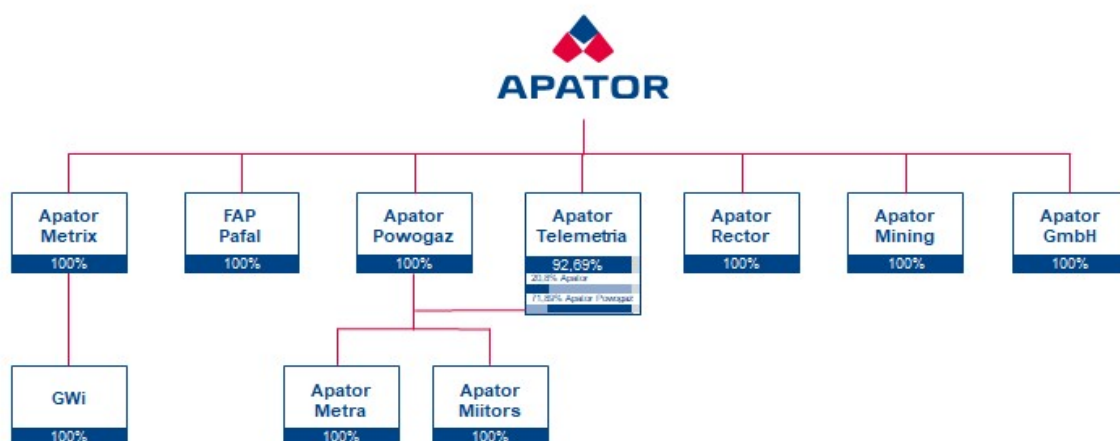
The companies of the Apator Group are part of the electromechanical sector and focus their activity on manufacturing and sales of measuring equipment (electricity meters, gas meters, water meters and heat meters), control and measurement instruments, distribution and control equipment, IT systems of SCADA class and their supporting telemechanics devices, security and other network devices for distributed systems ensuring the possibility of remote control and supervision of the power grid in the full voltage range, as well as data reading and transmission devices. The Apator Group also implements solutions supporting energy transformation and the development of renewable energy (e.g. automation equipment, RES supervision systems, energy storage facilities).

The parent entity of the Apator Group of Companies is Apator S.A. with its headquarters in Toruń.



1.2. Composition of the Apator Group

The structure of the Apator Group as of 31 December 2022, and at the date of publication of this report is as follows:



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1.3. Changes in the organisation of the Apator Group

Acquisitions

Acquisition of shares of Apator Telemetria Sp. z o.o.

On 21 January 2022, the subsidiary Apator Powogaz S.A. acquired 248 shares from two natural persons (partners of Apator Telemetria Sp. z o.o.) for the total price of PLN 5.9 million. Due to the above, the subsidiary Apator Powogaz S.A. currently holds 71.89% of the share capital of Apator Telemetria Sp. z o. o. and 71.89% of the total number of votes.

After taking the above transaction into account, Apator S.A. and Apator Powogaz S.A. hold 92.69% of the share capital of Apator Telemetria Sp. z o. o. and 92.69% of the total number of votes.

Apator Telemetria Sp. z o.o., which has been part of the Group of Companies since 2009, is one of the main R&D facilities of the Apator Group. In view of its significant importance for the development of the product offer and remote reading systems, the decision was taken to increase the capital involvement in this company.

Mergers

Merger of Apator S.A. with Apator Elkomtech S.A.

On 3 January 2022, the Regional Court in Toruń, 7th Commercial Division of the National Court Register, noted the merger of Apator S.A. with its headquarters in Toruń with its subsidiary Apator Elkomtech S.A. with its headquarters in Łódź. Due to the fact that Apator S.A. was the owner of 100% shares of Apator Elkomtech S.A., the merger took place under a simplified procedure based on Art. 516, sec. 6 of the Code of Commercial Companies, without the increase of the share capital of the Issuer and without the issue of new shares.

The merger was conducted in accordance with Art. 492, sec. 1 pt 1 of the Code of Commercial Companies through the transfer of all assets of Apator Elkomtech S.A. to Apator S.A. On the date of entry of the merger into the register of entrepreneurs of the National Court Register, Apator S.A. gained all rights and obligations of Apator Elkomtech S.A. In connection with the above, from 3 January 2022, Apator Elkomtech S.A., together with its branches, is within the structures of Apator S.A.

Apator Elkomtech S.A. specialised in the production of SCADA class control and supervision systems and specialist devices supporting the management of the power grid. The company was made up of combined resources from the following locations: Łódź (headquarters), Toruń (former Apator Control Sp. z o.o., incorporated into Apator Elkomtech S.A. in 2019) and Poznań, i.e., the IT team taken over from Atrem SA (which joined the company in 2020), which allowed to expand the competence and offer of the line in the field of devices and software for the gas sector.

The incorporation of Apator Elkomtech S.A. into Apator S.A. is the next stage of consolidation of the Electricity segment planned in the business strategy of the Apator Group. This undertaking makes it possible to develop comprehensive solutions for the market (hardware + ICT), and to take full advantage of new market opportunities in the RES and energy efficiency areas.

Sale

Sale of AO Teplovodomer shares

On 20 May 2022, Apator Powogaz S.A. sold the entire block of shares (i.e. 18,018 shares) of AO Teplovodomer with its headquarters in Russia (constituting 50% of the share capital) for RUB 5 million, i.e., approximately EUR 75 thousand (according to the Bank of Russia exchange rate from 19 May 2022.), i.e. PLN 348 thousand. As of 30 April 2022, the book value, based on the financial statements of Apator Powogaz S.A., of the sold shares was PLN 314 thousand, while the valuation (using the equity method), based on the consolidated statement of the Apator Group amounted to PLN 717 thousand.

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Disposal of INDA d.o.o. shares

On 20 December 2022, George Wilson Industries Ltd (an indirect subsidiary of Apator S.A.) sold all its 35% shares in INDA d.o.o. with its headquarters in Ljubljana (Slovenia) for EUR 50 thousand.

Relocations - reorganisation of assets of the Apator Group to increase their effectiveness

Relocation of Apator Powogaz S.A. to Jarzyski near Poznań

On 9 March 2022, Apator Powogaz S.A. concluded a Final Agreement for the purchase of property, including the newly built production plant in Jarzyski (Żerniki municipality, Poznań district), to which the company's operations were relocated in Q2 of 2022. The value of the Agreement amounted to PLN 52.3 million net, including:

- PLN 6.4 million net - the price for the acquired land property,
- PLN 45.9 million net - the remuneration for the design, construction and transfer of ownership of the production hall and the office area, as well as for the transfer of copyrights and derivative rights to the design.

The relocation of Apator Powogaz S.A. is a key factor influencing the development and future results of the Water & Heat segment. The relocation of the company's manufacturing to a modern factory made it possible to increase the level of automation of production processes, to implement the highest quality standards of products and to significantly increase the efficiency and production capacity. The scale of production of the company's largest assortment group - water meters - will reach 4 million units per year by 2025, which means an increase of approximately 40 % compared to 2021 (the last full year of production at the current location in Poznań). The volumes in other product groups will also increase significantly.

Relocation of Apator Telemetria Sp. z o.o. in Słupsk

Apator Telemetria Sp. z o.o. concluded a Lease Agreement with Pomorska Agencja Rozwoju Regionalnego S.A. for a newly built production building and office and social facilities located in the Słupsk Special Economic Zone. The relocation of the operations took place at the turn of July and August 2022. The new production hall made it possible to increase the usable area and scale the production potential. The improvement of efficiency and effectiveness of production in Apator Telemetria will also translate into an increase in the scale of production in Apator Powogaz, for which, e.g. radio modules for water meters and heat meters are manufactured in Słupsk.

Relocation and reorganisation of GWi Ltd. in the UK

To optimise the costs and improve the effectiveness of the British company George Wilson Industries (GWi) Ltd. (headquarters in Coventry, the UK), which is a subsidiary of Apator Metrix S.A. and operates in the gas metering industry, it was decided to:

- relocate to a hall with a smaller area (optimally scaled facility for the needs of the company) in Coventry near the current location,
- reorganise its operation by transferring the production of smart gas meters and industrial gas meters to Apator Metrix S.A. in Tczew in 2022.

The relocation of the company to the new facility took place in the period from July to August 2022.

GWi Ltd. still focuses on gas regulator manufacturing and distribution. Additionally, GWi Ltd. is a *National Measurement Office* authorised repair and *refurbishment* centre for gas meters used in the UK, which is also a significant source of its revenue.

In 2022, and after the balance sheet date, there were no other changes in the structure of the business entity, including as a result of mergers, acquisitions or sales of entities within the Issuer's group of companies, long-term investments, division and restructuring.

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1.4. Business model of the Apator Group

The operation of the Apator Group is organised into three segments:

| Business segments | | | |
|--------------------------------------|--|--|--|
| | electricity | gas | water&heat |
| Business lines* | <ul style="list-style-type: none"> electricity metering switchgear automation ICT | | |
| Companies forming the Segment | <ul style="list-style-type: none"> Apator S.A. (Toruń, Łódź, Poznań) Apator Rector (Zielona Góra) FAP Pafal (Świdnica) Apator GmbH (Germany) | <ul style="list-style-type: none"> Apator Metrix (Tczew) GWi (the UK) Apator GmbH (Germany) | <ul style="list-style-type: none"> Apator Powogaz (Jaryszki) Apator Powogaz (Jaryszki) Apator Metra (Czech Republic) Apator Miitors (Denmark) |
| Solutions | <ul style="list-style-type: none"> Electronic energy meters (household, residential, industrial, prosumer), including smart class solutions (with remote reading function) Energy distribution devices Control and supervision systems Measurement data management systems Solutions for RES (automation, RES management systems, energy storage) <p>OTUS 3 meter Control and supervision systems SmartARS pro disconnector</p> | <ul style="list-style-type: none"> Bellows gas meters (household, industrial), including smart class solutions (with remote reading function) Remote reading services, a system enabling stopping and resuming gas supply via the GSM network <p>iSMART 2 gas meter hybridSMART</p> | <ul style="list-style-type: none"> Mechanical water meters (residential, household, industrial) - including smart class solutions (with remote reading function) Ultrasonic water meters Heat meter and heat cost allocators Remote reading and utility billing services, systems supporting network infrastructure management <p>ULTRIMI S W water JS Smart E-ITN allocator</p> |
| Main customers | <ul style="list-style-type: none"> distribution system operators (DSO) electricity grid wholesalers, electric assembly and wiring installation companies construction, industry and railway companies local government units photovoltaic and wind farms, energy clusters and cooperatives, other RES sector entities | <ul style="list-style-type: none"> gas companies/gas distributors and suppliers | <ul style="list-style-type: none"> water, sewerage and heating companies housing cooperatives construction industry |
| Main markets | Poland, Germany, Brazil, Romania, Israel, Lithuania | Poland, the UK, Belgium, Germany, the Netherlands | Poland, Czech Republic, Spain, France, Greece, Romania |
| Sales scale in 2022 | PLN 439.5 million | PLN 281.3 million | PLN 360.9 million |

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| Share of exports in segment revenue in 2022 | 22.2% | 68.7% | 60.8% |
|---|-------|-------|-------|

**) As a result of the consolidation process of the Electricity segment (merger of Apator S.A. and Apator Elkomtech S.A.) and the works on the use of product synergies, the Apator Group reorganised the business lines within the segment. Since January 2022, the segment includes the following lines: electricity metering (EE meters), switchgear (equipment for EE distribution and protection of electrical circuits against the effects of short-circuits and overloads), automatics (solutions for operation, supervision and control of the operation of the power grid in the form of security devices, controllers, telemechanics and industrial automation), ICT (SCADA systems, asset and network management systems).*

2. Business strategy

2.1. Mission, vision and goals

In Q4 of 2022, Apator published the Strategy of the Apator Group for 2019-2023 - updated and modified due to significant disturbances in the external environment caused by the pandemic, followed by the armed conflict in Ukraine. The horizon of the current business strategy of the Apator Group covers the years 2023–2025. The update of the directions and strategic goals was also the result of new challenges, including:

- radical increase in energy and fuel prices forcing an increase in efficiency of their use, diversification of fuels, acceleration of RES development and grid redevelopment,
- shift away from Russian gas,
- new European financial plans and programmes to support the energy transition and the EU economy's move towards carbon neutrality: Fit for 55 and RePowerEU.

In view of the above, the Apator Group decided to modify the adopted strategic objectives and reformulate the Group's mission and vision, which now more strongly support the rapid energy market changes aiming at the transition from centralised, fossil fuel-based energy generation to a more sustainable distributed energy system of the future, based on "clean" energy generated locally, increased self-consumption of energy from RES and more economical and effective management of energy and other media.

The Group's main customers are still those operating in the utility sector (electricity and gas distribution system operators, district heating and water and sewerage companies). The "traditional" customers are joined by new groups: local energy communities, clusters, municipalities, industrial plants and prosumers, for which Apator prepares dedicated solutions and products under more than a dozen new strategic initiatives. Technical solutions offered under the Apator brand will support active and conscious participants in the energy market by offering them functional benefits and savings. Apator will thus support the decarbonisation, decentralisation and digitalisation of the Polish and European power sector (3D). The Apator Group invariably strives to maintain its position as a European leader in hardware and software solutions for Smart Metering and Energy Management. Apator also maintains current directions of development in the field of solutions that enable effective management of natural resources and support innovative energy companies in meeting the challenges of the energy transition.

The mission of the Apator Group, in the perspective of 2025, is to disseminate advanced technologies to a broader group of recipients which, apart from the utilities sector, include entrepreneurs and the public. The Apator Group wants to create tomorrow's solutions for active and conscious market participants who care about the environment, the planet and future generations, supporting them to self-generate, manage and share green energy and save natural resources.

The premise of the previous Strategy, for the years 2019-2023, was to grow the existing businesses and expand the product portfolio towards high-tech energy utility management solutions, including smart class solutions and systems for active management of distribution networks. In the updated Strategy, for the years 2023-2025, those assumptions have been developed to include technical tools for energy production and management in distributed local microgrids.

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The financial goals of the Strategy remain PLN 1.4 billion of revenue and PLN 200 million of EBITDA - but due to the aforementioned significant disturbances in the business environment in the period from 2020 to 2022, the deadline for their achievement was postponed until 2025.

At the same time, due to the unstable geopolitical situation and dynamic changes in the macroeconomic and business environment, the Strategy will be subject to more frequent reviews and adapted to new changes. Due to numerous uncertainties and risks, the horizon of the updated Strategy is shortened to 3 years.

2.2. Implementation of the Strategy

Over the last two years, like most sectors of the economy, the Apator Group struggled with a number of problems, including the disturbed continuity of global supply chains, which affected the sales dynamics and caused the decline in the profitability of operations. Limited availability and increases in the prices of components necessary for production (mainly plastics, copper, steel, brass, electronics) was the major challenge, accompanied by the increase in the prices of electricity, transport services and labour costs. New challenges due to high inflation emerged in 2022, which caused a significant erosion of margins.

The Apator Group, thanks to its strong foundations, diversified business, wide scale of operation and flexibility showed relative resilience to economic perturbations. Currently, the Group focuses on further growth of flexibility of operation, improvement and optimisation of production processes, warehouse management and automation. Development works are continued in the field of remote communication technology for measuring devices and solutions to support the efficiency of distribution network management. Further efforts are being made to expand the portfolio of solutions for RES (including the first implementation of an energy storage unit and EV charging station).

The course of the conflict in the East, including the possible change in the global balance of power and economic flows, will determine the activity of the Apator Group in the short and medium term. On the one hand, this situation causes more problems related to the availability of components for production and supply chains, further inflation of costs (raw materials and materials, freight, utilities, fuels, salaries), high financing costs but, on the other hand, it is an opportunity to accelerate the implementation of energy policies, the purpose of which is the development of RES and effective management of resources: water, energy, heat and gas. The current and future activities of the Group are in line with the European goals related to re-electrification and re-industrialisation of Europe with the aim of obtaining the highest European and Polish "Local-Content", which will ensure security also in the event of any further disturbances in value chains and supplies.

The Group focuses on exploiting market opportunities related to renewable energy solutions in the rapidly growing market, as well as on matching its offer to the more and more noticeable trends of economic and sustainable utility management, participation in the energy transition, further development of equipment for automation, remote network control and remote energy metering, reading and settlement. The Gas segment is expected to see an increase in the share of proprietary smart solutions in the product mix, while the Water and Heat segment is expecting strong growth potential in the water and sewerage branch, e.g., due to the growing importance of the need to save water resources and develop the equipment for precise metering and rational management of that valuable resource.

3. Business segments of the Apator Group

3.1. Electricity segment

Products

The segment focuses on providing a wide range of solutions for power grids. Those include measuring devices: from electricity meters (electronic, prepayment meters to advanced smart meters), as well as modern energy management systems. The offer of the segment also includes equipment used for electricity distribution and

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electrical circuit protection against short circuits and overloads. Additionally, the Apator Group provides systems and solutions to support the work of technical services in the field of management, operation and supervision of electricity grids and solutions for effective management of network assets, including network passporting services.

The segment consists of four business lines: electricity metering, switchgear, automation and ICT.



The Electricity segment in the Apator Group is represented by the following companies: (Toruń), Apator Rector Sp. z o.o. (Zielona Góra), FAP Pafal S.A. (Świdnica) and Apator GmbH (Germany).

Market environment

Most of the revenue of the Electricity (EE) segment is generated domestically (78% in 2022). One of the main customers of the EE segment is Distribution System Operators. In Poland, as a result of a long-term capital consolidation process, the leading electricity distributors are: Enea Operator, PGE Dystrybucja, Tauron Dystrybucja, Energa Operator - Orlen Group and Stoen Operator (owned by E.ON). The concentration of customers and the commoditisation of products are conducive to strong competition and cause the erosion of margins. The competitive pressure intensifies even more in connection with the amendment of the Energy Law in 2021, based on which the implementation of smart metering in Poland is required (80% of meters by 2028).



The main customers of individual segment lines are:

- in the electricity metering line (Apator S.A.), most of the revenue is obtained through winning public tenders announced by DSOs; on foreign markets (mainly EMEA countries); it is a more dispersed group of customers,
- in the automation line (Apator S.A.), most of the sales revenue is also obtained from the DSOs in the field of remote supervision and control of power grid elements; in the field of control equipment, the group of customers is numerous and dispersed (construction, metallurgy, industry, railway),
- ICT line (Apator Rector Sp. z o.o.) deals with the implementation of IT services - dedicated solutions for network enterprises such as DSOs, gas, telecommunications and water supply,

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- in the switchgear line (Apator S.A.), the largest group of customers are electrical wholesalers, electromechanical and electro-installation companies, which also directly cooperate with Distribution System Operators.

The main trend in the electricity market noticeable both in Poland and in the world is the shift from the use of traditional fuels to electricity obtained from emission-free sources. This applies to, e.g. transport, the majority of which is becoming electric. This causes an increase in the demand for electricity with the simultaneous need to reduce emissions. The European Union's climate and energy policy has a significant impact on shaping the national energy strategy, including its long-term vision of moving towards climate neutrality by 2050. The Energy Policy of Poland until 2040 (PEP2040), adopted in May 2021, introduces a number of important solutions for the functioning of energy market participants. One of the key assumptions of PEP2040 is the implementation of smart electricity metering in Poland. In 2022, over 25% of installed meters were smart devices with remote communication. From 2023, this share is expected to exceed 60% and will continue to grow as DSOs have started to replace their devices with smart ones, as required by the adopted schedule for the installation of remote reading meters at energy consumption points, which assumes their installation by at least 80% of recipients by 31 December 2028.

The roll-out in Poland attracts competitors from Asia on a massive scale due to extremely low entry barriers and the treatment of price as the only determinant, which favours Asian suppliers. In addition, some DSOs do not require foreign suppliers to provide the so-called sample of the product, so the technical criteria are not verified in practice and do not constitute a real technological advantage. Moreover, Asian manufacturers are not subjected to digital security checks. In view of the growing risk of cyberattacks on energy systems, the Apator Group is taking steps to improve cybersecurity, in particular, it is trying to introduce a verification system on the Polish market and certification of devices with communication capabilities used in the energy sector, it is also placing smart meters on the list of critical infrastructure devices. In 2022, Poland was one of the few EU countries that still did not have its own EU-notified "companion standard" or an evaluation and marketing authorisation system for smart products with remote communication capabilities and digital data processing. Apator, together with industry organisations, developed and promotes guidelines and basic assumptions of such a system.

Furthermore, in view of the events in Eastern Europe, i.e. the armed attack of the Russian Federation on Ukraine, it is also necessary to pursue energy security towards greater diversification and energy sovereignty. Based on the assumptions for the revision of the Energy Policy of Poland until 2040, published in March 2022, one of the most important changes in PEP2040 is to accelerate the development of RES in all sectors, improve energy efficiency and develop grid and energy storage. In the perspective of 2040, efforts will be made to ensure that approximately half of the electricity production comes from renewable sources.

Following report of the International Energy Agency (IEA), the share of RES in the global energy mix was 29% in 2022. The *Economist Intelligence* report, "Energy Outlook 2023", forecasts that the increase in energy obtained from RES in the world will be at the level of +10% each year (on average) in the period from 2023 to 2025. The report also indicates that - in the face of changes in geopolitics - a return to nuclear energy as a technology that is fully controllable, climate-neutral and a great substitute for fossil fuels is likely in the years to come. New, better prospects are also opening up for biogas and biomethane plants.

In Poland, 2022 is also another year of dynamic development of renewable energy sources (RES), which constitute an increasing share in the country's energy mix. In 2022, the total production of electricity from renewable sources increased by 25% y-o-y. The most intensively growing segment of renewable energy is photovoltaic power plants, the size of which, measured by installed capacity, increased by 67% y-o-y in 2022. Thus, the installed capacity of photovoltaic panels exceeded 12 GW. A slightly slower (12% y-o-y) growth was recorded in wind farms, which account for nearly 8 GW of the installed capacity. At the end of 2022, the total capacity installed in RES amounted to 22 GW, which accounted for over 36% of the total installed electricity generation capacity in Poland (according to ARE data).

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The rapid increase in energy prices on the wholesale market in 2022, generated increased interest in tools for energy management and optimisation of its consumption. The development of photovoltaic (PV) micro-installations was supported by the next edition of the "My Electricity" co-financing programme, as part of which the support also concerned energy and heat storage units, increasing self-consumption of electricity generated from own PV panels and energy management systems.

The Apator Group supports the development of "green energy", expands the product portfolio and consolidates the Electricity segment (merger of Apator S.A. and Apator Elkomtech S.A.) to take advantage of market opportunities resulting from the development of RES and effective energy management.

Today, the Apator Group is one of the largest suppliers to the Polish market of prosumer bi-directional electricity meters (with and without remote communication capability) used in RES micro-installations, as well as specialised apparatus for connecting and protecting electrical circuits in PV and wind farms. The Apator Group also implemented numerous solutions to manage energy flows in internal systems and grids featuring PV generation and integrating distributed PV energy sources into a modern large-scale power grid. The Group implemented the EKTIN PV system for monitoring and managing photovoltaic sources and the EKTIN WT system for wind farms and continues the development of its offer of solutions for RES (more information can be found in the report on non-financial data / ESG report). Interesting market opportunities are ahead of the switchgear, ICT and SSiN business lines, which is the result of the announcement of DSOs regarding investment outlays for the modernisation of energy infrastructure, related to the improvement of the quality and security of supplies.



Segment financial results

| Item | 2022 | 2021 | Change y-o-y (PLN thousand) | Growth rate (%) |
|--|----------------|----------------|--------------------------------|-----------------|
| | (PLN thousand) | (PLN thousand) | | |
| Sales revenue, including: | 439,511 | 375,043 | 64,468 | 117.2% |
| Country | 341,875 | 290,989 | 50,886 | 117.5% |
| export | 97,636 | 84,054 | 13,582 | 116.2% |
| Cost of goods sold | 369,839 | 312,624 | 57,215 | 118.3% |
| Gross profit (loss) on sales | 69,672 | 62,419 | 7,253 | 111.6% |
| Selling costs | 14,785 | 14,060 | 725 | 105.2% |
| General administrative costs | 51,254 | 51,923 | -669 | 98.7% |
| Profit (loss) on sales | 3,633 | -3,564 | 7,197 | - |
| Profit (loss) on other operating activity | 2,656 | 5,156 | -2,500 | 51.5% |
| Share in profit of entities consolidated using the equity method | 0 | 0 | 0 | 0.0% |
| Profit (loss) on operating activity | 6,289 | 1,592 | 4,697 | 395.0% |
| EBITDA | 34,093 | 28,704 | 5,389 | 118.8% |
| Profitability ratios: | | | | |
| Gross profit margin on sales | 15.9% | 16.6% | | |
| Sales profit margin | 0.8% | -1.0% | | |

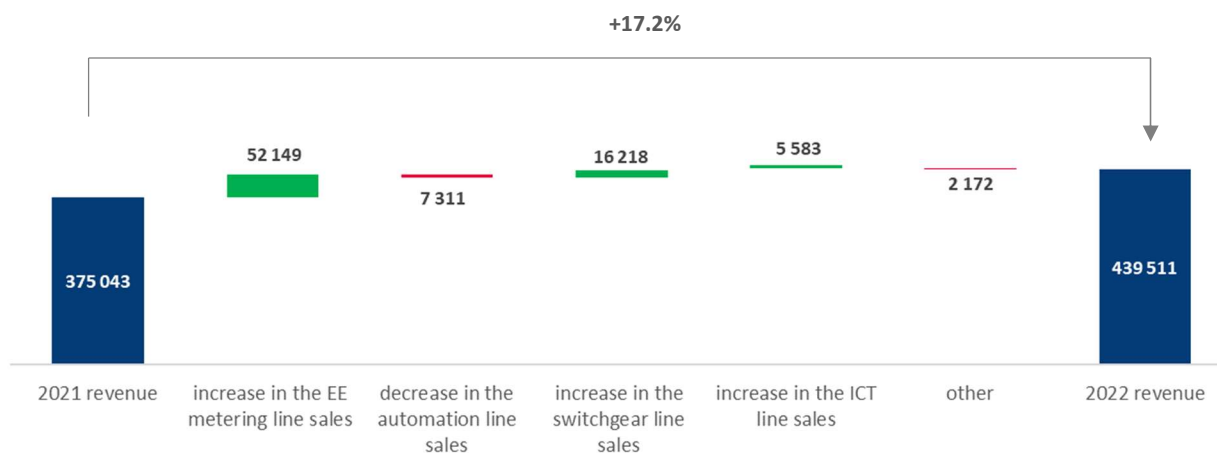
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| Name of the organisational unit: | Apator Group | | |
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| Item | 2022 (PLN thousand) | 2021 (PLN thousand) | Change y- o-y (PLN thousand) | Growth rate (%) |
|---------------|---------------------------|---------------------------|---------------------------------------|--------------------|
| EBITDA margin | 7.8% | 7.7% | | |

Sales revenue

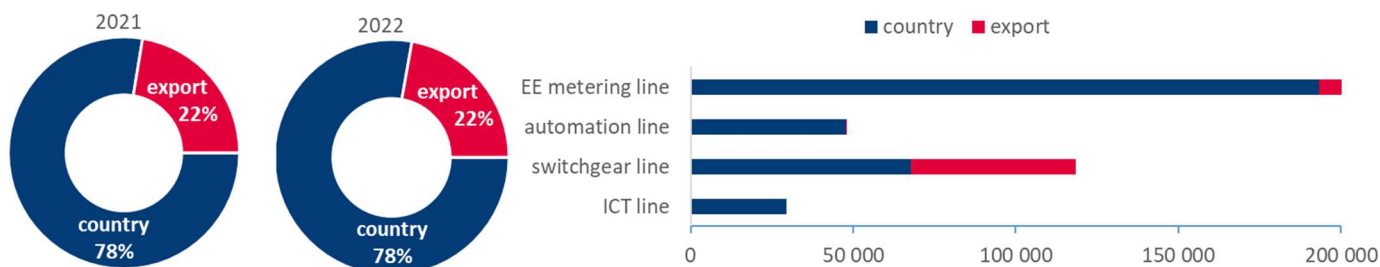
In the Electricity segment, a significant increase in sales was recorded (17.2% y-o-y) thanks to higher turnover of the main product groups both in Poland (+17.5% y-o-y) and in the case of exports (+16.2% y-o-y). Changes for individual lines were as follows:

- increase in domestic sales of meters (the segment's largest business line) by 32.8% y-o-y due to the implementation by Apator of contracts for the supply of smart meters for almost all domestic DSOs under the ongoing smart metering roll-out, higher exports of the line as a result of increased deliveries on the German market,
- good sales results in Poland and in the case of exports (+11.0% and +23.0% y-o-y, respectively) in the Switchgear line (the segment's second largest business line), which provides solutions for the modernisation and expansion of electricity distribution networks,
- greater y-o-y sales of ICT solutions as a result of DSO's increased interest in IT technologies to support business processes but also reaching new customer groups with dedicated solutions (energy clusters, municipalities),
- decrease in sales revenue in the Automation line (representing slightly more than 10% of the revenue of the EE segment), mainly as a result of lower sales of equipment for operation and supervision of grids and power stations, as well as security automation due to cyclical fluctuation in demand and suspension of some investments by DSOs.

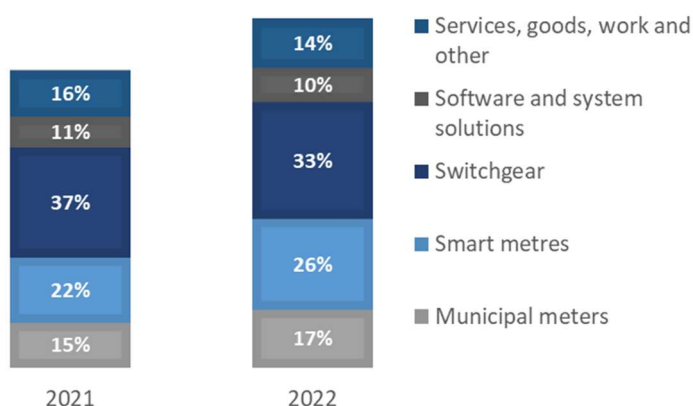


Most (78%) of the segment's sales are done in Poland. Another important sales market is Germany, which saw a dynamic - close to 40% - y-o-y increase in turnover in 2022. In 2022, total exports to other countries also increased in the segment, thanks to good sales results in, e.g. Brazil, Romania, Israel, Lithuania and Hungary.

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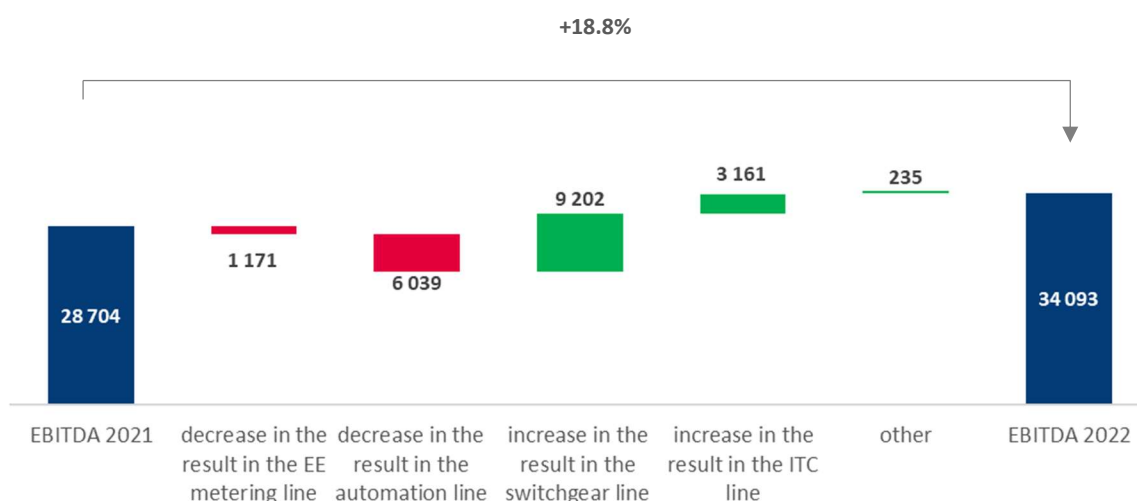
Thanks to the good sales results in the electricity metering line, especially the large deliveries of smart meters to the main national DSOs, their share in the segment's product mix was higher in 2022 than in the previous year. The share of utility meters also increased, while the lower shares of the other groups (even with higher y-o-y sales, as in the case of switchgear) reflect the change in the segment's sales structure in 2022.



EBITDA

After a weaker 2021, when the results of the Electricity segment were clearly affected by the difficult macroeconomic situation, the year 2022 brought an improvement in the results. Due to the implemented optimisation measures (as a consequence of limiting the impact of inflationary pressure on costs) and renegotiation of sales contracts, the segment's results at all levels were better in 2022 than a year ago, with a clear trend of increased improvement in subsequent months of the year. From Q3 of 2022, the effects of reorganisation activities were also noticeable, resulting in savings on sales costs and general expenses in the second half of the year. The result on other operating activity was lower by PLN 2.5 million y-o-y, due to, e.g. lower claims partially compensated by the positive result on the sale of the FAP Pafal property (PLN 2.4 million). Irrespective of the negative impact of other activity, the segment's EBITDA was PLN 5.4 million higher in 2022 (due to an improvement in profit on sales by PLN 7.2 million y-o-y) compared to 2021. The level of profitability also improved slightly, and the EBITDA margin increased to 7.8%.

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Prospects

The segment's development prospects in the electricity market depend primarily on the pace of energy transformation and the availability of key components for production. At the same time, the company must continue to optimise manufacturing costs and improve operational efficiency in response to further cost and competitive pressure. It is also necessary to optimise inventory and working capital. Due to periodic shortages of components, the situation is monitored on an ongoing basis and activities adapted to current orders and new sales opportunities arising from the ongoing roll-out of smart meters in Poland and Europe are undertaken.

The main factors affecting the segment's operation in Poland include:

- adoption by the Council of Ministers of the assumptions for updating the Energy Policy of Poland until 2040 (PEP2040):
 - the announced acceleration of the energy transition towards renewable energy sources and the further dynamic growth of photovoltaics and, consequently, the dynamic increase in the number of prosumer installations, and thus, the increase in demand for bi-directional electricity meters and a larger number of disconnectors. Apart from the existing solutions, the Apator Group is also expanding its range of products and solutions for renewable energy towards comprehensive systems for the supervision and management of single or distributed photovoltaic farms. The Group has also started design works in energy clusters and is focused on the further development of its own systems and solutions,
 - improvement of energy efficiency to reduce energy consumption - the need for large energy consumers to conduct energy audits and manage media consumption in a better way, which translates into investments in automation and energy management systems (from April 2023, an energy certificate will be required for all new buildings),
 - performance of activities to strengthen the development of power grids and automation mechanisms,
 - ensuring a high level of cyber security, to which the Apator Group has been paying attention for years, striving to introduce a verification and certification system for devices with communication abilities used in the energy sector in the Polish market and to include smart meters in the list of critical infrastructure devices,
- the roll-out of meters in Poland - fast pace of meter commoditisation, increased competition due to low entry barriers, no requirements for providing the sample, verification of suppliers in terms of digital security - focus of the Apator Group on specific tenders and solutions with an acceptable margin,
- persistently low prices for measuring equipment as a result of the aggressive and increased competition from Asia,

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- the expected increase in interest in advanced distribution network management solutions (as a result of the increasing share of "green energy" in the system),
- further product standardisation of switchgear and its dynamic market development,
- growing demand of distribution companies (from the area of energy, water and gas) for network asset register services and construction of digital network models in the GIS class systems,
- demand for new functionalities and applications in the area of network asset management, the natural development of systems related to the development and changes in business models of DSOs,
- the growing demand of local governments for services and systems for recording and managing network assets; systems of that type are an essential element of the IT infrastructure of the "Smart City", which is currently one of the most promising areas for the implementation of such IT projects.

The prospects for the activity of the Apator Group in the key export markets for the Electricity segment are shaped primarily by:

- development of the offer in the field of electronic meters for foreign markets, in particular, for one of the key markets - Germany,
- accelerating the development of telecommunication technologies in the energy sector,
- growth in export markets in the switchgear line,
- the announced development of smart grids in eastern markets (Lithuania, Latvia),
- fading demand for induction-type and static meters without communication capability,
- The European Parliament's "Clean energy for all Europeans" package, expanded in 2022 with a proposal for a new RePowerEU regulation (currently under EU national consultations) and the growing share of energy generated from renewable energy sources in the EU energy mix.

3.2. Gas segment

Products

The Gas segment specialises in the production of the highest quality gas meters. It offers household and industrial bellows gas meters as well as the latest class of intelligent gas meters with the function of remote data reading. Apator Metrix S.A. (Tczew), the leading company in the Gas segment, is one of the largest manufacturers

and suppliers of gas meters in Poland and Europe. The company's gas meters successfully pass certification tests, therefore they can be sold in the most demanding European markets. The British company GWi Ltd., also operating in the Gas segment, is a supplier of gas regulators and is an authorised repair and re-verification centre for gas meters used in the UK, it also offers maintenance services for smart gas meters from manufacturers who are involved in the replacement of standard gas meters with smart ones in the UK. The companies within the segment sell their products under their own brands, as well as under the OEM (*original equipment manufacturer*) model, i.e. under brands of other manufacturers.



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Market environment

The gas meter market in Europe is undergoing a transformation as a result of the implementation of the so-called energy conservation directive, inter alia. There is a gradual shift from traditional mechanical gas meters to smart gas metering. Consequently, in the countries of the European Union, there is a noticeable growing demand for such gas meters. The first market in Europe where the regulator imposed the use of smart gas meters instead of traditional ones was the Netherlands. In the following years, similar programmes were launched by: France, Italy, the UK, Belgium and Spain. Other European countries are also preparing to implement smart gas meters (e.g. Austria, Romania). At the moment, the programme of replacing traditional gas meters with smart ones, the so-called first-class ones, is slowly finalised; however, the extension of roll-outs was influenced by the pandemic, which temporarily slowed down the process of installation of the gas meters.

The leader among smart gas meters is still the bellows gas meter equipped with an electronic totalizer, but there is a growing trend towards static gas meters. The appearance of smart gas meters automatically resulted in a decrease in demand for traditional gas meters.

The size and volatility of the gas meter market in Europe are determined by large public tenders and contracts concluded for several years. Currently, the Gas segment is participating in the replacement of devices with smart ones on the markets in the UK and Belgium. However, the concentration of the market of gas metering equipment suppliers and large public tenders for long-term supplies result in strong competitive pressure and growing price pressure.

At the same time, Germany is a very important and strategic market for the Gas segment. This market is difficult to access due to its high-quality requirements; however, thanks to that it is also stable. Germany is mainly supplied with standard gas meters (without communication capabilities), as the country is still considering implementing programmes to replace gas meters with smart ones. Markets similar to Germany due to quality requirements, on which Apator Metrix S.A. is active, are also the Czech Republic and Hungary - this is mainly related to the fact that German concerns are the owners of gas plants in those countries.

Although the segment is dominated by export (69% in 2022), the Polish market is still a very important sales market with a predictable and stable volume potential, where Grupa Apator has an established position as one of the market leaders. The main customer in the Polish market is Polska Spółka Gazownictwa Sp. z o.o. (PSG) - the only operator of the gas distribution system in the country.

Currently, the implementation of smart metering in Poland is still perceived mainly through the prism of electricity measurement. In the case of gas, as in electricity, the operator, i.e. PSG, is physically responsible for the implementation of smart metering. In accordance with the applicable EU directives, unlike in the electricity market, currently, no law imposes an obligation on gas operators to install smart metering systems at customers. Nevertheless, the Polish market is interested in the implementation of smart metering in gas, but there are small pilot projects of implementation of smart gas meters realised so far, in which Apator Metrix S.A. actively participates, and most tenders in Poland still concern the supply of bellows and mechanical gas meters.



Source: own elaboration based on the report: "Benchmarking smart metering deployment in the EU-28" <https://op.europa.eu/>

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Moreover, as a result of the acquisition of a part of the assets of Atrem S.A. at the end of 2020, the Apator Group has extended its software offer to include solutions in the area of advanced IT systems for the gas industry and is working on their further development.

Segment financial results

| Item | 2022 (PLN thousand) | 2021 (PLN thousand) | Change y-o-y (PLN thousand) | Growth rate (%) |
|--|---------------------------|---------------------------|--------------------------------------|--------------------|
| Sales revenue, including: | 281,342 | 269,627 | 11,715 | 104.3% |
| country | 87,951 | 82,783 | 5,168 | 106.2% |
| export | 193,391 | 186,844 | 6,547 | 103.5% |
| Cost of goods sold | 235,520 | 215,424 | 20,096 | 109.3% |
| Gross profit on sales | 45,822 | 54,203 | -8,381 | 84.5% |
| Selling costs | 8,808 | 8,981 | -173 | 98.1% |
| General administrative costs | 28,025 | 26,560 | 1,465 | 105.5% |
| Profit on sales | 8,989 | 18,662 | -9,673 | 48.2% |
| Profit (loss) on other operating activity | -14,432 | 2,259 | -16,691 | - |
| Share in profit of entities consolidated using the equity method | 0 | 0 | 0 | 0.0% |
| Profit on operating activity | -5,443 | 20,921 | -26,364 | - |
| EBITDA | 8,726 | 38,201 | -29,475 | 22.8% |
| <i>EBITDA without R&D write-offs and goodwill*</i> | <i>23,342</i> | <i>38,201</i> | <i>-14,859</i> | <i>61.1%</i> |
| Profitability ratios: | | | | |
| Gross profit margin on sales | 16.3% | 20.1% | | |
| Profit margin on sales | 3.2% | 6.9% | | |
| EBITDA margin | 3.1% | 14.2% | | |
| <i>EBITDA margin without R&D write-offs and goodwill*</i> | <i>8.3%</i> | <i>14.2%</i> | | |

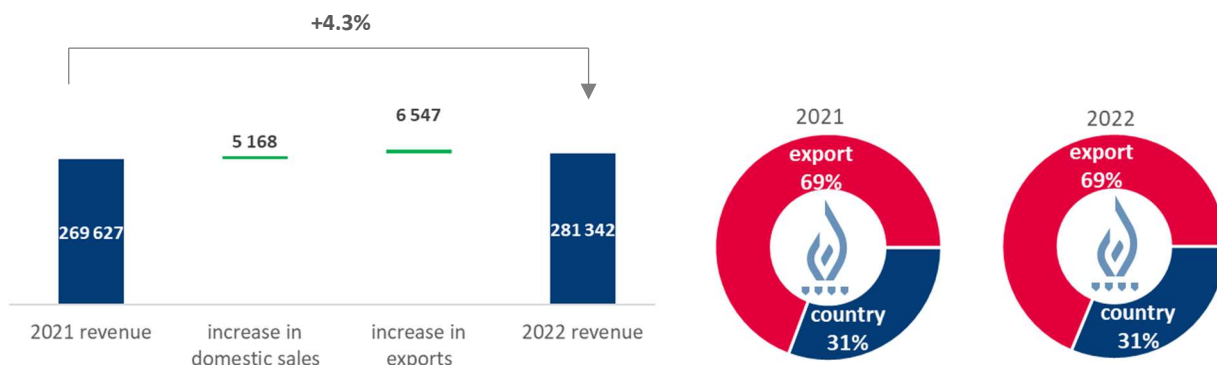
*) EBITDA adjusted by R&D write-offs (PLN -10.7 million) and goodwill (PLN -3.9 million) for the British company GWi.

Sales revenue

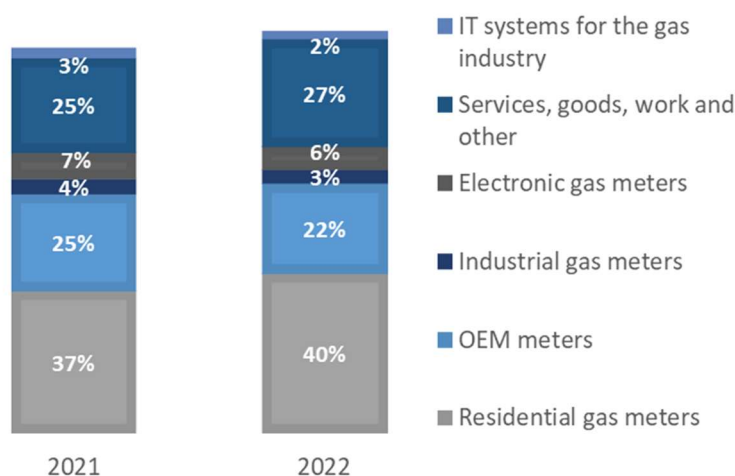
Y-o-y sales growth as a result of higher domestic sales (+6.2% y-o-y) with a slight improvement in export revenue (+3.5% y-o-y). The segment sales remain stable despite adverse geopolitical factors affecting the entire gas sector in Europe. Gas meters were successfully sold in the German, Hungarian, Romanian, Georgian and Czech Republic markets, as well as the newly acquired Armenian market. Lower sales to Belgium (one of the segment's previous main markets) are related to the first phase of the roll-out for smart gas meters ending in that country in 2022. Nevertheless, in the perspective of 2023 and subsequent years, the Belgian market remains one of the most promising markets for the Gas segment, thanks to the tender won by Apator Metrix for the supply of approximately 1 million smart gas meters in the period from 2023 to 2031, with a total value of approximately EUR 65 million.

As a result of slight differences in the dynamics of sales changes in Poland and exports, the geographical structure of sales in the segment remained stable, and foreign turnover accounted for 69% of total turnover in 2022.

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In 2021 and 2022, the segment's sales portfolio was as follows:



EBITDA

The segment's EBITDA decreased by PLN 29.5 million y-o-y, with the EBITDA margin at 3.1%, mainly due to unfavourable non-recurring factors determining the large loss on other operating activity (PLN -14.4 million in 2022, PLN 16.7 million below the result from 2021).

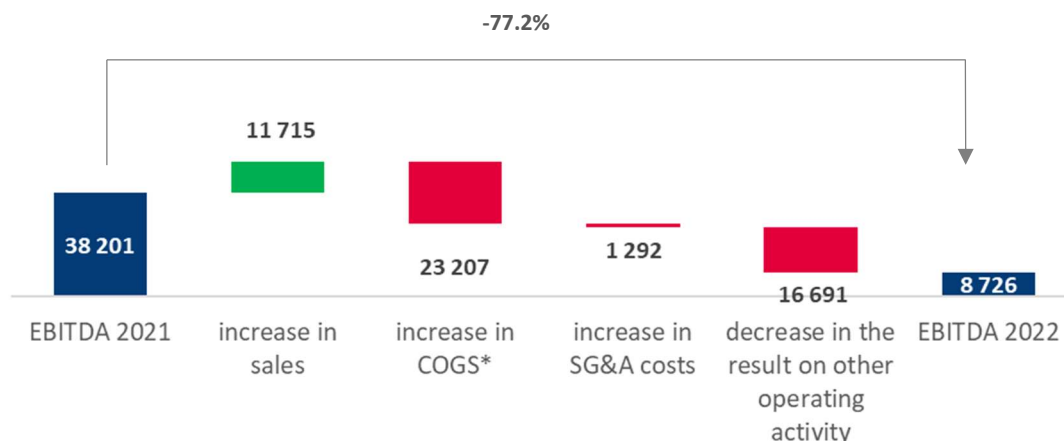
The main factors affecting EBITDA are:

- reduction of the gross margin on sales as a result of higher costs of materials (mainly semiconductors, copper, plastics), transport services, remuneration and energy due to a more than proportional increase in technical manufacturing cost in relation to the increase in turnover,
- increase in SG&A costs y-o-y, mainly due to more expensive transport and the growing pressure to increase remuneration,
- negative result on other operating activity in connection with the write-down by Apator Metrix S.A* of the value of capitalised development works relating to the UK company GWi in Q3 2022 (-£10.7 million) and the write-down of goodwill (GWi subsidiary, -£3.9 million) in Q4 2022.

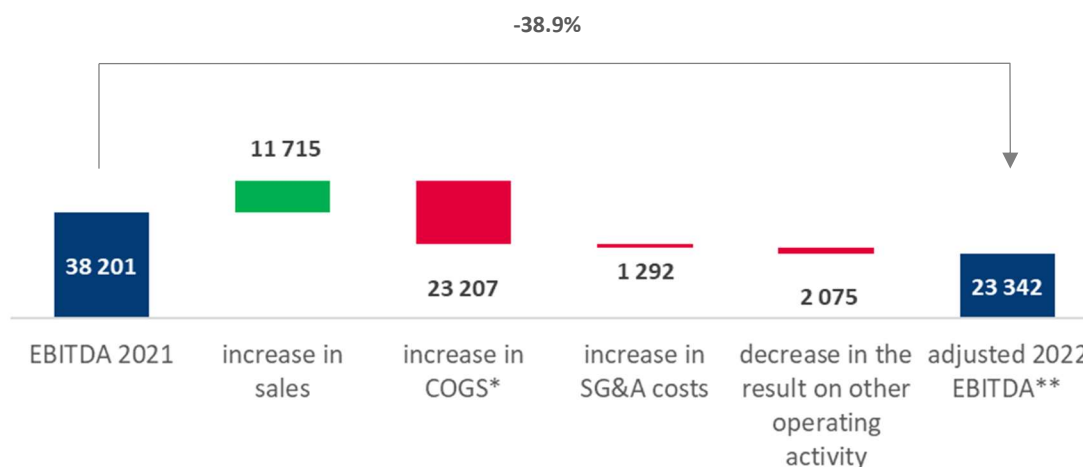
After eliminating the impact of non-recurring factors, the segment's EBITDA amounted to PLN 23.3 million in 2022, with an EBITDA margin of 8.3%.

*) Compared to the way of presentation of the figures for the four quarters of 2022, there is a change in the recognition of the goodwill write-down in the annual report, which is transferred from financing activity to other operating activity.

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*) COGS (cost of goods sold) less depreciation



*) COGS (cost of goods sold) less depreciation

***) EBITDA adjusted by write-downs

Prospects

The prospects for the development of the segment on the gas metering market depend on the pace of development of smart metering in Europe and in the world and on the need to diversify the gas energy mix as part of the EU energy transformation by replacing the demand for natural gas with the so-called decarbonised gases and renewable gases and this, in turn, is an opportunity for further development of the Gas segment in the field of measurement of hydrogen, biomethane and biogas.

The further dynamics of cost inflation (materials, components, remuneration) and the situation in global supply chains will have an equally important impact on the prospects. It will also be important to improve the efficiency of the companies by relocating part of the production of gas meters from the British company GWi Ltd. to Apator Metrix S.A. in Tczew in 2022.

The domestic business prospects for the Gas segment are as follows:

- monopoly on the demand side (one main customer) with simultaneous, not too intense, competition on the supply side,
- execution of a tender for the supply of bellows gas meters for Polska Spółka Gazownictwa Sp. z o.o. – contract value: PLN 74.9 million with deliveries over 2 years and the right of option +/- 20% of the order,
- expansion of the software offer for the gas sector (development of software under the acquired in 2020, part of the assets of Atrem S.A.);

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- introduced under the Regulation of the Minister of Entrepreneurship and Technology (Regulation on the legal metrological control of measuring instruments of 22 March 2019) the possibility of legalising gas meters using the statistical method; however, this method is not popular in Poland yet.

The situation of the Gas segment in the key export markets is mainly shaped by the following factors:

- won roll-out for nearly 1 million smart gas meters in the Belgian market worth approximately EUR 65 million, with the delivery in the period from 2023 to 2031, a significant part of which will be delivered by the end of 2026,
- planned roll-outs of smart gas meters in other European markets: Spain, Austria, Romania, Slovakia,
- product development plan for specific markets, including supplementing the portfolio with new types of industrial gas meters and an ultrasonic gas meter,
- ongoing relatively high demand for gas meters with mechanical counters, due to constant delays in the implementation of smart gas meters in some European countries,
- electronic auctions and the consolidation of orders by several customers within a single tender, which negatively affects the level of final prices,
- the need to obtain additional certificates confirming the security of data transmission and the interoperability of gas meters.

3.3. Water & Heat segment

Products

The Water and Heat segment (W&H) specialises in the manufacture of residential, domestic, ultrasonic and industrial water meters, heat meters and heat cost allocators. It offers services of remote reading, settlement of utility consumption, as well as management of water and heat distribution systems. Apator Powogaz S.A., the leading company in the Water & Heat segment, is one of the largest manufacturers and suppliers of water meters in Poland and Europe. The following companies are included in the Water & Heat segment: Apator Metra s.r.o (Czech Republic), Apator Miitors A/S (Denmark-R&D) and Apator Telemetry Sp. z o.o. (Słupsk, Gdańsk-R&D).



Market environment

The Water & Heat segment, unlike the other segments, delivers products and services to a large, dispersed group of customers. Most often, the client market is divided into two profiles: professional (water mains) and residential (cooperatives, distributors, wholesalers), to which separate product lines are sold. The sales model in the Water & Heat segment, quite different from that of the EE and Gas segments, is based mainly on an active search for customers worldwide and building relationships with them, which requires a correspondingly larger sales force, a wider range of products with adequate information material, an extensive service network and adequate technical support that is able to implement the modifications expected by the clients, according to the requirements of the given operating area. The industry is characterised by flexible product specifications, an individual approach to customer needs, and the demand for a given product is created by manufacturers, legal requirements governing water and heat metering, trends and new technologies depending on the

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requirements in the respective market. Approximately 60% of the segment's revenue is generated in foreign markets, with the remainder of the sales realised domestically.

The economic situation in the construction industry has an impact on the number of installed water meters. In 2022, based on Statistics Poland, 238.6 thousand flats were put into use in Poland, i.e., 1.3% more than a year ago, and 297.4 thousand building permits were issued. The most frequently installed devices in newly constructed buildings are water meters with remote reading, and the water meter with a radio overlay is the most popular type. Also in the old type of houses, *smart* water meters play a more and more important role, replacing the old-generation products without the possibility of remote reading.

The good economic situation in the housing market and the Energy Efficiency Act that imposed the obligation to install devices with remote reading resulted in the acceleration of the replacement of water meters, from Q2 2021 and continued in 2022. Therefore, the challenge was to meet the high demand, especially during the implementation of the project of moving the factory to Jarzyski near Poznań.

Following the lifting of the COVID-19 pandemic restrictions in mid-2022, the availability of production components improved in the segment.

The global demand for water metering services is growing with unprecedented dynamics. Rapidly growing population, the industrialisation of developing countries, diverse and often inconsistent legislation related to the protection of the environment, including drinking water resources, are the reasons for the dramatic speeding up of global water consumption and the exploitation of natural sources. Those factors are accelerating the development of the smart water management market to optimise water consumption and provide more and more accurate measurement methods. That trend is particularly noticeable in countries facing water shortages or where awareness of the negative consequence of overexploiting natural resources is directing preventive actions of the governments to protect water as a source of life. Therefore, the industry is undergoing intensive development of comprehensive systems for handling and effective data delivery using modern IoT communication technologies. Increased consumer awareness, both individual and manufacturing (industrial) entities that use smart metering solutions, is resulting in greater interest in economical and rational water management. The water loss from pipelines during distribution is very high, therefore manual measurement and balancing of water is no longer sufficient. Measuring systems should additionally signal leaks and other disturbances in the network and should be equipped with remotely operated valves to shut off water or reduce consumption on demand. One of the products intensively developed by the W&H segment are ultrasonic water meters with a wide range of remote communication (e.g. LoRaWAN). Ultrasonic water meters have stable metrological parameters, longer operation time, remote reading capabilities and advanced functions (e.g. leak alerts). It is necessary to constantly develop the range of ultrasonic products, not only with industrial diameters and alternative communication (Nb IoT) but also in terms of full compatibility of ultrasonic water meters with remote reading services, billing or the ability to provide data on demand. However, despite the surge in demand for ultrasonic water meters in line with global trends, mechanical water meters will not disappear from the manufacturers' offer in the coming years. This is due to the significant price difference between the two solutions, the cost of water in a given country, the existing infrastructure closely related to the old type of housing, as well as the needs of the target customer in terms of expectations regarding the accuracy of a water meter (its class).



Ultrasonic water meters Ultrimis W offered by Apator Powogaz

Also foreign markets, in terms of the development of their water supply and heating networks, have different needs for products of certain classes.

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There is also an upward trend on the heat metering market. This is due to the increase in heating costs, greater awareness of users, as well as legislative changes introducing mandatory heat metering. As in the case of water meters, in the heating sector, there is a great interest in remote reading systems and ultrasonic technology, which contributes to an intensive increase in competitiveness and affects the level of offered prices. Demand for water meters, heat meters and smart cost allocators in Poland is additionally driven by the Act amending the Energy Efficiency Act, which obliges owners or managers of multi-unit buildings to install, by 1 January 2027, heat meters, water meters and heat allocators with remote reading. The W&H segment, based on market analyses and tracking global trends and regardless of the introduced legislative changes, constantly adapts its offer to the currently required solutions, thanks to which it increases its share in the sale of smart devices every year.

Segment financial results

| Item | 2022 (PLN thousand) | 2021 (PLN thousand) | Change y-o-y (PLN thousand) | Growth rate (%) |
|--|---------------------------|---------------------------|--------------------------------------|--------------------|
| Sales revenue, including: | 360,939 | 295,413 | 65,526 | 122.2% |
| country | 141,623 | 123,923 | 17,700 | 114.3% |
| export | 219,316 | 171,490 | 47,826 | 127.9% |
| Cost of goods sold | 252,172 | 198,458 | 53,714 | 127.1% |
| Gross profit on sales | 108,767 | 96,955 | 11,812 | 112.2% |
| Selling costs | 18,521 | 13,202 | 5,319 | 140.3% |
| General administrative costs | 53,317 | 46,087 | 7,230 | 115.7% |
| Profit on sales | 36,929 | 37,666 | -737 | 98.0% |
| Profit (loss) on other operating activity | -2,418 | 37,010 | -39,428 | - |
| Share in profit of entities consolidated using the equity method | 444 | 1,636 | -1,192 | 27.1% |
| Profit on operating activity | 34,955 | 76,312 | -41,357 | 45.8% |
| EBITDA | 48,709 | 87,692 | -38,983 | 55.5% |
| <i>EBITDA excluding the result on the sale of property*</i> | <i>48,709</i> | <i>53,613</i> | <i>-4,904</i> | <i>90.9%</i> |
| Profitability ratios: | | | | |
| Gross profit margin on sales | 30.1% | 32.8% | | |
| Profit margin on sales | 10.2% | 12.8% | | |
| EBITDA margin | 13.5% | 29.7% | | |
| <i>EBITDA margin excluding the result on the sale of property*</i> | <i>13.5%</i> | <i>18.1%</i> | | |

*) EBITDA adjusted by the result on sale of the Apator Powogaz S.A. property

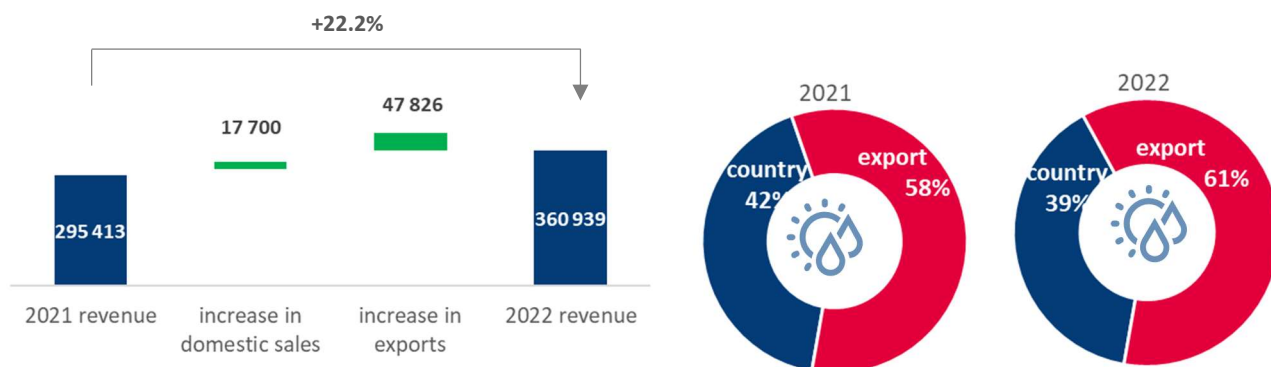
Sales revenue

The segment saw strong revenue growth of 22.2% y-o-y:

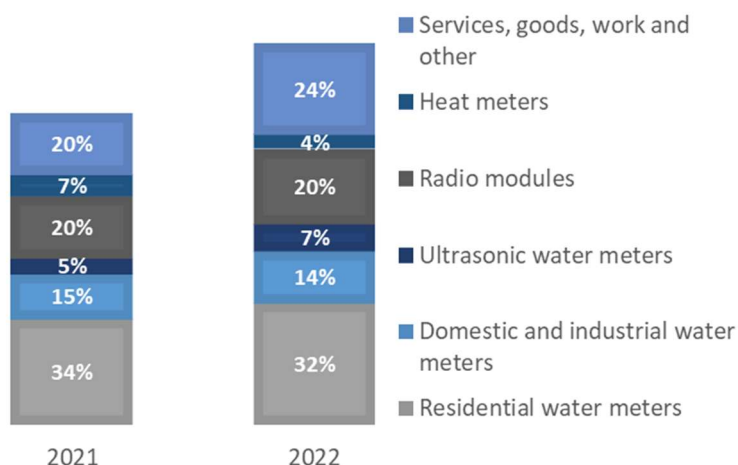
- higher turnover in the country (by 14.3% y-o-y) mainly related to the increase in the replacement of water meters in cooperatives and housing associations,
- high dynamics of foreign sales (+27.9% y/y) due to the growing demand for water and heat metering and water conservation support solutions in the segment's existing markets covering virtually all European countries. Additionally, large deliveries to more distant markets (Ethiopia, Thailand).

As export dynamics outweighed the rate of change in domestic sales, the share of exports in the sales structure increased by 2.7 p.p. in 2022, thus exceeding the threshold of 60% of total turnover. In 2022, the segment's largest foreign markets were the Czech Republic, Spain, France and Greece.

| | | | |
|---|---|---------------------|--------------------|
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In the product mix, residential water meters (despite a slight y-o-y decrease) and radio modules have the largest share in sales. In 2022, (as in 2021), the importance (and, consequently, the share in total revenue) of ultrasonic water meters, intended mainly for export (Greece, Norway, Germany, Thailand and Romania), increased again.



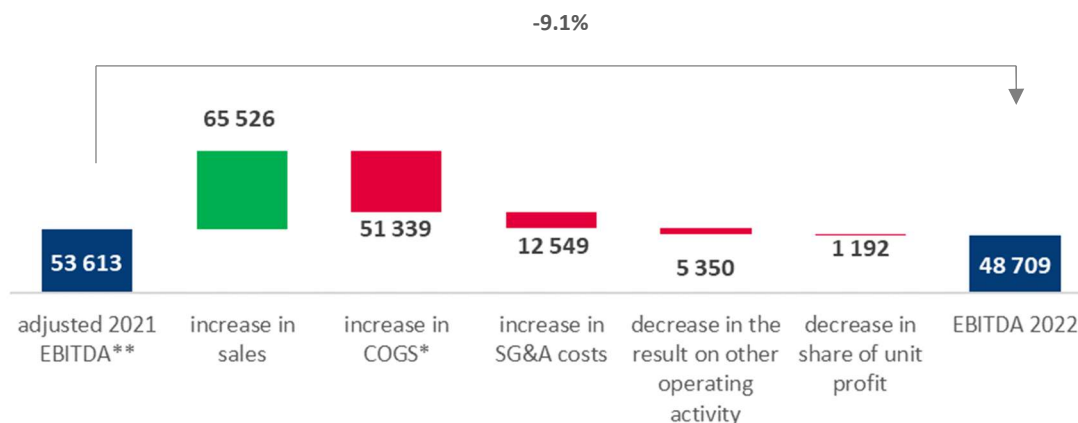
EBITDA

In 2022, the segment's EBITDA amounted to PLN 48.7 million and was PLN 4.9 million lower compared to the adjusted (for property sales) result in 2021. That change was primarily determined by:

- margin reduction related (with significantly higher turnover y-o-y) to the increase in technical manufacturing cost (as a result of price inflation of basic production factors: materials, energy, transport, remuneration), unfavourable change in the product mix and loss of profitable eastern markets,
- higher SG&A costs due to the increase in turnover (sales costs) and partially the performed relocations (general costs),
- decrease in the share in the profit of associated companies due to the discontinuation of consolidation (by the equity method) of the results of AO Teplovodomer with its headquarters in Russia (PLN -1.2 million y-o-y) after the sale by Apator Powogaz S.A. of the entire block of its shares (50% of the company's capital).

In 2022, despite the above trends, thanks to the high diversification of customers, the segment's margin was maintained at a high level, the highest level among the segments of the Apator Group.

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*) COGS (cost of goods sold) less depreciation

***) EBITDA adjusted by the impact of the sale of property by Apator Powogaz S.A.

Prospects

One of the key factors influencing the performance of the segment was the implementation of the project, completed in 2022, of relocating the Apator Powogaz S.A. factory from Poznań to Jaryszki. The main objective of the relocation was the creation of a modern production centre based on automated processes to enable further improvement in the quality of finished products and a significant increase in efficiency and production capacity. A relocation project was also performed in Apator Telemetria Sp. z o.o. in Słupsk, while in Apator Metra s.r.o the production of electronics was made independent from external suppliers by purchasing and installing its own SMT line. Apart from the reorganisation, R&D works related to the development of the product portfolio, remote reading systems and billing services are continued.

Other prospects affecting the operation of the Water & Heat segment in Poland are as follows:

- high demand for smart class solutions due to the introduced amendment to the Energy Efficiency Act imposing on owners or management of multi-unit buildings the obligation to install, by 1 January 2027, heat meters, water meters and heat allocators with remote reading,
- development of a full offer for the construction of reading networks and the provision of remote reading services for water and heat - introduction of the end-to-end concept, i.e. a comprehensive service for end customers,
- introduction of new overlays for industrial water meters - the potential to increase the presence in the water supply market,
- development of the billing services market,
- growing importance of the need to save water resources and the development of devices related to the precise metering and rational management of that precious resource - an important opportunity for the growth of sales of ultrasonic water meters,
- economic situation in construction.

The situation of the Water & Heat segment on export markets is shaped by the following factors:

- expected increase in sales to European Union countries by expanding the customer base and the product portfolio,
- development of exports on the DACH markets (Germany, Austria, Switzerland) as one of the key strategic directions of the segment,
- searching for new sales directions outside the EU due to the need to replace suspended sales to eastern markets as a result of the war (Russia, Belarus, Ukraine),
- upward trend in the heat metering market - the introduction of mandatory heat metering by the EU,
- increasing demand for ultrasonic water meters, with an increasing focus on LoRaWAN (and NB-IoT or NB IoT - as long as it's consistent) communication,

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- growing interest in smart technology for both water and heat meters,
- growing demand for remote control systems, leakage location and autonomous water loss (leakage) reduction systems,
- government subsidies for local water protection projects for regions with water shortages (Spain, Italy, Greece),
- aid programmes of the EU and the World Bank for African countries to improve access to drinking water.

4. Consolidated results of the Apator Group

4.1. Analysis of financial performance

The financial performance of the Apator Group in 2022:

| Item | 2022 | 2021 | Change | Growth rate |
|--|------------------|----------------|----------------|---------------|
| Sales revenue, including: | 1,081,792 | 940,083 | 141,709 | 115.1% |
| country | 571,450 | 497,696 | 73,754 | 114.8% |
| export | 510,342 | 442,387 | 67,955 | 115.4% |
| Cost of goods sold | 857,531 | 726,506 | 131,025 | 118.0% |
| Gross profit on sales | 224,261 | 213,577 | 10,684 | 105.0% |
| Selling costs | 42,422 | 36,552 | 5,870 | 116.1% |
| General administrative costs | 136,749 | 128,285 | 8,464 | 106.6% |
| Profit on sales | 45,090 | 48,740 | -3,650 | 92.5% |
| Profit (loss) on other operating activity | -14,194 | 44,425 | -58,619 | - |
| Share in profit of entities consolidated using the equity method | 444 | 1,636 | -1,192 | 27.1% |
| Profit on operating activity | 31,340 | 94,801 | -63,461 | 33.1% |
| EBITDA | 87,067 | 150,573 | -63,506 | 57.8% |
| <i>EBITDA adjusted by the impact of one-off events*</i> | <i>101,683</i> | <i>116,494</i> | <i>-14,811</i> | <i>87.3%</i> |
| Profit (loss) on financial activity | -15,425 | -9,557 | -5,868 | - |
| Profit before tax | 15,915 | 85,244 | -69,329 | 18.7% |
| Current income tax | -9,019 | -24,929 | 15,910 | - |
| Deferred income tax | 309 | 3,021 | -2,712 | 10.2% |
| Net profit | 7,205 | 63,336 | -56,131 | 11.4% |
| <i>Net profit adjusted by the impact of one-off events*</i> | <i>21,821</i> | <i>35,732</i> | <i>-13,911</i> | <i>61.1%</i> |
| Profitability ratios: | | | | |
| Gross profit margin on sales | 20.7% | 22.7% | | |
| Profit margin on sales | 4.2% | 5.2% | | |
| EBITDA profit margin* | 9.4% | 12.4% | | |
| Net profit margin* | 2.0% | 3.8% | | |

*) Results adjusted by the impact of the sale of property by Apator Powogaz S.A. in 2021 and write-downs of the value of development works and goodwill (relating to the British company GWi) in 2022.

Key performance drivers in 2022:

- dynamic increase in revenue y-o-y with the participation of all three segments and a comparable share of the EE and Water and Heat segments. A similar rate of change in domestic and export sales mainly as a result of:
 - recovery in domestic sales of EE meters after a weaker 2021, and consistent large deliveries of water meters to cooperatives and housing associations,
 - dynamically growing turnover in Water & Heat on most of the main export markets of the segment and significantly higher exports of the two most important lines of the EE segment (electricity metering and switchgear),

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|---|---|---------------------|--------------------|
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- the macroeconomic situation, including persistent restrictions on access to components, further extension of delivery deadlines and systematic increases in the prices of key production factors (mainly raw materials, materials, transport and energy) reflected in the margin levels in all segments of the Group,
- consistent work on improving operational efficiency in the areas of supply, production and sales (searching for alternative sources of purchase and opportunities to shorten supply chains adapted to the current situation, flexible inventory management, optimisation/automation of production processes, changes in the product mix to improve profitability and dynamic pricing policies) to limit the negative impact of the macro environment on the performance,
- loss on other operating activity related to write-downs in the Gas segment: write-down on the value of capitalised development works in the British company GWi (PLN -10.7 million) and goodwill write-down (GWi subsidiary, PLN -3.9 million) made by Apator Metrix S.A.,
- high level of interest rates in conditions of rising inflation causing - in view of the need to finance the increased level of working capital (and consequently the level of net debt) - significant burden on the financial result of the Apator Group with interest costs (PLN 16.1 million, i.e. PLN 13.2 million higher compared to 2021).

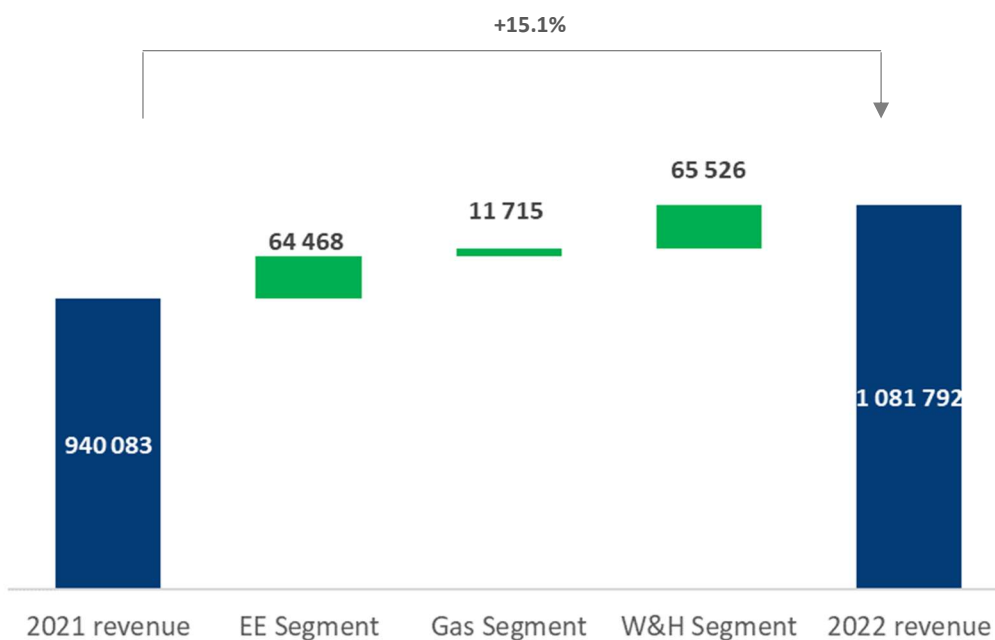
Sales revenue

The Apator Group generated revenue higher by 15.1% y-o-y, and the total annual turnover exceeded - for the first time in the history of the Group of Companies - the level of PLN 1 billion. The sales increased in all three segments (with record-high quarterly turnover in the fastest-growing Water and Heat segment and the Electricity segment, which is dynamically catching up), with comparable double-digit sales dynamics in Poland and in exports.

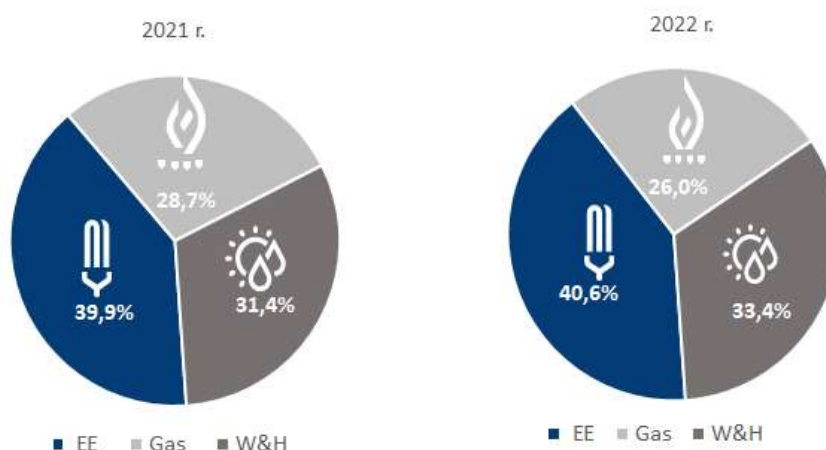
A detailed description of the sales of individual segments is included in part 3 of this report.

| Item | 2022 | 2021 | Change | Growth rate |
|---|------------------|----------------|----------------------|---------------|
| | (PLN thousand) | (PLN thousand) | y-o-y (PLN thousand) | |
| Electricity (EE) segment | 439,511 | 375,043 | 64,468 | 117.2% |
| <i>country</i> | 341,875 | 290,989 | 50,886 | 117.5% |
| <i>export</i> | 97,636 | 84,054 | 13,582 | 116.2% |
| <i>share of exports of the EE segment in total sales revenue</i> | 9.0% | 8.9% | | |
| Gas segment | 281,342 | 269,627 | 11,715 | 104.3% |
| <i>country</i> | 87,951 | 82,783 | 5,168 | 106.2% |
| <i>export</i> | 193,391 | 186,844 | 6,547 | 103.5% |
| <i>share of exports of the Gas segment in total sales revenue</i> | 17.9% | 19.9% | | |
| Water & Heat (W&H) segment | 360,939 | 295,413 | 65,526 | 122.2% |
| <i>country</i> | 141,623 | 123,923 | 17,700 | 114.3% |
| <i>export</i> | 219,316 | 171,490 | 47,826 | 127.9% |
| <i>share of exports of the W&H segment in total sales revenue</i> | 20.3% | 18.2% | | |
| Total sales revenue | 1,081,792 | 940,083 | 141,709 | 115.1% |
| <i>country</i> | 571,450 | 497,696 | 73,754 | 114.8% |
| <i>export</i> | 510,342 | 442,387 | 67,955 | 115.4% |
| <i>share of total exports in total revenue</i> | 47.2% | 47.1% | | |

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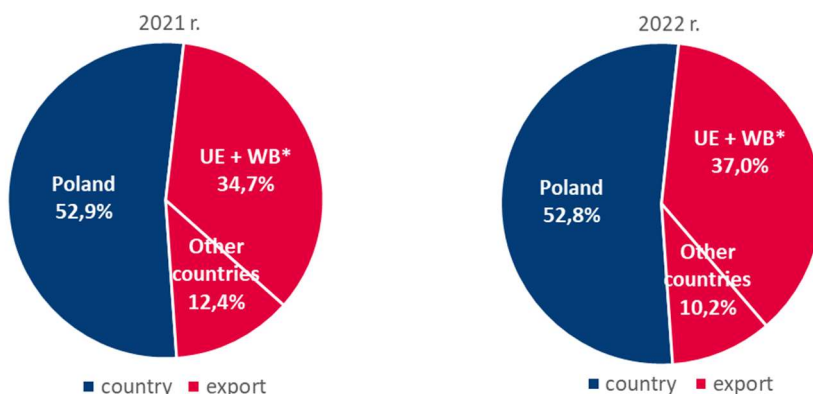
In 2022, the sales structure of the Apator Group remained similar to the situation in the previous year, with a slight (by 2.0 p.p.) increase in the share of the Water and Heat segment.



Geographical sales structure

In 2022, the Apator Group maintained the geographical structure of sales from 2021. In both periods, the revenue generated in Poland and in exports accounted for a similar share in sales, which guarantees stable diversification of activities and a better forecast of future sales results.

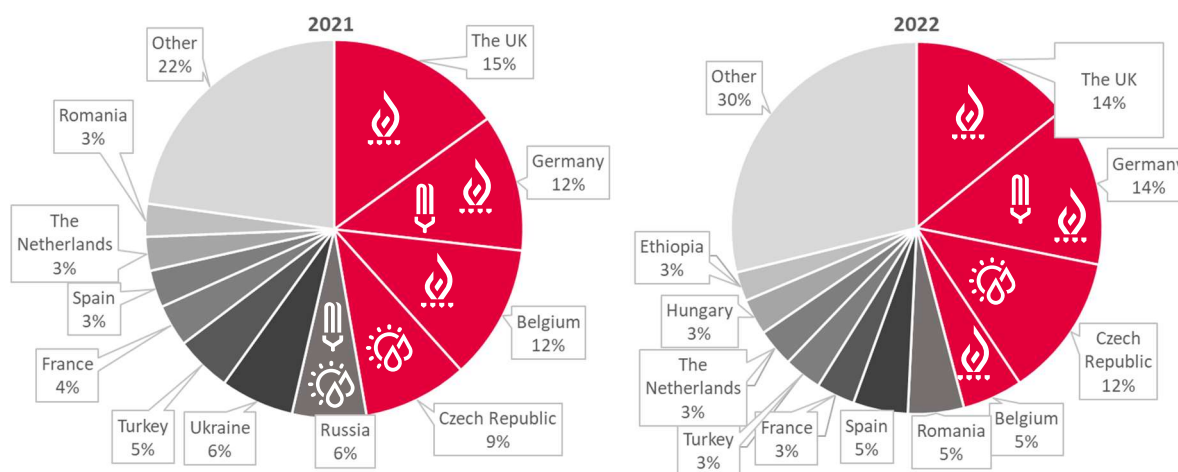
| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
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*EU + the UK = European Union including the United Kingdom

The Apator Group's main sales market is Poland. The European Union (with dominant share of German, Czech Republic, Belgian, Romanian and Spanish markets) and the UK remain on the second place among the Group's trade partners. The noticeable decline in the importance of the Belgian market y-o-y (from 12% of the Group's export turnover in 2021 to 5% in 2022) is related to the first stage of the roll-out of gas meters ending in that country in 2022. From 2023, Apator Metrix S.A. will supply smart gas meters to the Belgian market as part of the next stage of the roll-out under the contract with Landis+Gyr signed in 2022. Despite the end of cooperation with the Russian and Belarusian markets (where the total turnover amounted to approximately PLN 29 million in 2021, thus constituting slightly more than 3% of the Group's total annual sales) and the reduction of turnover in Ukraine (by over 61% y-o-y, from nearly PLN 28 million in 2021 to less than PLN 11 million in 2022), the Apator Group compensated the decrease in sales in the East with revenue from other geographical directions and, as a consequence, the value of exports increased in 2022.

Export breakdown by country



| Foreign sales - countries with a share of more than 5% in exports | Export share in 2022 | Sold products |
|---|----------------------|---|
| United Kingdom | 14% | gas meters |
| Germany | 14% | mainly electricity and gas meters |
| Czech Republic | 12% | mainly water meters and cost allocators |
| Belgium | 5% | gas and induction-type electricity meters |

In 2022, none of the clients exceeded the share of 10% in the sales revenue of the Apator Group.

| | | | |
|---|---|---------------------|--------------------|
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Operating costs by function and nature

| Item | 2022 (PLN thousand) | 2021 (PLN thousand) | Change y-o-y (PLN thousand) | Growth rate (%) |
|---|---------------------------|---------------------------|--------------------------------------|--------------------|
| Costs by function | | | | |
| Cost of goods sold (COGS) | 857,531 | 726,506 | 131,025 | 118.0% |
| Selling, general and administrative expenses (SG&A) | 179,171 | 164,837 | 14,334 | 108.7% |
| Total | 1,036,702 | 891,343 | 145,359 | 116.3% |
| Costs by nature | | | | |
| Amortisation | 55,727 | 55,772 | -45 | 99.9% |
| Consumption of materials and energy | 542,970 | 442,899 | 100,071 | 122.6% |
| External services | 118,474 | 125,691 | -7,217 | 94.3% |
| Employee benefits | 240,150 | 228,783 | 11,367 | 105.0% |
| Other | 31,813 | 25,437 | 6,376 | 125.1% |
| Change in the status of finished products, work in progress | -21,006 | -35,584 | 14,578 | 59.0% |
| Cost of goods and materials sold | 68,574 | 48,345 | 20,229 | 141.8% |
| Total | 1,036,702 | 891,343 | 145,359 | 116.3% |

The noticeable increase in costs is linked to the significant increase in the scale of revenue and results from macroeconomic reasons. The high level of inflation translates into an increase in the prices of production materials, energy carriers and transport costs. Due to the purchase of selected groups of components abroad, an additional negative factor influencing the increase in costs in 2022 was the weakening of the zloty, especially against the dollar. The significant y-o-y increase in the costs of goods and materials sold is the result of higher turnover, while the increase in SG&A costs (sales and general) is the outcome of the macroeconomic situation and increased activities related to reaching new, more distant sales markets, as well as the relocation of manufacturing facilities (Apator Powogaz, Apator Telemetria and British company GWi). The level of costs is subject to systematic control and is optimised through actions the purpose of which is further improvement of the efficiency of operations, inter alia. The share of SG&A costs in revenue was 16.6% in 2022, compared to 17.5% in 2021.

EBITDA

In 2022, the Group's EBITDA amounted to PLN 87.1 million. It was affected by, apart from the above-mentioned cost factors (resulting in lower margins in the Gas and Water & Heat segments), the negative result on other operating activity, which was caused by lower y-o-y results in all three segments, including primarily:

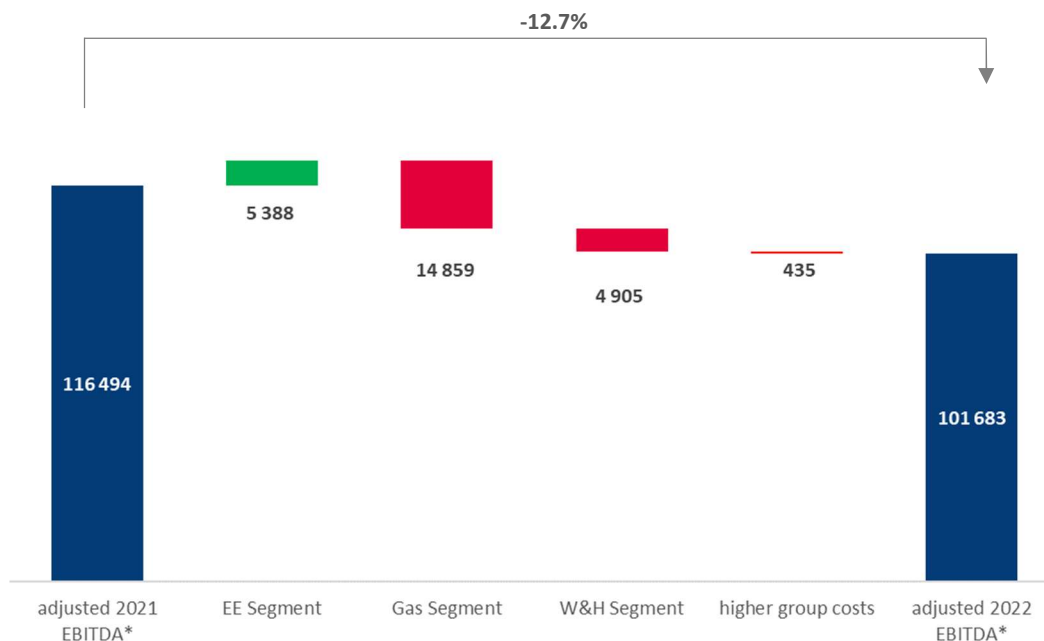
- by PLN 16.7 million y-o-y in the Gas segment, mainly due to the write-down of capitalised development works in the British company GWi (PLN -10.7 million) and the write-down of the value of shares in the GWi subsidiary (PLN -3.9 million) made by Apator Metrix S.A.,
- by PLN 6.5 million in the Water & Heat segment (after elimination of the one-off factor which was the sale of the property of Apator Powogaz S.A. in Poznań in 2021, with the impact on EBITDA of PLN +34.1 million) mainly due to abandoned investments and revaluation of intangible assets and discontinued consolidation (with the equity method) of the results of AO Teplovodomer with the headquarters in Russia (PLN -1.2 million y-o-y) after the sale by Apator Powogaz S.A. of the entire block of shares in that company.

The decline (by PLN 2.5 million y-o-y) in the result on other operating activity in the Electricity segment was mainly related to lower compensations partially compensated by the positive result on the sale of the FAP Pafal property (PLN 2.4 million). Despite that decline, the segment's EBITDA, thanks to a significant improvement in the result on sales, was higher than in 2021.

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
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| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

In 2022, EBITDA, after adjustment by the impact of write-downs in the Gas segment (for the total amount of PLN 14.6 million), amounted to PLN 101.7 million, which resulted in EBITDA profitability of 9.4%.

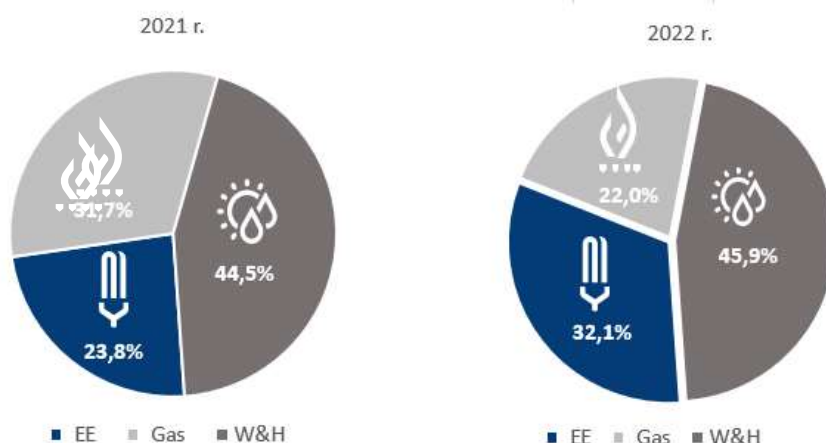
A detailed description of the EBITDA profit in individual segments is included in part 3 of this report.



*) EBITDA results adjusted by the impact of the sale of property by Apator Powogaz S.A. in 2021, and write-downs of the value of development works and goodwill (relating to the British company GWi) in 2022.

Share of Segments in EBITDA

The consistent improvement of the situation (resulting in a higher EBITDA result y-o-y) in the Electricity segment due to the introduced optimisation measures (and, consequently, limiting the impact of inflationary pressure on costs) and the renegotiation of sales contracts meant that the segment's share in the EBITDA of the Apator Group was 8.3 p.p. higher in 2022 than in the previous year. The Water & Heat segment also strengthened its position slightly.



*) EBITDA allocation to segments - figures for both years do not include costs not allocated to segments

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

Net result

The consolidated net result amounted to PLN 7.2 million and was influenced, apart from the factors mentioned above, by:

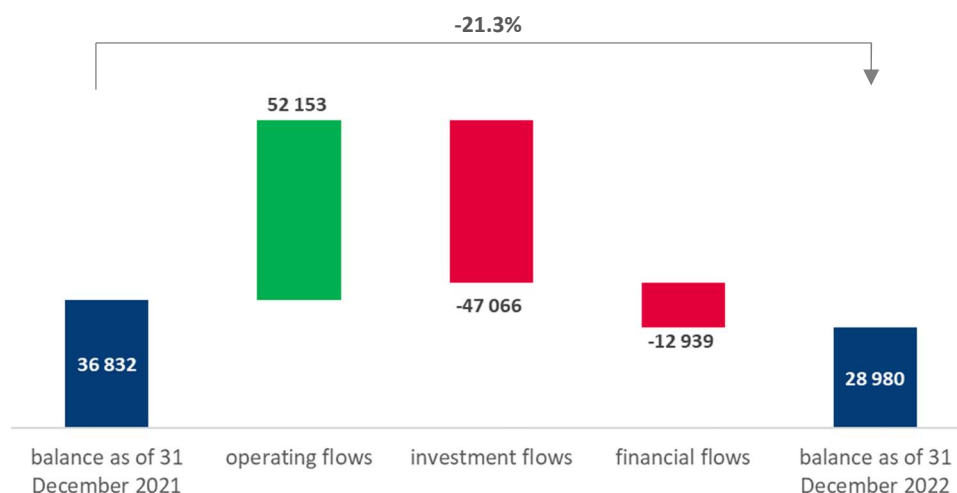
- significantly lower y-o-y (PLN -15.4 million vs PLN -9.6 million in 2021) result on financial activity, mainly due to:
 - growing debt servicing costs (PLN 16.1 million, i.e. PLN 13.2 million higher than in 2021) related to maintaining an increased level of net debt to finance higher working capital, apart from investments.
 - negative exchange differences (fully offset by a positive result on currency transactions, total result on items + PLN 2.6 million) related to, apart from the constant uncertainty on the currency markets and the weakening of the zloty, the change in exchange rates for the valuation of open balance sheet items,
- one-off events, i.e. write-downs on capitalised development works and goodwill (related to the British company GWi) in the Gas segment (PLN -14.6 million).

In 2022, after adjusting the result by the impact of one-off events, the net profit of the Apator Group was PLN 21.8 million.

4.2. Assessment of the financial position

As of 31 December 2022, the cash balance at was PLN 7.9 million lower than at the end of 2021, and it was PLN 29.0 million. Cash levels were affected by the following factors:

- positive cash flows from operating activity, despite the increased involvement of funds in working capital correlated with higher sales (including a significant increase in the level of receivables and the level of inventories in connection with procurement and securing of materials and raw materials as a result of taking necessary actions to manage risks related to the disruptions in global supply chains),
- Negative cash flows from investing activities, mainly as a result of capital expenditures on fixed assets and intangibles (PLN 63.0 million in total, including expenditures on completion of construction and equipment for the new Apator Powogaz S.A. factory, new machinery and equipment, R&D works) and investments in subsidiaries (purchase of shares in Apator Telemetria by Apator S.A. and Apator Powogaz S.A. - PLN 10.9 million);
- negative cash flow balance related to paid dividends (PLN -14.7 million) and repayment of liabilities due to finance lease (PLN -10.9 million), partly offset by an increase in loan debt (balance PLN +29.5 million).



| | | | |
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| Name of the organisational unit: | Apator Group | | |
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4.2.1. Evaluation of financial resources

In 2022, the Apator Group financed its activity mostly with equity, and its share in the balance sheet total decreased by 3.5 p.p. compared to the end of 2021. This is the result of an increase in the level of liabilities and provisions, mainly higher loans.

The financing structure of the Apator Group's activity is presented in the table below:

| Item | 2022 % | 2021 % | Change p. p. |
|---|-----------|-----------|-----------------|
| Share of equity in the balance sheet total | 51.7% | 55.2% | -3.5 |
| Share of foreign capital in the balance sheet total | 48.3% | 44.8% | 3.5 |

| Other key indicators | 2022 | 2021 | Formula |
|--------------------------------|---------|---------|--|
| Current ratio | 1.12 | 1.25 | current assets / short-term liabilities |
| Quick ratio | 0.57 | 0.62 | (current assets - inventories) / short-term liabilities |
| Return on asset (ROA)* | 2.14% | 3.81% | net profit for the last 12 months / average total assets, calculated as an average of the opening and closing balances |
| Return on equity (ROE)* | 4.00% | 6.69% | net profit for the last 12 months / average equity calculated as the average of the opening and closing balances |
| Net debt (PLN thousand) | 211,489 | 174,596 | credits and loans – cash and cash equivalents – granted loans |
| Net debt / LTM EBITDA* | 2.08 | 1.50 | (credits and loans – cash and cash equivalents – granted loans) / EBITDA profit level for the last 12 months |
| CAPEX (PLN thousand) | 72,273 | 90,661 | tangible and intangible investment expenditure |
| Working capital (PLN thousand) | 264,713 | 232,843 | (current assets - cash) - (short-term liabilities - short-term loans and borrowings) |

**) LTM EBITDA and net profit adjusted by the impact of the sale of the property in Poznań and the write-down of development works and goodwill (related to GWI).*

At the end of December 2022, the level of net working capital (NWC) was 31.9 million higher compared to the end of 2021. The y-o-y increase in the NWC was due to higher inventories (by PLN 11.1 million including contract assets) and trade receivables (by PLN 43.8 million) with a PLN 7.9 million lower level of cash at the end of the period. In 2022, maintaining a sufficiently high level of working capital was necessary taking into account the current macroeconomic situation; nevertheless, the companies of the Apator Group, especially in the second half of 2022, worked intensively on its optimisation. As a result, at the end of the year, the level of the NWC was definitely lower than at the end of Q3, and the level of inventories was reduced by over 21 million PLN in that period. As a result, the level of debt was lowered and – consequently – the costs of its servicing.

In 2022, incurred CAPEX included expenditure to complete the construction works and equipping the new Water & Heat segment factory near Poznań (PLN 16.4 million). The largest share in other expenditures was expenses on research and development works throughout the Group (including the development of the Ultrimis product family - new applications and accuracy classes, the development of new or implementation of the next generation of software solutions, e.g. the remote reading system for water and heat meters, the system for

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

managing photovoltaic and wind farms and a number of other solutions to support management and improve the energy efficiency of customers).

At the end of 2022, the financial debt was higher compared to the end of 2021 by PLN 36.9 million, mainly due to the necessity to finance higher y-o-y working capital to secure the continuity of production and construct the new factory for Apator Powogaz S.A. At the same time, the optimisation of working capital over the year made it possible to significantly reduce the debt of the Apator Group in the last months of 2022 (at the end of 2022, the net debt was PLN 44.5 million lower compared to the end of Q3 of 2022). The net debt/EBITDA (adjusted) ratio at the end of 2022 was 2.08x (compared to 2.82x at the end of Q3). The tendency to reduce net debt is in line with the expected return of the debt to EBITDA ratio to its long-term target below 2.0.

4.2.2. Description of the structure of main capital investments or capital deposits made within the Apator Group in 2022

Investment in non-financial assets:

In 2022, investments of the Apator Group amounted to PLN 72.3 million (they were lower by PLN 18.4 million y-o-y) and involved mainly:

- PLN 16.4 million - completion of the construction of the new Apator Powogaz S.A. factory in Jaryszki,
- PLN 21.6 million – R&D (W&H telemetry systems, operating systems),
- PLN 6.9 million - outlays for production implementation of new products (the development of the Ultrimis product family - new applications and accuracy classes, the development of new or implementation of the next generation of software solutions, e.g. the remote reading system for water and heat meters, the system for managing photovoltaic and wind farms and a number of other solutions to support management and improve the energy efficiency of customers),
- PLN 20.9 million - IT, replacement investments (machine tooling) and others,
- PLN 6.5 million - automation, increasing production capacity and efficiency.

Investment in financial assets:

The Apator Group is analysing new acquisition opportunities on an ongoing basis.

In 2022, additional shares of Apator Telemetria Sp. z o.o. were acquired from existing shareholders (more in section 1.3).

4.2.3. Description of significant off-balance sheet items

The information on significant off-balance sheet items of the Apator Group was included in the consolidated financial statements (Annual Report 2022).

4.2.4. Evaluation of financial resources management

The management of financial resources in the Apator Group is based on the following criteria:

- verification of the financial situation of current and potential customers (using information published in "Monitor Sądowy i Gospodarczy" and business intelligence reports),
- trade credit management based on the adopted rules,
- monitoring the status of settlements with contractors,
- applying the procedure for the recovery of overdue debts,
- determining the most favourable contractual deadlines for settling liabilities,
- optimal management of the area of financing suppliers and receivables (including guarantees of the proper performance of contracts and removal of defects and faults, factoring).

To increase the financial security of the Apator Group, in the majority of domestic companies of the Group there is an umbrella loan facility for current financing of operations, limits for guarantees and letters of credit

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and bank redemption of receivables. The loan made it possible to flexibly manage liquidity in the Group, unify the price conditions of current banking operations and use the effects of the virtual balance netting service, which brings additional financial benefits. Moreover, to prevent potential irregularities in the management of financial resources, in the companies of the Apator Group, the rules of conduct in such areas as sales, trade credit, monitoring of receivables and current information of the management boards of individual companies about the financial situation are determined.

Furthermore, to ensure the proper coordination of the activities in the financial area of the Apator Group, the Financial Committee is established, which is composed mainly of chief accountants and financial directors of individual companies in the Apator Group. The tasks of the Committee include the analysis of the development needs of the financial area in the Group, the analysis and monitoring of the regulatory environment and the development of uniform standards for financial processes. In addition to the Financial Committee, the Financial Risk Committee is also established, the main goal of which is to support the control mechanisms of uniform financial risk management in the Group. The Committee is composed of the employees of financial divisions of Apator S.A. and subsidiaries. The tasks of the Committee are, in particular:

- monitoring the hedging of foreign exchange exposure, interest rate exposure and hedging policy,
- recommending the level of budget exchange rates together with the analysis of changes in spot exchange rates,
- analysis of the risks when hedging IRS rates,
- analysis of the trends and situations in currency markets.

The basic assumption concerning the management of financial resources of the Apator Group is to maintain a strong and safe position in terms of the financial liquidity of individual companies. Maintaining financial liquidity is the basis of trust on the part of trading partners, lenders and the market, and makes it possible to implement the assumed plans. It is also the basis for the future development of each company and the entire Apator Group. The companies monitor the values influencing the level of their financial resources on an ongoing basis, with the purpose of maximum acceleration of the cash flow, both by the assessment of the inventory turnover cycles and the fastest possible collection of receivables.

In the Group, there is a management model in the area of finance, which is conducive to the development of the finance process as a support function, also, an internal auditor of the Apator Group has been appointed. The essential objective of the functioning of the internal audit is to support the Management Board in the management of risks, to improve the activity of the companies in the Group and to bring the added value directed at the performance of the strategy of the Apator Group and increasing its value. That objective is achieved by audit and advisory activities performed by the auditor (with the consent of the Audit Committee). The internal auditor is entitled to perform audits of various nature (including financial audits) in the companies of the Apator Group. The reports from the audits are submitted to the President of the Management Board of Apator S.A., the Audit Committee of Apator S.A., the Supervisory Board of Apator S.A. and the President of the Management Board of the company subjected to the audit. The annual internal audit plan is approved each time by the Audit Committee of the Supervisory Board of Apator S.A.

4.2.5. Factors that will determine the activity and results of the Apator Group

- disruption of energy security (restricted access to solid fuels and natural gas), global slowdown in economic growth affecting the sales volume of existing products and changing customer needs,
- acceleration of technological change and energy transformation in response to the EU actions as part of climate policy and changes forced by the war in Ukraine:
 - increase in the share of devices with remote reading and remote control functions and autonomous algorithms and systems,
 - increase in the importance of remote communication and technical solutions in that area,
 - increase in the importance of RES and energy security,

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- decarbonisation of natural gas and diversification of supplies,
- widespread inflation, especially the level of prices of plastics, copper, steel, brass, electronics and great increases in energy, fuel, transport services and labour costs,
- further lengthening of delivery times of components and production materials resulting from increasing lead times (cessation of transport by Russia) and recurring restrictions on the availability of certain components (i.e.: plastics, copper, steel and electronics),
- difficult to estimate possible scale of economic recession in the EU,
- optimisation of processes in the companies of the Apator Group - reorganisation of the assets of the Apator Group towards increasing their efficiency to prevent margin erosion,
- consistent investment in R&D and development of the most promising export markets,
- focusing business development on the Water & Heat segment (the most profitable one) and on smart solutions,
- unstable situation on financial markets, rising interest rates and high volatility of exchange rates.

Business perspectives of individual segments are described in part 3.











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|---|---|---------------------|--------------------|
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5. The parent company - Apator S.A.

Pursuant to art. 55 sec. 2a of the Accounting Act and Art. 71, sec. 8 of the Regulation of the Minister of Finance on current and periodic information, the Company prepared the report of the Management Board on the activity of the parent company Apator SA and the Group of Companies in the form of a single document. The other required elements of the report on the Company's activity not included in part 5 are the same as in the report of the Management Board on the activity of the Apator Group.

5.1. Activity of Apator S.A. in 2022

Within the business model, the activity of Apator S.A. is included in the Electricity segment and is divided into three business lines: electricity metering, switchgear and automation*.

| Business unit | | | |
|---|---|---|---|
|  electricity | | | |
| Business division |  electricity metering |  switchgear |  automation ICT |
| Solutions | Electricity meters: <ul style="list-style-type: none"> smart, including RES meters municipal prepayment industrial Reading systems  Otus 3 smart meter  SmartESOX pro meter for RES | Energy distribution devices: <ul style="list-style-type: none"> disconnectors, including for RES solution fuse bases connectors Switchgear monitoring systems  Compass switch disconnector  ARS vertical fuse switch disconnector | Smart devices and automated protection systems: <ul style="list-style-type: none"> Smart controllers WN/SN/nn SN security WN security station automation short-circuit current flow indicators Telemechanics Automation in industry SCADA software Digital RES monitoring system  MST 2  BELplus OZE OZEMST 2 |
| Main customers | distribution system operators (DSO) | Electricity grid wholesalers, electric assembly and wiring installation companies | Energy plants, construction, industry, photovoltaic and wind farms, energy clusters and cooperatives, other RES sector entities |
| Main markets | Poland, Germany, Lithuania | Poland, Brazil, Germany, Romania, Israel, Lithuania | Poland |
| Sales scale in 2022 | PLN 229.9 million | PLN 128.2 million | PLN 53.8 million |
| Line share in total sales | 55.8% | 31.1% | 13.1% |
| Share of exports in line revenue | 18.5% | 39.3% | 0.1% |

*) As a result of the acquisition of a part of the assets of Atrem S.A. at the end of 2020, Apator S.A. (still Apator Elkomtech S.A. at that time) extended its software offer by solutions in the area of advanced IT systems for the gas industry. In view of the above, part of the revenue related to the activity for the Gas sector is classified in the Gas segment. Due to the insignificant share of that revenue in the total sales of Apator S.A., it is not presented as a separate category in the above table.

| | | | |
|---|---|---------------------|--------------------|
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5.2. Business and competitive environment in 2022

Apator S.A. generates revenue mainly on the domestic market (77% in 2022). The company distributes its products mainly to companies operating in the energy sector, mainly to entities dealing with the distribution and sale of electricity (DSOs) and to industry. A more detailed description can be found in sec. 3.1 of this report.

5.3. Financial results

In 2022, Apator S.A. achieved the following financial results:

| Item* | 2022 (PLN thousand) | 2021 (PLN thousand) | Change y-o-y (PLN thousand) | Growth rate (%) |
|--|---------------------------|---------------------------|--------------------------------------|--------------------|
| Sales revenue, including: | 411,884 | 282,486 | 129,398 | 145.8% |
| country | 318,856 | 210,790 | 108,068 | 151.3% |
| export | 93,028 | 71,696 | 21,332 | 129.8% |
| Cost of goods sold | 349,735 | 250,765 | 98,970 | 139.5% |
| Gross profit (loss) on sales | 62,149 | 31,721 | 30,428 | 195.9% |
| Selling costs | 12,434 | 7,827 | 4,607 | 158.9% |
| General administrative costs | 48,619 | 38,132 | 10,487 | 127.5% |
| Profit (loss) on sales | 1,096 | -14,238 | 15,334 | - |
| Profit (loss) on other operating activity | 507 | 3,874 | -3,367 | 13.1% |
| Profit (loss) on operating activity | 1,603 | -10,364 | 11,967 | - |
| EBITDA | 27,082 | 8,931 | 18,151 | 303.2% |
| Profit (loss) on financial activity | 24,410 | 31,956 | -7,546 | 76.4% |
| Result before tax | 26,013 | 21,592 | 4,421 | 120.5% |
| Current income tax | -1,258 | -1,421 | 163 | - |
| Deferred income tax | 838 | -1,735 | 2,573 | - |
| Net result | 25,593 | 18,436 | 7,157 | 138.8% |
| Net result without dividends | -5,647 | -16,037 | 10,390 | - |
| Profitability ratios: | | | | |
| Gross profit margin on sales | 15.1% | 11.2% | | |
| Sales profit margin | 0.3% | -5.0% | | |
| EBITDA margin | 6.6% | 3.2% | | |
| Net result margin | 6.2% | 6.5% | | |
| Net result margin without dividends | -1.4% | -5.7% | | |

**) Due to the merger of Apator S.A. and Apator Elkomtech S.A. at the beginning of 2022, the comparability of the data presented in the table is limited. The data for 2021 is for Apator S.A. in the form in which it operated at that time, the data for 2022 is for Apator S.A. after the merger with the subsidiary Apator Elkomtech S.A. Fully comparable data is presented in the Summary of financial results of the Apator Group in sec. 4 of the Report and in the table below.*

| Item* | 2022 (PLN thousand) | 2021 (PLN thousand) | Change y-o-y (PLN thousand) | Growth rate (%) |
|--|---------------------------|---------------------------|--------------------------------------|--------------------|
| Sales revenue, including: | 411,884 | 341,232 | 70,652 | 120.7% |
| country | 318,856 | 269,157 | 49,699 | 118.5% |
| export | 93,028 | 72,075 | 20,953 | 129.1% |
| Cost of goods sold | 349,735 | 289,649 | 60,086 | 120.7% |
| Gross profit (loss) on sales | 62,149 | 51,582 | 10,566 | 120.5% |
| Selling costs | 12,434 | 12,496 | -63 | 99.5% |
| General administrative costs | 48,619 | 47,016 | 1,603 | 103.4% |
| Profit (loss) on sales | 1,096 | -7,930 | 9,026 | - |
| Profit (loss) on other operating activity | 507 | 3,594 | -3,087 | 14.1% |
| Profit (loss) on operating activity | 1,603 | -4,336 | 5,939 | - |

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
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| | | | | |
|-------------------------------------|---------------|----------------|--------------|---------------|
| EBITDA | 27,082 | 19,308 | 7,774 | 140.3% |
| Profit (loss) on financial activity | 24,410 | 28,778 | -4,368 | 84.8% |
| Result before tax | 26,013 | 24,442 | 1,572 | 106.4% |
| Current income tax | -1,258 | -2,894 | 1,636 | - |
| Deferred income tax | 838 | -1,521 | 2,359 | - |
| Net result | 25,593 | 20,027 | 5,567 | 127.8% |
| Net result without dividends | -5,647 | -11,446 | 5,799 | - |
| Profitability ratios: | | | | |
| Gross profit margin on sales | 15.1% | 15.1% | | |
| Sales profit margin | 0.3% | -2.3% | | |
| EBITDA margin | 6.6% | 5.7% | | |
| Net result margin | 6.2% | 5.9% | | |
| Net result margin without dividends | -1.4% | -3.4% | | |

*) *Collective data for Apator S.A. and Elkomtech for 2021.*

Key performance drivers:

- dynamic y-o-y revenue growth mainly as a result of the recovery of domestic sales of EE meters after a weaker 2021 and high turnover (domestic and export) in switchgear,
- macroeconomic situation - the persistent restrictions on access to components, further extension of delivery deadlines and systematic increases in the prices of key production factors (mainly raw materials, materials, transport and energy),
- improvement in operational efficiency in the areas of procurement, production and sales (noticeable in the financial results from the second half of 2022 onwards), mainly as a result of the implemented measures to minimise the negative impact of the macro environment on the company's results.

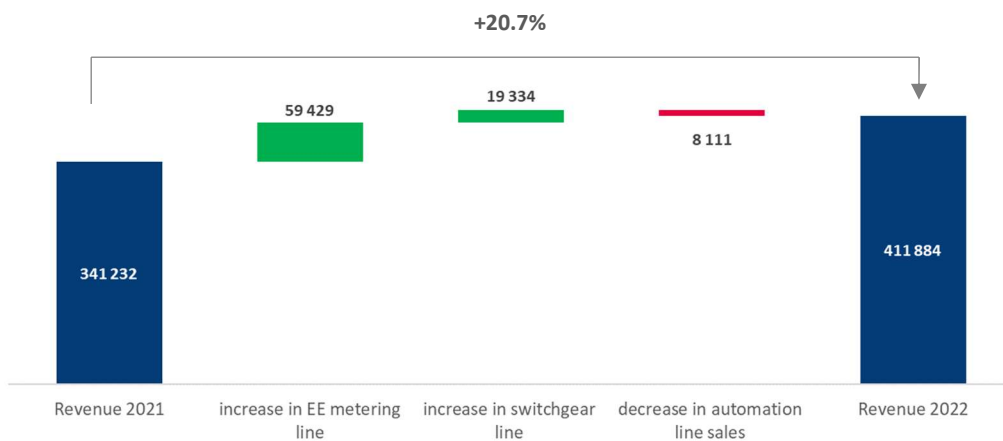
Sales revenue

A descriptive analysis of revenue and results was performed for data made comparable (after adjusting the results of Apator S.A. for 2021 by the amounts generated by the subsidiary Apator Elkomtech S.A. operating as a separate entity at that time and excluding mutual turnover between the companies).

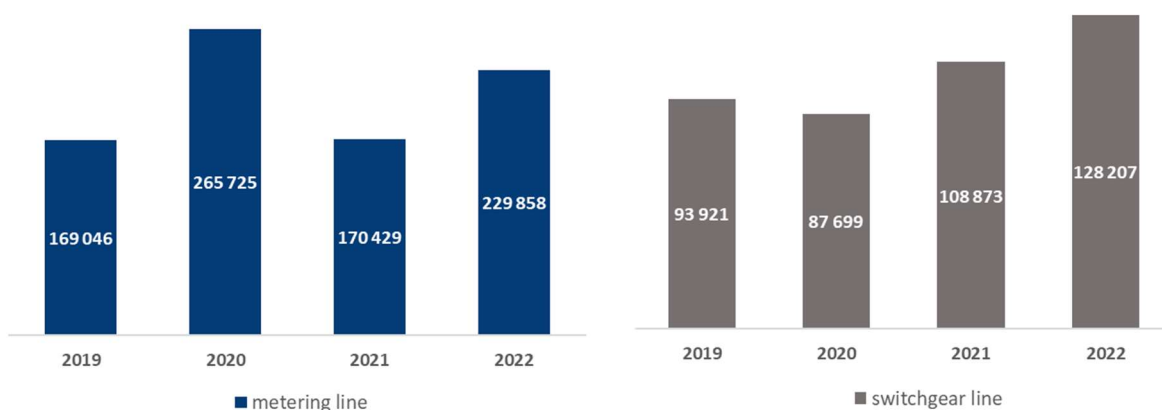
In 2022, the sales of Apator S.A. reached the level of more than PLN 411.8 million, 45.8% higher compared to 2021. However, after taking into account pro forma the data from the comparative period (2021) on the results of Apator Elkomtech operating independently from Apator S.A. at that time (after the elimination of turnover between the companies), the generated increase in revenue was PLN 70.7 million (i.e. 20.7% y-o-y)*. That increase was due to:

- significantly better (+PLN 47.5 million, i.e. +34.0% y-o-y) results of domestic sales in the electricity metering line (thanks to large deliveries of EE meters to the majority of domestic DSOs) with simultaneous dynamic growth in exports of the line (+PLN 11.9 million, i.e. +38.9% y-o-y),
- improvement in the sales of switchgear, both in the domestic and foreign markets (in total by PLN 19.3 million, i.e. +17.8% y-o-y) due to the recovery in 2022 of demand for solutions applicable in the modernisation and expansion of electricity distribution networks after the pandemic and price increases,
- lower sales in the automation line (performed by Apator Elkomtech in 2021) mainly as a result of lower sales of equipment for servicing and management of the network and power substations as well as security automation resulting from cyclical fluctuations in demand and suspension of some investments by DSOs.

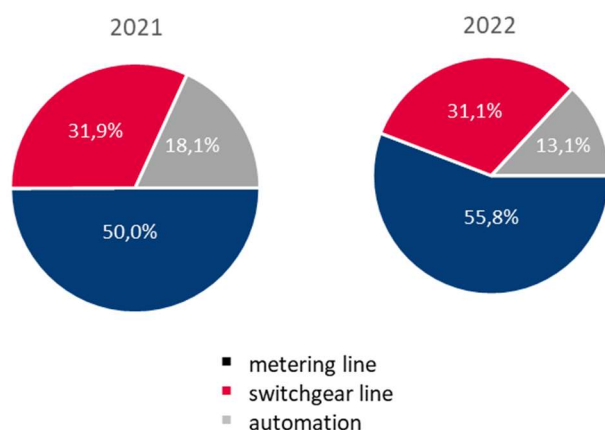
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Revenue from the sale of metering and switchgear lines



In 2022, due to the high sales dynamics of the metering line, its share in the total revenue of Apator S.A. increased by more than 5 p.p. y-o-y at the expense of automation, while the importance of the switchgear line remained at a comparable level y-o-y.

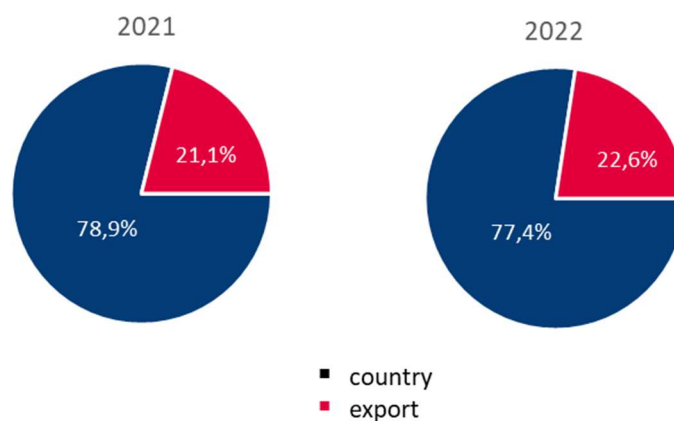


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Sales structure of Apator S.A. by assortment groups, by domestic sale and export:

| Item | Performance | | Change y-o-y (PLN thousand) | Growth rate (%) |
|--|---------------------------|---------------------------|-----------------------------------|--------------------|
| | 2022 (PLN thousand) | 2021 (PLN thousand) | | |
| Electricity metering line | 229,858 | 170,429 | 59,429 | 134.9% |
| <i>country</i> | 187,347 | 139,822 | 47,525 | 134.0% |
| <i>export</i> | 42,511 | 30,607 | 11,905 | 138.9% |
| <i>share of EE metering line exports in line revenue</i> | 18.5% | 18.0% | | |
| Switchgear line | 128,207 | 108,873 | 19,334 | 117.8% |
| <i>country</i> | 77,763 | 67,784 | 9,979 | 114.7% |
| <i>export</i> | 50,444 | 41,089 | 9,355 | 122.8% |
| <i>share of switchgear line exports in line revenue</i> | 39.3% | 37.7% | | |
| Automation | 53,819 | 61,930 | -8,111 | 86.9% |
| <i>country</i> | 53,746 | 61,551 | -7,805 | 87.3% |
| <i>export</i> | 73 | 379 | -306 | 19.3% |
| <i>share of automation line exports in line revenue</i> | 0.1% | 0.6% | | |
| Total sales revenue | 411,884 | 341,232 | 70,652 | 120.7% |
| <i>country</i> | 318,856 | 269,157 | 49,699 | 118.5% |
| <i>export</i> | 93,028 | 72,075 | 20,953 | 129.1% |
| <i>share of total exports in total revenue</i> | 22.6% | 21.1% | | |

With the high dynamics of changes in domestic sales (mainly due to very good results in the electricity metering line), the pace of changes in exports was even higher (+29.1%), both in terms of sales of electricity meters and switchgear. The company successively developed sales of new product lines of EE meters dedicated to the German market and completed increased orders for fuse disconnectors, e.g. from the Brazilian, German, Israeli and Lithuanian markets.



Recipients in relation to which Apator S.A. exceeded 10% of its total sales revenue in 2022, were PGE Dystrybucja S.A., in the case of which the sales accounted for 14.7% of total sales, and ENERGA Operator S.A., with a share of 10.2% of total turnover. There are no formal relations between Apator S.A., companies of the Apator Group and PGE Dystrybucja S.A. and Energa Operator S.A. and companies from their groups of companies.

| | | | |
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| Name of the organisational unit: | Apator Group | | |
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Operating costs by function and nature

With regard to the structure of costs by nature, the largest items are material costs, external services and remuneration (in 2022, the percentage share was at the level of 56%, 13% and 19% of total costs, respectively). In 2022, the costs of materials and energy consumption were significantly higher than in the previous year, which was partly related to the increase in the scale of turnover, but was mainly the result of significant increases in the prices of production materials, mainly plastics, non-ferrous metals (copper), electronic components and energy costs.

At the same time, the perceived pressure on remuneration increases translated into an increase in the category of employee benefits. On the other hand, the costs of external services were lower than in the previous year, and the greatest savings were generated on the items of foreign processing, consulting services and hiring of temporary employees (as a result of limiting the scale of temporary employment).

With regard to the structure of purchases of materials, services and goods, the percentage shares in 2022 were at levels of 84%, 11% and 4% of total purchases, respectively. In terms of materials:

- the largest group was electronic and electrotechnical components, with a share of 43%,
- the second group was non-ferrous metals (copper), with a share of 15%, which is the main raw material used for switchgear,
- the third group was plastics, chemical raw materials and their derivatives, with a share of 18%,
- the fourth material group consisted of communication modules, with a share of 10%.

In 2022, the value of deliveries of any supplier did not exceed at least 10% of total sales revenue of Apator S.A.

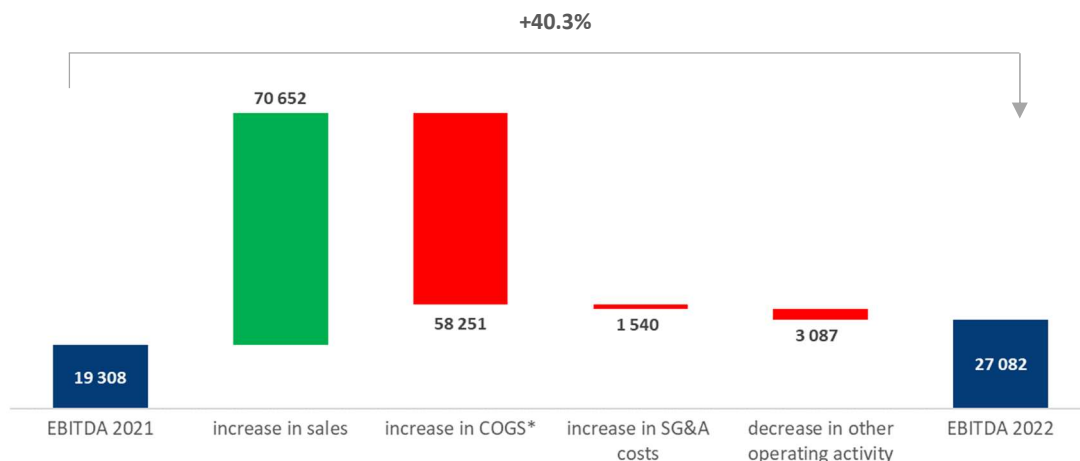
From the beginning of 2022, after the difficult 2021, Apator S.A. actively counteracted the effects of rising costs through activities in the area of renegotiation of contracts and changes in price lists for partners and distributors. Also, the offers made as part of new tenders took into account inflationary mechanisms. At the same time, work was performed to improve operational efficiency and reduce costs in areas where this was possible (e.g. reducing marketing costs). The implemented measures resulted in an improvement in operational efficiency and, consequently, in financial results in 2022.

EBITDA

The factors described above, i.e. a clear increase in sales with comparable growth in technical manufacturing cost and a far less than proportional increase in SG&A costs, contributed to an improvement in results and margins at all levels (with the exception of gross margin on sales, which remained at the level from 2021 in 2022). In 2022, thanks to the strong improvement in the result on sales (PLN +£9.0 million y-o-y), even with a significantly weaker result on other operating activity, the company's EBIT, EBITDA and net profit were significantly better than a year earlier. The fact that other operating income was lower compared to 2021, was mainly related to the compensation of PLN 3.2 million received in 2021 to cover part of the costs of replacing electricity meters delivered in the period from 2014 to 2017.

The company's EBITDA in 2022, taking into account the above factors, amounted to PLN 27.1 million (PLN +7.8 million, i.e. +40.3% y-o-y), with a margin at a level of 6.6%.

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*) COGS (cost of goods sold) less depreciation

Net result

In 2022, due to the improved result on sales and operating activity, even with a lower y-o-y result on financing activity (due to lower dividends with higher interest costs), net profit amounted to PLN 25.6 million, and thus, it was more than PLN 5.5 million higher than the year before.

| | | | |
|---|---|---------------------|--------------------|
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6. List of major events in 2022

6.1. List of material agreements concluded in 2022

6.1.1. Trade agreements

In 2022, the companies of the Apator Group concluded the following trade agreements important for the activity of the Group:

- On 24 February 2022, Apator S.A. concluded an agreement with Enea Operator Sp. z o.o. as a result of selecting the Company's offer as the most advantageous one in one of the tasks of the tender for the supply of static electricity meters with a GSM communication module. The value of the agreement is PLN 23 million; however, the provisions of the agreement provide for the right of option consisting in the possibility of doubling the order. In view of the above, the total maximum value of the agreement may amount to PLN 46 million. The delivery of the basic order will take place within 24 months from the date of signing the agreement. The shipments of the meters under the agreement are being made from July 2022. By the end of March 2023, deliveries of a total value of PLN 26 million were completed.
- On 11 April 2022, Apator Metrix S.A. concluded an agreement with Landis+Gyr for the supply of smart gas meters as part of a roll-out of smart meters in Belgium. The tender launched by the Belgian distribution network operators (Fluvius, ORES, RESA and Sibelga) and won by Landis+Gyr (Belgium) was for an end-to-end Data-as-a-Service (DaaS) solution consisting of a central master system and smart meters. In view of the above, Apator Metrix S.A. as a partner of Landis+Gyr under the concluded agreement as a result of the above tender, will deliver, in the period from 2023 to 2031, approximately 1 million iSMART2 gas meters of a value of approximately EUR 65 million (i.e. approximately PLN 300 million, according to the average exchange rate of the National Bank of Poland as of 11 April 2022, EUR 1 = PLN 4.6451).
- On 22 April 2022, the offer of Apator S.A. was selected as the most favourable one in the tender of Tauron Dystrybucja for the supply of municipal 3-phase electricity meters of a value of PLN 34.8 million with the possibility to increase the order based on the right of option by 30%. The agreement under task 3 was concluded on 31 May 2022. The value of the agreement is PLN 18 million net and it can be increased if TD exercises its right of option. Therefore, the total value of the agreement may amount to PLN 23.4 million. The deliveries of the basic order will be made within 15 months from the day of concluding the agreement. At the same time, the Management Board of Apator S.A. informed about the withdrawal of concluding the agreement under task 4 due to the price level. The first deliveries under the concluded agreement took place at the end of July 2022. By the end of March 2023, deliveries of a total value of PLN 10.6 million were completed.
- On 22 April 2022, the offer of the consortium of Apator S.A. and Griffin Group SA Energy Sp. k. was selected as the most advantageous one in the tender of Tauron Dystrybucja S.A. for the supply of remote reading meters in the area of Smart City Wrocław. The deliveries are expected to be made by May 2025. The agreement between the Consortium and TD was signed on 16 June 2022. The value of the entire agreement is PLN 189 million net and may be increased if TD exercises its right of option to increase the order by 12%.
- On 20 September 2022, the offer of Apator S.A. was selected as the most favourable one for part 1 and part 2 under the procedure announced by PGE Dystrybucja S.A. Branch Łódź in the scope of "Supply of devices for electricity metering systems - prepayment static meters" in the mode of single-source procurement in line with the Public Procurement Act. Under the agreement, Apator S.A. will deliver electricity meters enabling the measurement of energy in the pre-payment or credit mode, additionally equipped with a communication module in LTE 450 technology for remote reading of a meter. Two agreements for the supply of meters were concluded on 14 November 2022. The total value of the agreements is PLN 19 million, with a base bid worth PLN 12 million and an option worth PLN 7 million. The orders are expected to be completed within 18 months from the date of concluding the agreements. The first deliveries are planned for May 2023.

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6. On 28 October, the offer of Apator S.A. was selected as the most advantageous one in part 1 under the procedure announced by Energa Operator S.A. for the supply of electricity meters with PLC PRIME communication together with substitute communication modems. The tender conditions assumed that only one part of the tender could be awarded to one contractor. The offer value for Apator S.A. under the basic agreement is PLN 63.3 million. The contracting authority may exercise the right of option, therefore the value of the offer may increase to approximately PLN 76 million. The agreement between Energa Operator S.A. and Apator S.A. was concluded on 21 November 2022. The deliveries will be made within 24 months from the date of the conclusion of the agreement. By the end of 2022, the delivery of the verification tranche was completed. The actual deliveries started in February 2023.

6.1.2. Agreements for the acquisition/disposal of property

On 9 March 2022, Apator Powogaz S.A. concluded a Final Agreement for the purchase of property, including the newly built production plant in Jarzyski (Żerniki municipality, Poznań district), to which the company's operations were relocated in Q2 of 2022. The total value of the agreement amounted to PLN 52.3 million net, including: PLN 6.4 million net for the acquired land property, PLN 45.9 million net as remuneration for the design, construction and transfer of ownership of the production hall along with the office area, as well as for the transfer of proprietary rights and rights to the project (more information in sec. 1.3 of this report).

6.1.3. Agreements for the acquisition/disposal of shares in other entities

In 2022, the companies of the Apator Group concluded the following share purchase agreements significant for the activity of the Group:

1. On 21 January 2022, the subsidiary Apator Powogaz S.A. purchased 248 shares of Apator Telemetria Sp. z o.o. (representing 10.1%) from two natural persons, for a total price of PLN 5.9 million (more in section 1.3).
2. On 20 May 2022, Apator Powogaz S.A. sold the entire block of shares (i.e. 18,018 shares) of AO Teplovodomer with its headquarters in Russia (constituting 50% of the share capital) for RUB 5 million, i.e., approximately EUR 75 thousand (according to the exchange rate of the Central Bank of the Russian Federation on 19 May 2022), that is approximately PLN 348 thousand.

6.1.4. Cooperation or collaboration agreements

In 2022, the Apator Group did not conclude any major cooperation or collaboration agreements.

6.1.5. Insurance agreements

From 1 July 2021 to 30 June 2022, a comprehensive insurance programme was in place, covering property, third-party liability, motor, third-party liability of company authorities and cyber insurance. As part of the above programme, the following agreements were concluded:

- 1) PZU SA/STU Ergo Hestia S.A. - third-party liability insurance agreement covering liability for damage caused to a third party in connection with the conducted activity and owned property used for that activity, together with annexes.

The total value of premiums in the Apator Group amounted to PLN 924 thousand, and the total insured sum was PLN 60 million.

- 2) PZU SA/STU Ergo Hestia S.A. – property insurance agreement covering:

- property insurance against all risks,
- insurance of loss of profit based on property insurance against all risks,
- electronic equipment insurance,
- insurance of machines against electrical damage,

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- insurance of machines against damage

The total value of premiums in the Apator Group amounted to PLN 376 thousand, and the total insured sum was PLN 852.5 million.

- 3) PZU S.A./STU Ergo Hestia S.A. – property insurance agreement in domestic and international transport

The total value of premiums in the Apator Group amounted to PLN 85 thousand, and the total insured sum was PLN 1.5 million and EUR 160 thousand.

- 4) Chubb European Group SE Spółka Europejska Oddział w Polsce - insurance of medical expenses during a business trip

The total value of premiums in the Apator Group was PLN 5 thousand, and the total insured sum was USD 20 million.

- 5) Chubb European Group SE Spółka Europejska Oddział w Polsce - basic liability insurance agreement for members of a company governing bodies and TUiR Allianz Polska S.A. - excess insurance agreement for members of a company governing bodies.

The total value of premiums was PLN 80 thousand, and the total insured sum was PLN 100 million.

- 6) Generali Towarzystwo Ubezpieczeń S.A. – insurance agreement for risks related to cybersecurity breach. The agreement was concluded for the period from 17 September 2021 to 16 September 2022 with an annex extending the policy period to 30 September 2022.

The total value of premiums was PLN 34 thousand, and the total insured sum was PLN 5 million.

- 7) Additionally, the companies of the Apator Group concluded motor insurance agreements in the scope of OC, AC, NNW (third-party insurance, comprehensive coverage, accident insurance).

From 1 July 2022 to 30 June 2023, a new comprehensive insurance programme is in force, covering property, third-party liability, motor, third party liability of company authorities and cyber security breach risks. As part of the above programme, the following agreements were concluded:

- 1) PZU SA/STU Ergo Hestia S.A. - third-party liability insurance agreement covering liability for damage caused to a third party in connection with the conducted activity and owned property used for that activity, together with annexes.

The total value of premiums in the Apator Group is - PLN 1.22 million and the total insured sum is PLN 60 million.

- 2) PZU SA/STU Ergo Hestia S.A. – property insurance agreement covering:

- property insurance against all risks,
- insurance of loss of profit based on property insurance against all risks,
- electronic equipment insurance,
- insurance of machines against electrical damage,
- insurance of machines against damage

The total value of premiums in the Apator Group is PLN 567.5 thousand, and the total insured sum is PLN 1,1 million.

- 3) PZU S.A./STU Ergo Hestia S.A. – property insurance agreement in domestic and international transport

The total value of premiums in the Apator Group is PLN 75 thousand, and the total insured sum is PLN 3 million.

- 4) Chubb European Group SE Spółka Europejska Oddział w Polsce - insurance of medical expenses during a business trip

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The total value of premiums in the Apator Group is PLN 7 thousand, and the total insured sum was USD 20 million.

5) Chubb European Group SE Spółka Europejska Oddział w Polsce - basic liability insurance agreement for members of a company governing bodies and TUIR Allianz Polska S.A. - excess insurance agreement for members of a company governing bodies.

The total value of premiums in the Apator Group is PLN 87 thousand, and the total insured sum is PLN 100 million.

6) Generali Towarzystwo Ubezpieczeń S.A. – insurance agreement for risks related to cybersecurity breach. The agreement is concluded for the period from 1 October 2022 to 30 September 2023.

The total value of premiums is PLN 68,1 thousand, and the total insured sum is PLN 5 million.

7) Additionally, the companies of the Apator Group concluded motor insurance agreements in the scope of OC, AC, NNW.

6.1.6. Agreements concluded with management

There are no atypical agreements concluded between the companies in the Apator Group and the management in the scope of compensation in the case of:

- resignation or dismissal from the position held without a valid reason,
- dismissal or redundancy due to the merger of the issuer by acquisition.

6.1.7. Agreements concluded between shareholders of Apator S.A.

Apator SA is not aware of any agreements concluded between shareholders.

6.2. Other major events in 2022

1. On 3 January 2022, the Regional Court in Toruń, 7th Commercial Division of the National Court Register, noted the merger of Apator S.A. with its headquarters in Toruń with its subsidiary Apator Elkomtech S.A. with its headquarters in Łódź (more in sec. 1.3).
2. On 24 February 2022, Russian Federation started military actions against Ukraine, therefore the Apator Group conducted the assessment of the effects of the ongoing military actions on the activity of Apator S.A. and the Apator Group. More information in sec. 8 of this report.
3. On 23 May 2022, the Management Board of Apator S.A. informed about the conversion of 4,510 registered shares with voting privilege in the ratio of 1:4 into ordinary bearer shares (without privilege). As a result of the conversion, the total number of votes decreased from 54,788,231 to 54,774,701. The above shares were assimilated and listed on the stock exchange on 23 May 2022. After the conversion of the shares, the share capital of Apator S.A. amounted to PLN 3,277,722.80 and consisted of 32,777,228 shares with a nominal value of PLN 0.10 each, including 7,332,491 registered shares (with voting privilege, in the ratio 1:4) and 25,444,737 ordinary bearer shares.
4. On 23 May 2022, the Management Board of Apator S.A. informed about the notification received during the Shareholders Meeting of Apator S.A. from Tadeusz Sosgórnik under Art. 69 sec. 1 point 1 of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading and on public companies on increasing the share held so far above the threshold of 10% of the total number of votes. The increase in shares was due to the acquisition of 50,000 registered shares of Apator S.A. Before the purchase of shares, Tadeusz Sosgórnik held 1,466,738 shares of Apator S.A., which accounted for 4.48% of the share capital and 5,377,544 votes, constituting 9.82% of the total number of votes; after the acquisition of the shares, Tadeusz Sosgórnik held 1,516,738 shares in the

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Company, which constituted 4.63% of its share capital entitling to 5,577,544 votes, giving 10.18% of the total number of votes.

5. On 28 June 2022, the Ordinary General Shareholders Meeting of Apator S.A. was held, which established the level of dividend from profit for 2021 in the amount of PLN 0.50 gross per share , inter alia (more in sec. 15.4).
6. On 29 June 2022, The Supervisory Board of Apator S.A. appointed, in force as of 29 June 2022, the Management Board of Apator S.A. for a new joint 3-year term, ending on the day of the Ordinary General Shareholders Meeting of Apator S.A. in 2025. From the moment of its appointment, the Management Board of Apator S.A. was composed of two persons: Arkadiusz Chmielewski - President of the Management Board, Director for Business Development of the Apator Group and Tomasz Łątka - Member of the Management Board, General Director of Apator S.A.
7. On 30 June 2022, an annex to the Multi-product Agreement of 22 June 2016 was concluded between ING Bank Śląski SA and the following companies of the Apator Group: Apator S.A., Apator Powogaz S.A., Apator Metrix S.A., FAP Pafal S.A., Apator Rector Sp. z o.o., Apator Telemetria Sp. z o.o. Pursuant to the concluded annex, the credit period was extended for another 3 years and the revolving credit limit for current financing of the above-mentioned companies was increased from PLN 180 million to PLN 250 million. The credit limit can be used in the form of working capital credits, bank guarantees, letters of credit and redemption of receivables by the Bank. The interest rate on the limit is based on the WIBOR/EURIBOR 1M rate increased by the bank margin.
8. On 11 October, after the completion of the assessment of the main premises proving the possibility of the loss of the balance value of fixed assets in the Apator Group, the Management Board of Apator S.A. took the decision on making a write-down of the value of capitalised development works shown in the consolidated balance sheet of the Group, concerning the indirect subsidiary George Wilson Industries Ltd (GWi) with its headquarters in the UK, in accordance with the provisions of IAS 36 "Impairment of assets". The write-down relates to an update of the financial forecasts prepared for GWi, affected by the changes in the macroeconomic environment, including the effects of the pandemic, the impact of the war in Ukraine on the development of the gas metering sector, lower margins, current and planned volumes of sold products sold, as well as a revision of the strategic plans related to GWi. The write-down fully relates to the Gas segment of the Apator Group. The amount of the write-down is included in the Group's consolidated financial statements for Q3 2022 under other operating expenses.
9. On 11 October 2022, The Supervisory Board of Apator S.A. approved the "Update of the Strategy of the Apator Group in the perspective until 2025" adopted by the Management Board of the Company.
10. On 14 November 2022, the changes in the Statute of Apator S.A. were registered by the Regional Court in Toruń. The changes in the Statute concern the reduction of the share capital of Apator S.A. in connection with the redemption of 130.155 bearer shares giving the right to 130.155 votes at the Shareholders Meeting, acquired under the buy-back of own shares programme (more in sec. 15.2).
11. On 19 December 2022, the Management Board of Apator S.A. announced that the Supervisory Board of the Company accepted the decision of the Management Board to withdraw from the Company's dividend policy announced on 16 March 2007 and not to pay an advance dividend from the profit for 2022. The decision on the payment of dividends from the 2022 profit will be taken during the Ordinary General Shareholders Meeting in 2023.

7. Major events after 31 December 2022

1. On 10 January 2023, the Management Board of Apator S.A. informed of the receipt of a notification, in accordance with which Powszechne Towarzystwo Emerytalne Allianz Polska S.A., managing Allianz Polska Otwarty Fundusz Emerytalny "Allianz OFE" and Allianz Polska Dobrowolny Fundusz Emerytalny "Allianz DFE", as a result of the merger with Aviva Powszechne Towarzystwo Emerytalne Aviva Santander Spółka Akcyjna, managing Drugi Allianz Polska Otwarty Fundusz Emerytalny "Drugi Allianz

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- OFE", obtained over 5% share in the total number of votes during the Shareholders Meeting of the Company. As a result of the merger, the total balance on the accounts of Allianz OFE, Allianz DFE and Drugi Allianz OFE increased to 4,545,864 shares, representing 13.92% of the share capital of the Company, which gives the right to exercise 4,545,864 votes from shares representing 8.32% of the total number of votes at the Shareholders Meeting of the Company.
2. On 31 January 2023, The Supervisory Board of Apator S.A. received the resignation of Arkadiusz Chmielewski from the function of the President of the Management Board of Apator S.A. The resignation was submitted with effect as of 28 February 2023. At the same time, the Supervisory Board of the Company appointed Maciej Wyczęsany as the President of the Management Board of Apator S.A. as of 1 March 2023. In connection with the above, from 1 March 2023, the composition of the Management Board of Apator S.A. was as follows: Maciej Wyczęsany - President of the Management Board, Tomasz Łątka - Member of the Management Board.
 3. On 31 January 2023, at the shareholder's request, 1,100 series A registered shares with a nominal value of PLN 0.10 each, with 1:4 voting preference at the Shareholders Meeting, were converted into ordinary bearer shares. As a result of the conversion of series A registered shares, the preference of 1,100 shares subject to conversion expired, the amount of the Company's share capital did not change and was PLN 3 264 707.30, while the total number of votes at the Company's Shareholders Meeting changed and amounted to 54 641 246 votes after the conversion. The planned date for the assimilation and listing of the aforementioned shares was set for 28 February 2023.
 4. On 3 February 2023, the Management Board of Apator S.A. informed about the conclusion of two executive agreements concerning the proceedings of the "Delivery of static remote reading meters with a PLC communication module in the "OSGP" standard along with installation, storage and cleanup services in the Smart City Wrocław area in TAURON Dystrybucja S.A. Wrocław Branch", i.e.: the agreement between GRIFFIN GROUP SA ENERGY Sp. k. and Apator S.A. for the supply of static 1 and 3-phase remote reading meters with PLC communication module in the "OSGP" standard and the agreement between the Consortium composed of FAP Pafal S.A. (company from the Apator Group) and "Energoc-Moc" Wzorcownia Sp. z o.o. and GRIFFIN GROUP SA ENERGY Sp. k. for the installation and storage of electricity meters being the subject of the above-mentioned proceedings. The total value of the agreement for the companies of the Apator Group will be approximately PLN 60 million, with the possibility of increasing the amount to approximately PLN 66 million in the event of exercising by TD its right of option. The executive agreements will be performed over the period from Q1 of 2023 to Q3 of 2025.
 5. On 21 February 2023, the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) adopted Resolution no. 152/2023 in which it stated that 1,100 ordinary bearer shares of Apator S.A. of the nominal value of PLN 0.10 each, marked by Krajowy Depozyt Papierów Wartościowych S.A. with the code "PLAPATR00125" were admitted to trading on the main market. At the same time, the Management Board of the Warsaw Stock Exchange decided to introduce the above-mentioned shares of Apator S.A. to trading on the main market on 28 February 2023, subject to their assimilation by Krajowy Depozyt Papierów Wartościowych S.A., on 28 February 2023, with the listed shares of that company marked with the code "PLAPATR00018". In turn, on 24 February 2023, Krajowy Depozyt Papierów Wartościowych S.A. issued a statement that it had decided to assimilate, as of 28 February 2023, 1,100 ordinary bearer shares with the code "PLAPATR00125" with the shares of the Company traded on the stock exchange bearing the code "PLAPATR00018". Accordingly, on 28 February 2023, the condition set out in the aforementioned Resolution of the Management Board of the Warsaw Stock Exchange was fulfilled and the shares were listed on the main market on that date.

8. Risk and threat factors

Risk management at the Apator Group aims to ensure that all relevant risks are identified, analysed and controlled on an ongoing basis. Risk management is implemented based on the three defence lines model

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and the uniform principles and methodology stemming from the international standard ISO 31000. At the individual Group companies, risk management is an integral part of their management systems and continues to be supervised by the parent company. The risk management policy adopted at the Group includes risk controls broken down into:

- financial management risk,
- strategic risk related to the development and value creation of the Apator Group,
- operational risk, including day-to-day performance, legal compliance, occupational health and safety, information security and environmental protection.

In addition, as part of its CSR strategy, the Group manages climate risk broken down into physical and temporary risks.

A description of the key risks that may affect the activity of the Apator Group is presented in the table below. The order in which the key risks are presented does not reflect the likelihood of their occurrence.

The high rate of the volatility of the macroeconomic environment, the occurrence of multiple crises at the same time and the difficult-to-forecast scale of their interaction increase the likelihood of other risks not identified at the date of the report, and the forecasting of economic effects in those uncertain times is subject to the risk of error.

The Management Board of Apator S.A. assures that it monitors the political and economic situation on a current basis, analyses its impact on the activity of the Company and the Group of Companies, analyses the possibilities of protection against risks and takes appropriate actions.

Risk of inflation and economic recession

Economies around the world, including the euro area, are showing increasingly clear signs of a downturn. The unfavourable geopolitical and economic situation in Europe and around the world, intensified after the pandemic by the armed conflict, disruption of energy security (restrictions in access to fuels and gas) and high inflation may adversely affect the sales volume of existing products and changing customer needs.

Further increases in the prices of energy and production materials, a decrease in their supply, the persistence of inflation and the tightening of monetary policy result in permanent disruption of economic activity in the world and in Poland.

In addition, the high rate of the volatility of the macroeconomic environment and the magnitude of the negative impact may lead to a further increase in the cost of running and financing operations.

The companies of the Apator Group - by reducing their exposure to financial risks - take care of securing currency positions, effective involvement of working capital and minimisation of debt servicing costs.

Climate risk

Climate change and global warming due to greenhouse gas emissions associated with human activity are increasingly affecting the operation and financial performance of almost all sectors of the economy. On the one hand, those changes are increasing the risks of both abrupt and permanent physical weather changes, on the other hand, they imply regulatory, technological and reputational changes.

The growing impact of climate risks on organisations makes it crucial to integrate it into organisational management, which may be challenging. As part of its existing climate risk management system, the Apator Group monitors, e.g., the carbon footprint emitted during production processes on an ongoing basis, actively follows changing legal and market requirements in the field of climate protection and adapts its products accordingly.

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Energy and climate policy

The high dependence of the European Union countries on the supply of imported energy raw materials and fuels and the threat to energy sovereignty caused by Russia have strengthened the importance of the EU climate and energy goals in the areas of: security of supply, internal energy market, energy efficiency and energy transformation. In response to the new geopolitical reality, energy market problems and the need to increase energy security, the European Commission presented the REPowerEU plan to speed up the energy transition and faster transition to renewable energy sources, accelerate the development of green hydrogen generation and storage infrastructure, the transition to emission-free transport and accelerate the EU's independence from fossil fuels. The main tool of the REPowerEU plan is the Recovery and Resilience Facility (RRF), which can be used to support coordinated planning and financing of cross-border and administrative infrastructure, as well as projects and reforms in the field of energy handling.

Due to disagreements between Poland and the European Commission, the European Commission suspended the disbursement of KPO funds to Poland under the Reconstruction Fund, a significant part of which is the Recovery and Resilience Facility (RRF). This creates a significant risk of underinvestment in the energy distribution sector. To reduce this risk, in 2022, the Energy Regulatory Office and Polish DSOs signed "The Effective Transformation Charter" document. The concluded agreement is expected to facilitate the acquisition by DSOs of funds for the implementation of investments both from tariff and non-tariff sources, including the application for funds from the European Union budget.

Regulatory environment and risk of legislative changes

Due to political and economic threats, anti-crisis regulations are of key importance, especially those of a monetary, fiscal and aid nature. The Polish security package for companies includes mechanisms for limiting inflation and business relations with Russia, including changes in tax regulations, support for companies leaving Russia and increasing energy security (new gas infrastructure). Other regulations also changed, including:

The Energy Law

The amendment to the act provides for, inter alia, the introduction of system solutions in the field of smart metering consisting of the obligation to install, by 31 December 2025, remote reading meters connected to the remote reading system at all power stations transforming medium voltage into low voltage (MV/LV), which are part of the distribution network of a given DSO and the obligation to install, by 31 December 2028, remote reading meters connected to the remote reading system at measurement points representing at least 80% of the total number of measurement points at end customers connected to the network with a rated voltage not higher than 1 kV that belongs to a given operator.

The amendment of the Energy Law and the Act on renewable energy sources, including provisions abolishing the so-called exchange obligation, i.e. the obligation to sell the generated electricity on the institutionalised market, in this case on the commodity exchange, and tightening the responsibility in terms of manipulation on the electricity market creates opportunities for the development of new products, systems and solutions by the Apator Group.

Public Procurement Law

The high volatility of prices, inflation and the unpredictability of economic phenomena have forced the implementation of mechanisms protecting the interests of contractors executing long-term contracts concluded under public procurement, i.e. the possibility to change the amount of remuneration due to the contractor in the event of a change of the prices of materials or costs related to the execution of the contract in the case of contracts concluded for a period longer than six months or the possibility to amend the contract due to circumstances that the ordering party could not foresee.

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Labour law

Changes in the Labour Law concerning e.g. rules for concluding and terminating contracts, increasing work flexibility, remote work or preventive sobriety checks of employees may affect the competitiveness of employers and increase labour costs.

Tackling payment bottlenecks

The clarification of the provisions related to the prevention of excessive delay in commercial transactions, the simplification of the reporting obligation and the improvement of the efficiency of the excessive delay proceedings changes the model of financial sanctions and introduces the discretionary power of the President of the UOKiK when determining the penalty.

Non-financial data reporting

The Corporate Sustainability Reporting Directive (CSRD), published at the end of 2022, extends the obligation to report ESG issues (environmental (E), social (S) and corporate governance (G) data) by all large companies and large groups of companies (including large listed companies). One of the key changes in reporting is the introduction of uniform *European Sustainability Reporting Standards (ESRS)*, which detail the data subject to disclosure.

Currently, the Apator Group reports non-financial data in accordance with applicable regulations and implements new requirements as part of the internal reporting process.

Risk of technological breakthrough

The high speed of technological changes, legislative requirements regarding energy efficiency, increased customer expectations concerning increased functionality, ease of use or low prices affect the changes in electronic measurement technology and shorten the product life cycle. Market trends indicate a growing interest in static metering technologies and the use of existing technologies of bellows gas meters to measure hydrogen.

The ongoing processes of decentralisation, digitisation and decarbonisation of the sector stimulate the development of solutions to improve energy efficiency and better, more responsible, use of the Earth's energy resources. This, in turn, on the one hand, affects the high variability of the functionality of the meters and communication technologies, on the other hand, it causes an increase in design and quality risks resulting from the level of technological complexity of new products.

The trend towards automation, remote grid control and remote energy metering, reading and settlement, which has been observed for some time, may accelerate.

It seems highly likely that devices and systems operating autonomously without human intervention will become highly popular, while devices without remote access will gradually disappear, with the main "battleground" being technology (mainly digital), intellectual property rights, access to data and online platforms. Nowadays, every industry is moving towards smart, and the production of meters and management systems have also moved in that direction. Providing technologically advanced products for the most demanding customers in Poland and abroad is currently an important factor in the development of business in the group, bringing stable profits. Due to the achieved scale and pace of development, as well as the fact that the complexity of the subject matter of product supply contracts often requires participation in international consortia, the financial risk associated with conducting international operations automatically increases.

Risk of an increase in the prices of energy resources and fuels

The geopolitical situation is the main determinant of the development of the energy resources market. The war initiated by Russia and the economic and financial sanctions imposed on Russia, including the exclusion of Russia from the SWIFT banking system, and the beginnings of the rest of the world's independence from

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Russian energy carriers, caused serious limitations in the availability, and thus, an increase in the prices of energy resources. In terms of sectors, the prices of natural gas, hard coal and crude oil increased the most. The persistently tense situation in the energy commodity market may lead to a further increase in their prices. The situation forced changes in the approach to the use of natural gas, increased energy efficiency and the implementation of programs for rational energy use and reduction of energy intensity of the economy.

Until complete independence from Russian sources, there may be temporary shortages of energy resources and fuels, as well as price increases, which may translate into a slowdown in economic activity in the world and, in particular, in Europe strongly dependent on Russian resources.

The Apator Group - by reducing the exposure to the risk of increasing prices of energy resources - builds its own sources of renewable energy and introduces new products, systems and solutions dedicated to RES.

Supply chain risk (prices and availability of strategic materials and components)

The multiple crises occurring at the same time lately, have severely destabilised the structures of global supply chains and strengthened the risks related to the price and availability of materials and components. Significant bottlenecks in access to electronic components and shortages of certain raw materials since the outbreak of the pandemic have created transport congestion and a demand bubble. The energy blackout in China and Russia's invasion of Ukraine further strengthened the issues of supply chains and triggered another sharp, uncontrolled increase in the price of transport and energy-intensive raw materials with still visible negative effects despite a gentle deceleration in Q1 of 2023. While the slowdown of the pandemic and the lifting of the "zero Covid" regulations improved the availability of components, the closer cooperation of Russia and China raises new concerns about the possible economic isolation of the "Western countries" and the return of difficulties in accessing materials and components. Among the raw materials and components used in the production process of the Apator Group companies, the most sensitive to economic fluctuations ones are electronic components, plastics, metallurgical products and copper.

Due to the high commoditisation of integrated circuits and the lack of duplicated implementations with the use of different microcontrollers (very high costs), the production of smart meters is particularly sensitive and inflexible. The extension of delivery terms for key components (still up to 102 weeks), mainly from Chinese manufacturers, puts domestic (as well as European) electronics manufacturers in a less favourable position compared to Asian manufacturers with shorter lead times. This asymmetry, which is particularly burdensome for companies supplying electronic products under public procurement, may be of key importance in tenders on the domestic and European markets.

To reduce the risk of the supply of components, the Apator Group increases its operational flexibility by diversifying the suppliers of materials, components and transport and looks for opportunities to shorten the supply chains and become independent from the dominance of Asian suppliers. A closed-loop economy in plastics processing is also being introduced where possible.

The companies in the Apator Group are supplied on domestic and foreign markets (excluding the Russian and Belarusian markets). They actively manage limits for individual suppliers. They constantly monitor the situation of cooperating parties, suppliers and forwarders, the state of deliveries and the possibilities of geographical diversification of the source of supply. In the event of problems with access to given components, they check the possibility of introducing substitutes and alternative materials (only for proposals, without affecting the quality of the product). Such an action requires a lot of time, additional research and agreements with customers and delays the implementation of tasks related to the development of new products.

Risk of falling prices for gas and electricity meters

In all markets where the companies of the Apator Group operate, there is high competition and price fights. In the gas metering market, the above results from, among other things, the reduction of the market of gas meters with mechanical counters and the appearance of new strong competition in the area of smart gas meters. The counterbalance of the competition is a stable portfolio of orders for smart gas meters manufactured by the

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Apator Group under the OEM model (i.e. under a different brand), which consists of orders realised in countries such as Belgium, the Netherlands and the UK, as well as recipients of standard gas meters in countries such as Germany, Hungary, Turkey, and emerging new opportunities (e.g. Romania, Ireland, Spain, United Arab Emirates).

In turn, the domestic electricity metering market is experiencing a fierce price battle, which is even more intense due to the timetable for the implementation of smart metering (expected market growth of approximately 30%). Most customers choose at least three suppliers to ensure the continuity of meter deliveries, and thus, to meet the timely implementation of the meter installation schedule in accordance with the requirements of the amendment to the Energy Law. Such an approach of contracting authorities increases the chances of getting an order by a domestic manufacturer.

Sadly, large price discrepancies between the offers of Asian companies and European ones can be noticed. This is due to the fact that Asian companies - unlike European ones - do not bear the costs of the economic sanctions imposed on Russia by the European Union. The situation is conducive to Chinese competition, which, by lowering the price of products and limiting the supply of components to European and Polish manufacturers, tries to make the market and customers dependent on its products.

Additionally, the prolonged persistence of global economic instability, rising interest rates and unstable currency markets may adversely affect the profitability of long-term contracts at fixed prices concluded under public procurement, the sales volume of existing products and customer needs.

The companies of the Apator Group, like other representatives of European industry, count on the support of the European Union and local governments. Taking into consideration market trends and threats related to them, the companies in the Apator Group automate their production, the effect of which is the increase of the scale of production with simultaneous reduction of labour costs and improvement of quality, also, the companies diversify sales markets strongly focusing on foreign sales. In the Water & Heat and Gas segments, export already accounts for a dominant share of sales. In the Electricity segment, the share in the German market is gradually being increased.

Contractual risk in export markets

On the main export markets (mainly the UK, the Netherlands, Belgium) a gradual tightening of contractual requirements has been observed for several years, towards increasing the quality requirements, the warranty period and the severity of penalties for suppliers. Currently, contracts for the supply (especially of gas meters) are to secure the interests of *Distribution System Operators* as much as possible. Also, such contracts are usually not subject to Polish law, and disputes arising from them are not, and will not, be settled by Polish courts but by foreign courts. In view of the above, this risk applies to contractual provisions imposed on suppliers by DSOs, which are only marginally negotiable, and acceptance of the basic requirements is often a requirement to participate in a tender. Such contracts contain a number of clauses related primarily to:

- product liability (long guarantee periods of up to 10-15 years),
- high fees for the replacement of a defective product or an entire batch in which a few per cent of defective products are found,
- additional costs for the assembly/disassembly of defective products in the network (the so-called *Off the Wall costs*),
- high penalties related to late deliveries. Foreign contracts for innovative products (smart gas meters) delivered on a large scale are particularly burdened with a higher risk. The basic measure to prevent the materialisation of the above-mentioned risk is to ensure the timeliness of deliveries (e.g. ensuring at least part of the stock) and the proper quality of the products from the design process onwards and:
 - selection of good quality components,
 - exercising close supervision over suppliers,
 - quality control of the production processes,
 - automation of production, reduction of the probability of human errors,

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- conducting accelerated ageing tests of electronic components reflecting the conditions during the product life cycle.

The Apator Group, to protect itself against the contractual risk, has concluded civil liability insurance agreements in relation to its operation and the marketed products.

Risk of incomplete commercialisation of development projects due to market concentration

The situation in the most developed European markets in terms of gas metering has changed significantly. Acquisitions and concentration on the part of suppliers of measuring instruments as well as the organisation of a few large tenders for multi-year supply result in strong price competitiveness. In view of the above, the rejection of a bid in a tender may block the possibility of supplying any of the markets for several years, with the risk of incomplete commercialisation of certain development projects dedicated to a specific tender or market.

Human resources risk

The progressive robotisation and automation, rapidly growing amount of data and accelerated technological development make programmers, constructors and engineers one of the most desirable groups of specialists on the labour market. Additionally, the introduced possibility of performing work outside the workplace and the popularisation of remote work, also after the cancellation of the state of pandemic, increase competition between employers, which may increase the financial expectations of employees.

Risk of data security loss/cyberattack

The dynamic development of digitalisation replacing manual operations with modern technologies is fundamentally changing the approach to business and business models. In addition to a number of benefits, the automation of business processes and the use of appropriate online systems and tools are associated with a number of risks, including the activity of criminal groups specialising in cybercrime, leakage of personal data and confidential information or blocking of key services. Given the scale and impact of those threats, protecting intellectual property and proprietary information is a key challenge of the digital age.

Entered into force in 2023, the amendment to EU cybersecurity law (NIS2 Directive) extends the scope of cybersecurity regulations to new sectors and entities and stimulates the improvement of resilience and incident response capacity of public and private entities, competent authorities and the EU as a whole, and obliges the Member States to introduce appropriate measures and mechanisms in national legislation to ensure digital security of networks and information systems.

The Apator Group conducts activities to raise the awareness of employees of digital threats and their consequences on an ongoing basis and presents appropriate ways to protect against them, including response paths and reporting threats and security incidents. Moreover, technical safeguards in the form of an EDR system are being implemented in the key companies.

The information security management system in the Apator Group ensures data security through security policy, security procedures and appropriate tools and infrastructure (including: VPN services and encryption, coding, protection and anti-virus systems) and technical support. The information security management system of the Apator Group is managed by Apator S.A., which holds a certificate of compliance with ISO 27001:2013. The system is tested on a regular basis and adapted to changing threats. Selected companies in the Apator Group also hold the above-mentioned certificate.

Impairment risk of acquired assets

Goodwill is recognised as an asset and is subject to impairment testing at least once a year. As of 31 December 2022, the goodwill of subsidiaries in the consolidated financial statements amounts to PLN 122.3 million, including:

- Apator Rector Sp. z o.o. - PLN 43.1 million,

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- The Automation and ICT Business Line in Apator S.A. - PLN 34.5 million,
- Apator Powogaz S.A. - PLN 17.9 million,
- Apator Miitors ApS - PLN 20.5 million,
- Apator Telemetry Sp. z o.o. - PLN 5.5 million,
- Apator Metra s.r.o. - PLN 0.8 million.

The risk is related to a possible reduction in the cash-generating potential of subsidiaries/cash-generating units (CGUs) over the time period specified in the business plan perspective.

As of 31 December 2022, the value of financial assets - shares in subsidiaries in the separate financial statements is PLN 171.0 million, including:

- Apator Powogaz S.A. - PLN 68.6 million,
- Apator Rector Sp. z o.o. - PLN 74.3 million,
- Apator Telemetry Sp. z o.o. - PLN 12.2 million,
- Apator Metrix S.A. - PLN 8.9 million,
- FAP Pafal S.A. - PLN 0.5 million,
- other companies - PLN 6.5 million.

Financial risks

The description of the financial risks is included in the consolidated financial statements in sec. 8.30 (Annual Report 2022).

Impact of the situation in the East

As of the date of this report, the Apator Group continues to identify risks arising from the war in Ukraine; however, their level depends on the further development of the situation and its impact on exchange rates, prices of raw materials and other areas of operations.

In 2022, sales revenue from the Russian, Ukrainian and Belarusian markets accounted for approximately 1.6% of total sales of the Apator Group. Since the outbreak of the war, the Group has ceased sales in the Russian and Belarusian markets.

As regards receivables from the contractors from the endangered markets, at the end of 2022, the share of receivables from the Ukrainian market in the total value of receivables of the Apator Group was approximately 0.6%. The Group has no trade receivables* from the Russian and Belarusian markets. Therefore, as of the date of publication of this report, the situation in the East has no significant impact on the operation of Apator S.A. and the entire Group of Companies.

The detailed values of the receivables as of 31 December 2022 are presented in the table below.

| The level of receivables as of 31 December 2022 | Apator S.A. | Apator Group |
|--|---------------|----------------|
| Receivables from contractors (Ukraine, Russia, Belarus) | - | 1,173 |
| Ukraine | - | 1,173 |
| Russia | - | - |
| Belarus | - | - |
| Total trade receivables as of 31 December 2022 | 70,014 | 191,081 |
| Share in Company's trade receivables | 0.0% | - |
| Share in trade receivables of the Apator Group | - | 0.6% |

**) At the end of December 2022, the receivable of Apator Powogaz S.A. due to dividend from AO Teplovodomer amounted to PLN 990.4 thousand.*

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9. Credits, loans, guarantees

The state of credits and loans of the Apator Group:

| Item | as on | | Change |
|--------------------------------|------------------|------------------|---------------|
| | 31 December 2022 | 31 December 2021 | |
| Long-term credits and loans | 3,119 | 35,980 | -32,861 |
| Short-term credits and loans | 237,350 | 175,448 | 61,902 |
| Total credits and loans | 240,469 | 211,428 | 29,041 |

9.1. Credits

As of 31 December 2022, the state of material credit agreements is as follows:

1. Apator Group

Multi-product agreement of 22 June 2016.

On 30 June 2022, the annex to the above agreement was concluded between ING Bank Śląski SA and the Apator Group companies: Apator S.A., Apator Powogaz S.A., Apator Metrix S.A., FAP Pafal S.A., Apator Rector Sp. z o.o., Apator Telemetry Sp. z o.o., under which the renewable credit limit for current financing of the companies was increased from the amount of PLN 180 million to PLN 250 million. The credit repayment date is 30 June 2025. The credit limit can be used in the form of working capital credits, bank guarantees, letters of credit and discount transactions for the redemption of receivables by the Bank in the form of supplier financing. The interest rate on the limit is based on the WIBOR/EURIBOR 1M rate increased by the bank margin.

The collateral of the Agreement is as follows:

- registered pledges on the companies' inventory with a total value of PLN 148.8 million,
- registered pledges on the companies' fixed assets with a total net value of PLN 31.1 million,
- mortgage on the real estate of Apator S.A. up to the value of PLN 40 million,
- assignment of rights under the insurance policy for the above collateral,
- blank promissory note and promissory note declarations issued by the borrowers.

The obligations under the granted limit are jointly borne by the companies, up to a maximum amount of PLN 250 million.

As of 31 December 2022 The indebtedness of the Apator Group under the concluded multi-product agreement was as follows:

- due to used credit limits: PLN 156.8 million,
- due to guarantees and letters of credit issued: PLN 12.4 million,
- due to supplier financing: PLN 5.0 million.

2. Apator S.A.:

- a) had a credit facility with Bank Handlowy S.A. in the amount of PLN 10 million for current financing of the Company's business activity. On 24 March 2022, the annex to the agreement was concluded, under which the credit period was extended until 22 March 2023. The interest rate on the credit was determined based on a variable interest rate equal to the WIBOR rate for 3-month deposits increased by the bank margin. The credit repayment is collateralised by a registered pledge on the Company's fixed assets with a value of PLN 8.4 million, along with the assignment of rights under the insurance policy. As of 31 December 2022, The amount of credit used was PLN 0.2 million. The agreement expired on 22 March 2023.
- b) on 13 August 2021, concluded a long-term (acquisition) credit agreement with Bank Handlowy S.A. in the amount of PLN 13 million. The credit facility was intended to finance the purchase of shares from

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minority shareholders of Apator Telemetry Sp. z o.o. The interest rate on the credit was determined based on a variable interest rate equal to the WIBOR rate for 3-month deposits increased by the bank margin. The credit repayment is made in equal quarterly instalments, with the final instalment due on 9 August 2024. The credit repayment is collateralised by a registered pledge on fixed assets up to PLN 2.8 million, along with the assignment of rights under the insurance policy for property against all risks, a registered pledge on the acquired shares up to PLN 12.1 million and a statement of submission to enforcement in accordance with Art. 777 of the Civil Code up to PLN 15.6 million. On 29 June 2022, the annex was concluded, under which the remaining repayment amount of the credit was converted into EUR. After currency conversion, the credit facility bears interest on a variable interest rate equal to the EURIBOR rate for 3-month deposits increased by the bank margin. As of 31 December 2022 the remaining amount to be repaid on the credit facility is EUR 1.55 million.

- c) on 22 October 2021, concluded a full factoring agreement with ING Commercial Finance Polska S.A. with a limit of up to PLN 10 million for financing current operations. On 23 August 2022, Annex No. 1 was concluded between the parties, on the basis of which the limit was reduced to PLN 5 million. The agreement was valid until 21 October 2022 and was rolled over on the same terms for the following year. The interest rate on the financing was determined based on a variable interest rate equal to the WIBOR 1M rate increased by the bank margin. The agreement is collateralised by a blank promissory note.

3. **Apator Metrix S.A.** had a long-term (investment) credit facility in 2022 for the purchase of GWi shares taken out from Bank Millennium S.A. in 2015. The initial credit amounted to PLN 22.1 million. According to the term, the credit was repaid by the end of 2022. The credit was collateralised by: a capped mortgage of up to PLN 23.3 million on the company's property located in Tczew, the transfer of fixed assets with a total value of min. PLN 2.4 million, the assignment of rights under the insurance policy for property against all risks, a pledge on bank accounts and a statement of submission to enforcement in accordance with Art. 777 of the Civil Code up to PLN 31.7 million. In connection with the full credit repayment, the procedure for the release of collateral has been initiated.

4. **GWi Ltd.** has an overdraft facility with CITI London taken out on 8 September 2017 for GBP 4 million. The credit was taken out to repay a credit from BI Group PLC and Apator Metrix S.A., which was related to the early redemption of the remaining 50% of GWi's shares by Apator Metrix S.A. in 2017. The credit repayment term is renewed annually. The collateral for the credit repayment is the warranty of Apator Metrix S.A. in the form of a bank guarantee for the amount of GBP 4 million (i.e. PLN 21.2 million according to the average ING exchange rate as at 30 December 2022 for GBP = 5.2974) and the statement on submission to enforcement in accordance with Art. 777 of the Civil Code up to GBP 4.8 million (i.e. PLN 25.4 million according to the average ING exchange rate as at 30 December 2022 for GBP = 5.2974). The interest rate on the credit is determined based on the variable SONIA rate increased by the bank margin. As of 31 December 2022 the balance of the credit granted was GBP 4 million (i.e. PLN 21.2 million according to the average ING exchange rate as at 30 December 2022 for GBP = 5.2974).

5. **Apator Powogaz S.A.:**

- a) on 4 December 2020, concluded an Investment Credit Agreement with the bank PKO Bank Polski S.A., with its headquarters in Warsaw, in the amount of PLN 39.1 million, with a possible increase to PLN 41 million. On 6 May 2022, The annex was concluded, which increased the financing amount by PLN 0.9 million. The credit was used to finance the acquisition of land and the construction of a modern production plant in Jaryszki near Poznań, on the basis of an agreement with the General Contractor. The interest rate is determined as follows:
- up to PLN 39.1 million - fixed interest rate of 1.3% p.a. increased by the Bank margin.
 - above PLN 39.1 million and up to PLN 41.9 million – interest rate based on a variable interest rate of WIBOR 1M increased by the Bank margin.

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As of 31 december 2022 The collateral for the credit is as follows:

- blank promissory note and promissory note declaration,
- mortgage on real estate in Jaryszki (application for the entry was submitted on 19 May 2022, the entry was made on 16 March 2023),
- registered pledge (established on 8 January 2021) on 3.6 million bearer shares of Apator S.A. held by Apator Mining Sp. z o.o. up to the highest collateral amount of PLN 61.5 million along with a share lock-up with the total value of not less than 120% of the future property value (the collateral release procedure is in progress).

The credit repayment period is determined to be from 31 July 2022 to 4 December 2030. As of 31 December 2022, the indebtedness under the above credit facility amounted to PLN 39.8 million.

- b) has a credit facility with mBank S.A. in the amount of PLN 10 million for the ongoing financing of the company's business activities, with a repayment period (Annex No. 6) until 28 September 2023. The interest rate on the credit was determined based on a variable interest rate equal to the WIBOR ON rate increased by the bank margin. Credit repayment is collateralised by a blank promissory note. As of 31 December 2022, the amount of credit used was PLN 9.4 million.
- c) has a factoring agreement with Santander Faktoring Sp. z o.o. with a limit of up to PLN 15 million for supplier financing. The agreement is concluded for the period from 19 September 2019 to 30 June 2023. The interest rate is determined based on a variable interest rate equal to WIBOR 1M increased by the bank margin. The financing is secured by a blank promissory note and a statement on submission to enforcement pursuant to Art. 777 of the Civil Code up to PLN 22.5 million. As of 31 December 2022, the amount of used financing was PLN 13.4 million.
- d) has a factoring agreement with ING Commercial Finance Polska S.A. with a limit of up to PLN 4.5 million to finance current operations with a term until 12 March 2023. On 22 September 2022, an annex was signed extending the method of financing to both with and without assuming the solvency risk of recipients. The interest rate on the financing was determined based on a variable interest rate, depending on the use, equal to the WIBOR 1M rate increased by the bank margin. The agreement is collateralised by a blank promissory note. As of 31 december 2022 the amount of used financing was PLN 1.4 million.
6. **Spółka Apator Metra s.r.o.** has a credit with Raiffeisenbank a.s. in the amount of CZK 30 million, the purpose of which is to finance current business activities. The agreement is concluded for an indefinite period. The interest rate was determined based on the variable 1D PRIBOR rate plus the bank margin. The credit is secured by a pledge on property in the amount of CZK 50 million (i.e. PLN 9.7 million at the average exchange rate of ING as of 30 December 2022 for CZK = PLN 0.1940) together with an assignment of rights under the property insurance policy against all risks. As of 31 December 2022, The use of the credit was CZK 4.1 million (PLN 0.8 million).
7. **On 24 march 2022, Apator Telemetria Sp. z o.o.** concluded an electronic credit agreement with mBank SA for the purpose of financing suppliers, the limit of which is PLN 7 million. The agreement is valid until 20 June 2023. The interest rate on the financing was determined based on a variable interest rate, depending on the use, equal to the WIBOR 1M or EURIBOR 1M rate increased by the bank margin. The agreement is collateralised by a blank promissory note. As of 31 december 2022 the amount of used financing was PLN 4.8 million.

In 2022, no bank terminated any credit agreement concluded with any company of the Apator Group and the companies of the Apator Group fulfilled their obligations under the concluded credit agreements. The list of all credit agreements is presented in the consolidated financial statements in sec. 8.20 (Annual Report 2022).

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9.2. Loans

In 2022, the companies in the Apator Group did not grant loans to entities outside the Group.

As of 31 December 2022, the state of granted and received loans of the companies in the Apator Group is as follows:

- Apator Powogaz S.A. has a receivable under a consolidated loan in the amount of EUR 1.5 million granted to the subsidiary Apator Miitors ApS. The nominal interest rate on the loan is 2%. On 20 November 2020, Apator Powogaz and Apator Miitors ApS concluded an annex extending the loan repayment period until the end of 2029. As of 31 December 2022 the outstanding amount of the loan (including interest) was EUR 1.5 million. The interest for 2022 was settled in February 2023.
- On 12 December 2022, Apator Powogaz S.A. concluded with FAP Pafal S.A. a loan agreement for the amount of PLN 2 million with a repayment deadline of 23 December 2022. On 22 December 2022, the parties concluded an annex to the agreement, based on which the amount of the loan was increased to PLN 5 million and the repayment deadline of the entire amount was moved to 15 January 2023. The loan was repaid in 2 tranches on 12 and 13 January 2023.

9.3. Sureties and guarantees

In 2022, the companies in the Apator Group did not grant sureties to entities outside the Group.

As of 31 December 2022, the state of granted sureties and guarantees is as follows:

1) Apator S.A.:

- conditional surety for payment under three lease agreements for the purchase of fixed assets between Apator Rector Sp. z o.o. and mLeasing Sp. z o.o. in the total amount of PLN 0.7 million with a maximum validity period until 14 December 2024. The commission for the granted surety is calculated on a quarterly basis based on the rate of 1.2% p.a.

2) Subsidiary Apator Metrix S.A.:

- guarantee for subsidiary George Wilson Industries Ltd. (GWi) to a maximum amount of GBP 4 million, (i.e. PLN 21.2 million according to the average ING exchange rate as of 30 December 2022, GBP = 5.2974) for the period until 31 October 2023. The guarantee secures a loan granted to GWi by Citi Bank for the repayment of, inter alia, loans granted by NIG and Apator Metrix S.A. The guarantee was issued based on the revolving agreement concluded between Apator Metrix S.A. and Citi Handlowy. The commission on account of granting the guarantee is 0.5% p.a.

As of 31 December 2022 the Apator Group also had active guarantees issued by insurers and banks. The list of guarantees is included in the consolidated financial statements in sec. 8.32 (Annual Report 2022).

10. Pending proceedings before a court, arbitration body or public administration body

The current proceedings (including two or more proceedings) concerning the liabilities or receivables of Apator S.A. before a court, an authority competent for arbitration proceedings or a public administration authority concerning the Issuer and the companies from the Group of Companies are not significant.

11. Transactions with related entities

Between the companies of the Apator Group, there is cooperation in business areas, in the field of financial

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activity and in the field of support functions (mainly IT). In 2022, under that cooperation, as in the previous periods, neither Apator S.A. nor any of its subsidiaries entered into transactions with related entities concluded on terms other than at arm's length.

The data on transactions with related entities and information on the outstanding balance is presented in the table in sec. 8.31 of the consolidated financial statements (Annual Report 2022).

In terms of financial activity, dividends are transferred between companies in the Apator Group. In this regard, in 2022, Apator S.A. received dividends from subsidiaries in the total amount of PLN 31,240 thousand (PLN 34,473 thousand in the corresponding period in 2021). In 2022 and 2021, the level of dividends resulted from the decision to maintain a larger liquidity buffer by the subsidiaries due to increased caution against the effects of the pandemic and the need to build working capital resulting from extended lead times for the supply of components and materials for production.

12. Entities subject to consolidation as of 31 December 2022

- parent entity - Apator S.A.,
- direct subsidiaries subject to consolidation using the full method:

| Segment | Business line | Company | Headquarter | Share of capital | Relation with Apator S.A. |
|--------------------|--|------------------------------|--------------------------|------------------|---|
| Electricity (EE) | Electricity metering | FAP Pafal S.A. | Świdnica | 100% | Subsidiary of Apator S.A. |
| | ICT | Apator Rector Sp. z o. o. | Zielona Góra | 100% | Subsidiary of Apator S.A. |
| | Trading in mining equipment (small-scale activity - not a business line) | Apator Mining Sp. z o. o. | Katowice | 100% | Subsidiary of Apator S.A. |
| Electricity / Gas | Electricity and gas metering | APATOR GmbH | Berlin (Germany) | 100% | Subsidiary of Apator S.A. |
| Gas | - | Apator Metrix S.A. | Tczew | 100% | Subsidiary of Apator S.A. |
| | | GWi Ltd. | Coventry (the UK) | 100% | Indirect subsidiary of Apator S.A. through Apator Metrix S.A. Indirect participation through Apator Metrix S.A. |
| Water & Heat (W&H) | - | Apator Powogaz S.A. | Jaryszki | 100% | Subsidiary of Apator S.A. |
| | | Apator Metra s. r. o. | Sumperk (Czech Republic) | 100% | Indirect subsidiary of Apator S.A. through Apator Powogaz S.A. Indirect participation through Apator Powogaz S.A. |
| | | Apator Miitors ApS | Aarhus (Denmark) | 100% | Indirect subsidiary of Apator S.A. through Apator Powogaz S.A. Indirect participation through Apator Powogaz S.A. |
| | | Apator Telemetry Sp. z o. o. | Słupsk | 92.69% | Direct subsidiary of Apator S.A., 20.8%, and indirect subsidiary through Apator Powogaz S.A., 71.89% |

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

13. Management Board statements

13.1. Statement of the Management Board of Apator S.A. regarding the preparation of financial statements and reports of the Management Board

To the best of its knowledge, the Management Board of Apator S.A. declares that the annual separate and consolidated financial statement for 2022 and comparable data have been prepared in accordance with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related interpretations published in the form of regulations of the European Commission. The Apator Group applies the provisions of the Accounting Act and the executive regulations issued based on the Act to the extent not regulated by IAS/IFRS.

The annual separate and consolidated financial statements reflect in a true, reliable and clear manner the property state and financial position of Apator S.A. and Apator Group of Companies and its financial result. The detailed principles of preparation of the statements are included in the explanatory notes to the annual consolidated financial statements and separate financial statements.

The annual report of the Management Board on the activity of the company and the Apator Group presents a true state of the development, achievements and position, including a description of basic risks and threats.

13.2. Information of the Management Board of Apator S.A. regarding the appointment of the entity authorised to conduct financial statement audits

The Management Board of Apator S.A., based on the statement of the Supervisory Board of Apator S.A., informs that:

- a) the entity entitled to audit the financial statements, PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp. k., which audited the annual separate and consolidated financial statements, was selected in accordance with the legal regulations including the selection and procedure of selection of the auditing company. The entity auditing the statements was chosen by the Supervisory Board of Apator S.A. on 26 March 2021, based on the recommendation of the Audit Committee and in accordance with Art. 20 of the Statute of Apator S.A., i.e., in the manner ensuring its independence in the performance of the entrusted tasks,
- b) PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp. k. - entered in the register of entities authorised to audit financial statements under the number PIBR 144, as well as the members of its Management Board and statutory auditors performing financial audit activities for Apator S.A. and its related entities met the conditions for the preparation of impartial and independent reports on the annual audit of individual and consolidated financial statements in accordance with applicable regulations, professional standards and principles of professional ethics,
- c) the applicable regulations related to the turnover of the audit firm and the key statutory auditor as well as the mandatory grace periods are complied with,
- d) the company has a policy in place for the selection of an audit firm and a policy for the provision of additional non-audit services by an audit firm, an entity related to the audit firm or a member of its network, including services conditionally exempt from the prohibition concerning the provision of services by the audit firm.

More information on the remuneration of the audit firm can be found in sec. 8.34 of the annual consolidated financial statements.

President of the Management Board

Maciej Wyczesany

Member of the Management Board

Tomasz Łątka

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

14. Statements of the Supervisory Board

14.1. Evaluation of the Supervisory Board concerning the financial statements and the report of the Management Board

The Supervisory Board supervised the process of preparation of the financial statements. The Supervisory Board, based on the positive recommendation of the Audit Committee of 26 April 2023, evaluated the financial statements prepared by the Management Board and the report of the Management Board on the activity of Apator S.A. and the Apator Group. The Supervisory Board confirms that the financial data presented in the periodic reports is reliable, correct and real and is prepared in accordance with the books, documents and the actual state of affairs and in accordance with the applicable accounting principles, applied on a continuous basis, based on the books of accounts.

14.2. Statement of the Supervisory Board of Apator S.A. concerning the Audit Committee

The Supervisory Board of Apator S.A. declares that:

- a) the rules regarding the establishment, composition and functioning of the audit committee are obeyed, including those related to the fulfilment of independence criteria by its members, as well as requirements pertaining to possessing knowledge and skills related to the industry in which the issuer operates, and to accounting or auditing,
- b) The Audit Committee fully performed the tasks provided for in the applicable regulations.

on behalf of the Supervisory Board: Chairman of the Supervisory Board

Janusz Niedźwiecki

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

15. Corporate governance in Apator S.A.

15.1. Best Practices for GPW Listed Companies

Best Practices for GPW Listed Companies is a set of corporate governance rules, i.e. rules of conduct addressed both to company bodies and members of those bodies, as well as to shareholders. The reference is made to the broadly understood management of a company, and the purpose is to strengthen the transparency of listed companies, improve the quality of communication between companies and investors, and strengthen the protection of shareholders' rights also in matters not regulated by law. The application of corporate governance principles by companies is voluntary (it does not result from any provisions of law); however, it is the duty of each listed company to inform about their application. This obligation is provided for both in the Regulation of the Minister of Finance on current and periodic information and in the Regulations of GPW.

Set of Best Practices in force in 2022

On 1 July 2021, the new "Best Practices for GPW Listed Companies 2021" came into force. The new corporate governance rules were introduced by Resolution no. 13/1834/2021 of the Warsaw Stock Exchange board on 29 March 2021.

The current set of corporate governance principles and the archived versions are available on the website of Giełda Papierów Wartościowych w Warszawie S.A.: <https://www.gpw.pl/dobre-praktyki>.

Apator S.A. complies with the majority of the principles contained in the Best Practices for GPW Listed Companies 2021, except for the following:

- Principle 2.1 The company shall have a diversity policy for the management board and the supervisory board, adopted by the supervisory board or the general meeting, respectively. The diversity policy shall define the objectives and criteria for diversity in areas such as gender, field of study, specialist knowledge, age and professional experience, and shall indicate when and how the achievement of these objectives shall be monitored. With respect to gender diversity of the company's governing bodies, the condition for ensuring the diversity of the company's governing bodies is the participation of minorities in a given body at a level of not less than 30%.

Company comment: The company has a diversity policy for the company's bodies and key managers, but it does not include measurable targets and deadlines for achieving appropriate parity. Recognising the growing importance of creating a diverse working environment, the company builds an organisational culture open to diversity, which leads to increased work efficiency. The composition of the Supervisory Board results from decisions taken by the Shareholders Meeting, whereas that of the Management Board is determined by the Supervisory Board of the respective company. Consequently, while selecting the company's authorities, those bodies and the Management Board, while selecting key managers, strive to ensure comprehensiveness and diversity, particularly in the areas of education, age, work experience and gender. Due to the specific character of the industry and the technical nature of the business, the decisive aspect here is, first and foremost, the relevant competence and professional background required for a particular position.

- Principle 2.2 The persons making decisions on the election of members of the Management Board or the Supervisory Board of the company shall ensure the comprehensiveness of these bodies by selecting persons for their composition who ensure diversity, making it possible, inter alia, to achieve the target ratio of a minimum minority shareholding set at a level of not less than 30%, in accordance with the objectives set out in the adopted diversity policy referred to in the rule 2.1.

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

Company comment: Justification described in point 2.1.

- Principle 2.11.6 In addition to the activities prescribed by law, the Supervisory Board shall prepare an annual report once a year and shall submit it to the Shareholders Meeting for approval. The report referred to above shall include information on the extent to which the diversity policy with respect to the Management Board and Supervisory Board is implemented, including the achievement of the objectives referred to in principle 2.1.

Company comment: The principle is not complied with due to the non-application of principle 2.1

- Principle 4.1 A company shall enable shareholders to participate in the general meeting by means of electronic communication (e-GMS), if it is justified in view of the shareholders' expectations reported to the company, and if the company is able to provide the technical infrastructure necessary to conduct such a general meeting. The principle is not implemented.

Company comment: In the company's view, the implementation of the aforementioned principle is associated with technical and legal risks that may affect the proper and uninterrupted conduct of general meetings. Additionally, such form of participation in general meetings currently meets with little interest from shareholders. However, should general legal solutions be adopted to minimise the involved risks, the company will consider providing the technical infrastructure necessary to hold general meetings in such a way.

15.2. Share capital

As of 31 december 2022 the share capital of Apator S.A. was PLN 3,264,707.30 and was divided into:

- 7,332,491 A series registered shares and
- 25,314,582 series A, B and C bearer shares with a nominal value of PLN 0.10 each.

The total number of votes at the Shareholders Meeting resulting from all issued shares was 54,644,546. All bearer shares are introduced to trading in the continuous trading system.

| The state as of 31 December 2022 | | | | |
|----------------------------------|-------------------|-----------------------|-------------------|----------------------|
| | Number of shares | Structure of shares % | Number of votes | Structure of votes % |
| Registered shares | 7,332,491 | 22.5% | 29,329,964 | 53.7% |
| Bearer shares | 25,314,582 | 77.5% | 25,314,582 | 46.3% |
| Total shares | 32,647,073 | 100.00% | 54,644,546 | 100.00% |

Each bearer share gives the right to one vote, while registered shares are preference shares - one share gives the right to four votes at the Shareholders Meeting of the Company.

Changes in the share capital structure during the reporting period

On 14 November 2022, the Regional Court in Toruń, 7th Commercial Division of the National Court Register noted the reduction of the share capital of Apator S.A. It was due to the redemption of 130,155 bearer shares, giving the right to 130,155 votes, acquired under the buy-back of own shares programme, closed on 28 June 2022 by the Ordinary General Shareholders Meeting of Apator S.A.

Changes in the share capital structure after the reporting period

After the reporting period, as a result of the conversion of 1,100 registered shares into ordinary bearer shares on 31 January 2023, assimilated to stock exchange trading on 28 February 2023, the total number of votes decreased from 54,644,546 to 54,641,246. In view of the above, the basis for the calculation as of the date of publication of the report (27 April 2023) was the share capital of PLN 3,264,707.30, consisting of 32,647,073 shares with a nominal value of PLN 0.10 each, divided as follows:

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

| The state as of 27 April 2023 | | | | |
|-------------------------------|-------------------|-----------------------|-------------------|----------------------|
| | Number of shares | Structure of shares % | Number of votes | Structure of votes % |
| Registered shares | 7,331,391 | 22.5% | 29,325,564 | 53.7% |
| Bearer shares | 25,315,682 | 77.5% | 25,315,682 | 46.3% |
| Total shares | 32,647,073 | 100.00% | 54,641,246 | 100.00% |

15.3. Shareholders of Apator S.A. holding directly or indirectly significant blocks of shares

Shareholders of Apator S.A. holding directly or indirectly significant blocks of shares (above 5% of votes at the general meeting) are presented below, along with the indication of the number of shares held by those entities, the percentage share in the share capital, the number of votes and the percentage share in the total number of votes at the general meeting as of 31 December 2022.

| The state as of 31 December 2022 | | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|------------------|----------------|
| Item | Registered shares | Bearer shares | Total shares | Number of votes | Share of capital | Share of votes |
| Mariusz Lewicki | 1,187,376 | 1,126,624 | 2,314,000 | 5,876,128 | 7.09% | 10.75% |
| Tadeusz Sosgórnik with a closely associated person* | 1,470,000 | 506,060 | 1,976,060 | 6,386,060 | 6.05% | 11.69% |
| Danuta Guzowska | 954,214 | 566,065 | 1,520,279 | 4,382,921 | 4.66% | 8.02% |
| Zbigniew Jaworski | 766,348 | 698,652 | 1,465,000 | 3,764,044 | 4.49% | 6.89% |
| Apator Mining** | 0 | 3,600,000 | 3,600,000 | 3,600,000 | 11.03% | 6.59% |
| Aviva OFE Aviva Santander SA/PTE Allianz Polska*** | 0 | 4,545,864 | 4,545,864 | 4,545,864 | 13.92% | 8.32% |
| Kazimierz Piotrowski with a closely associated person | 664,774 | 159,181 | 823,955 | 2,818,277 | 2.52% | 5.16% |
| Others | 2,289,779 | 14,112,136 | 16,401,915 | 23,271,252 | 50.24% | 42.58% |
| Total | 7,332,491 | 25,314,582 | 32,647,073 | 54,644,546 | 100.00% | 100.00% |

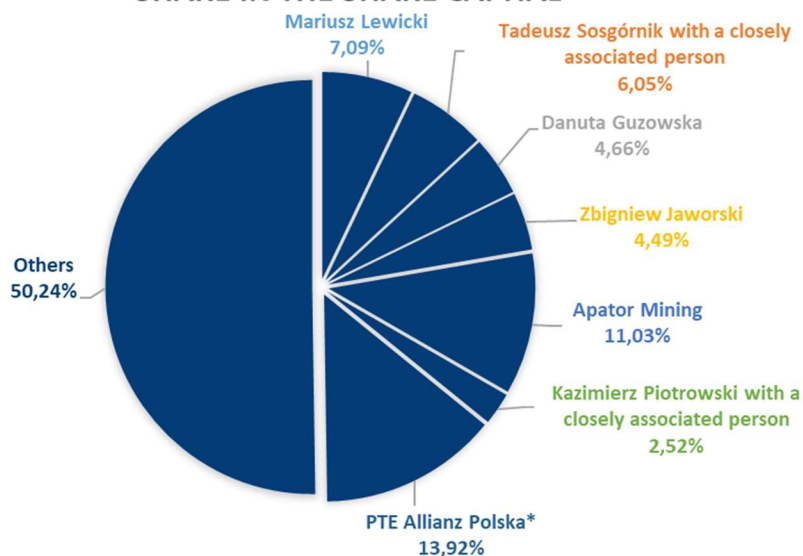
*) The shareholding of Tadeusz Sosgórnik is presented together with the shareholding of a person closely associated with him. The total shareholding of Tadeusz Sosgórnik is effective as of 2 July 2020, i.e. from the day of becoming the member of the Supervisory Board of Apator SA.

**) On shares that belong to Apator Mining Sp. z o.o. a registered pledge was established in favour of PKO Bank Polski S.A. to secure the bank's receivables under the investment agreement of Apator Powogaz S.A. Pursuant to the content of the registered pledge agreement, execution of rights from shares covered by the pledge was left to Apator Mining Sp. z o.o.

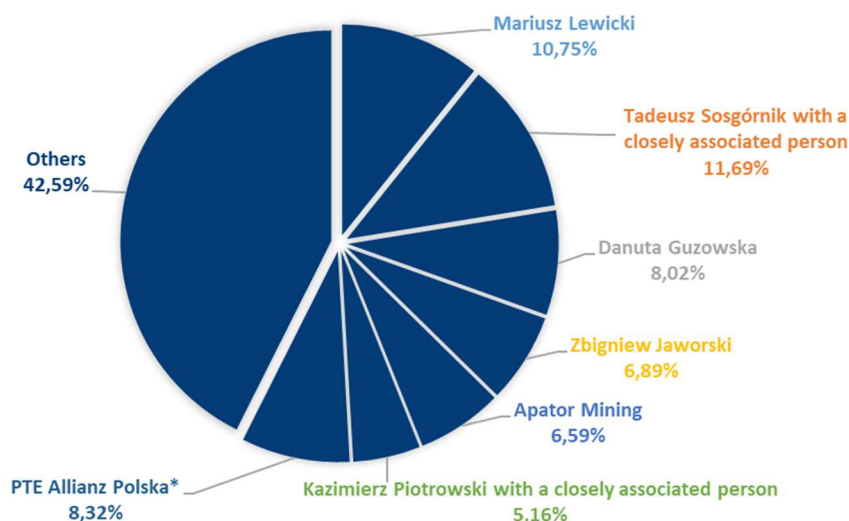
***) The shareholding of Aviva OFE Aviva Santander SA/PTE Allianz Polska as of 31 December 2022 is the total shareholding for: Allianz OFE, Allianz DFE and Drugi Allianz OFE determined based on a notification from PTE Allianz Polska S.A. (more information on the merger of funds in point 7).

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

SHARE IN THE SHARE CAPITAL



SHARES IN VOTES



*) Combined balance for: Allianz OFE, Allianz DFE and Drugi Allianz OFE.

15.4. Dividends

Dividend policy

The dividend policy of Apator S.A. has been in force since 16 March 2007 and it means that Apator S.A. declares annual payment of dividend in the amount of 75% of the net profit of Apator S.A. generated for the financial year. The dividend is paid in two parts: as an advance payment and as the remainder, payable after the final dividend is approved by the Shareholders Meeting. At the same time, the Management Board of Apator S.A. stipulates that in the case of realisation of significant investment plans, the Management Board of the Company may propose other distribution of profit for a given financial year.

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

Profit dividend for 2021

On 28 June 2022, the Ordinary General Shareholders Meeting of Apator S.A. decided to pay profit dividend for 2021 in the amount of PLN 0.50 gross per share. The total amount allocated for the profit dividend for 2021, in accordance with the decision of the Shareholders Meeting, amounted to PLN 16,352,623.00, of which:

- the advance profit dividend for 2021 was PLN 9,823,208.40, or PLN 0.30 gross per share, and was paid on 24 January 2022 to shareholders holding shares on 17 January 2022. A total of 32,744,028 series A registered shares and series A, B and C bearer shares were entitled to an advance on the expected dividend.
- the remaining part of the dividend was PLN 6,529,414.60, or PLN 0.20 gross per share, and was paid on 31 August 2022. The right to that part of the dividend was obtained by shareholders holding shares of Apator S.A. on 6 July 2022. 32,647,073 series A registered shares and bearer shares of A, B and C series were entitled to the remaining part of the dividend.

| Advance profit dividend for 2021 | Number of shares | Advance profit dividend per 1 share | Advance profit dividend paid on 24 January 2022 |
|----------------------------------|-------------------|-------------------------------------|---|
| Registered shares | 7,337,001 | PLN 0.30 | PLN 2,201,100.30 |
| Bearer shares | 25,407,027 | PLN 0.30 | PLN 7,622,108.10 |
| Bought shares | 33,200* | PLN 0.00 | PLN 0.00 |
| Total shares | 32,777,228 | | PLN 9,823,208.40 |

*) The advance dividend payment did not include shares purchased until that time as part of the buy-back.

| Remaining profit dividend for 2021 | Number of shares | Remaining dividend per 1 share | Remaining dividend |
|------------------------------------|-------------------|--------------------------------|-------------------------|
| Registered shares | 7,332,491 | PLN 0.20 | PLN 1,466,498.20 |
| Bearer shares | 25,314,582 | PLN 0.20 | PLN 5,062,916.40 |
| Bought shares | 130,155* | PLN 0.00 | PLN 0.00 |
| Total shares | 32,777,228 | | PLN 6,529,414.60 |

*) Shares bought as part of the completed buy-back did not participate in the payment of the remaining dividend.

Profit dividend for 2022

In December 2022, the Management Board of Apator S.A., taking into account the macroeconomic situation, including the negative effects of the war in Ukraine, the poor economic situation and the high cost of obtaining external financing in the conditions of persisting inflation, recommended to the Supervisory Board not to pay the advance profit dividend for 2022. Following the Supervisory Board's acceptance of the proposal, the advance profit dividend for 2022 was not paid. The amount of the dividend for 2022 will be proposed by the Management Board before the 2023 Shareholders Meeting, during which the final decision on the payment will be made. The amount of the remaining part of the dividend will depend on the overall economic situation and the company's financial position.

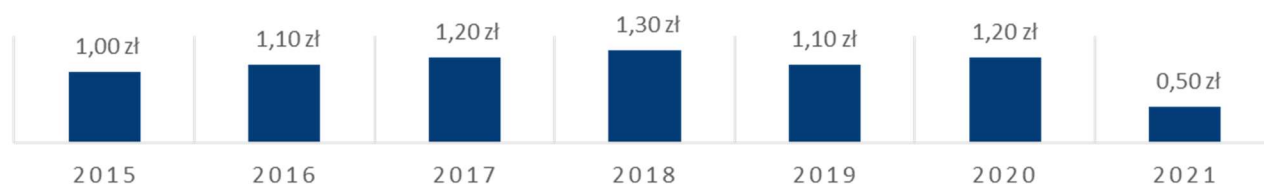
Profit dividend for the years 2015-2021

| Item | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Dividend per share for the financial year | PLN 0.50 | PLN 1.20 | PLN 1.10 | PLN 1.30 | PLN 1.20 | PLN 1.10 | PLN 1.00 |
| Total dividend for the financial year | PLN 16.4 million | PLN 39.3 million | PLN 36.1 million | PLN 42.7 million | PLN 39.7 million | PLN 36.4 million | PLN 33.1 million |
| Average annual share price | PLN 22.17 | PLN 19.59 | PLN 22.12 | PLN 21.77 | PLN 26.95 | PLN 23.80 | PLN 29.42 |
| Dividend yield* | 2.26% | 6.13% | 4.97% | 5.97% | 4.45% | 4.62% | 3.40% |

*) Dividend yield calculated by dividing the dividend per share by the average annual share price.

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

Dividend level per share in the period from 2015 to 2021



Since its stock exchange debut in 1997, Apator has paid its shareholders approximately PLN 516 million in the form of dividend and share buy-back programmes.

15.5. Description of the main features of the internal control and risk management systems in relation to the process of drawing up financial statements and consolidated financial statements

Separate financial statements of Apator S.A. and consolidated financial statements of the Apator Group are prepared by the Accounting and Taxation Department of Apator S.A., functioning in the division supervised by the Director of Accounting and Taxation of the Apator Group. The statements are prepared in accordance with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related interpretations published in the form of regulations of the European Commission. Additionally, the financial statements are prepared based on the Regulation of the Minister of Finance of 29 March 2018 on current and interim information delivered by issuers of securities and the conditions for recognising as equivalent the information required by the laws of a non-member state (Dz.U./Journal of Laws/ of 2018, item 757).

Reporting and accounting at FAP Pafal S.A. and Apator Powogaz S.A. is done with the use of the BaaN IV Integrated Management System, while Apator S.A., Apator Metrix S.A. and Apator Rector Sp. z o.o. use the newer, compatible version of the Infor LN ERP system. The configuration of the systems is in line with the accounting rules in force and includes instructions and control mechanisms to ensure data consistency and integrity, including: data integrity checks, authorisation checks. The Integrated Management System makes it possible to control the correctness of recorded operations and identify the persons entering and accepting individual transactions. Access to financial data is limited by the authorisation system. Access to the system is granted depending on the assigned role and responsibilities of a given person and is subject to strict control.

The companies in the Apator Group maintain an accounting policy based on the rules adopted in a given entity. The main principles of recording the events are defined. However, the basic elements of the process of the preparation of the statements are the accounting principles determined for all the entities in the Apator Group, based mainly on the solutions used in the parent entity Apator S.A. Based on the maintained records, accounting books of individual companies are created, which are the basis for the preparation of individual financial statements by all the entities in the Group. Individual financial statements are the basis for the preparation of consolidated statements of the Apator Group. In the process of consolidation of statements, uniform principles and procedures of consolidation of financial data are applied, ensured by, among other things, unified electronic reports and automatic validation of data consistency in those reports.

The internal control system ensures the supervision over the correctness of the reporting and accounting processes, the correctness of the financial information contained in the financial statements and the correctness of their presentation. Within the framework of the system, compliance with the provisions of financial legislation and internal regulations is analysed, as well as the quality and correctness of the performance of individual activities (allocation of duties, multi-stage data authentication, verification of the correctness of the received data).

The Management Board of Apator S.A. assesses the effectiveness of the internal control system on an ongoing basis. Moreover, to increase the safety of management of the financial reporting area at the level of the Group, framework agreements are concluded by and between Apator S.A. and Apator Metrix S.A., Apator Powogaz S.A., FAP Pafal S.A. and Apator Rector Sp. z o.o. for the provision by Apator S.A. of services including finance

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

management, e.g., co-creation of accounting policy and chart of accounts, optimisation of operational processes in accounting and preparation of periodic reports on the financial position.

At each stage of the preparation of financial statements, one of the basic control mechanisms (external) is the periodic verification of the financial statements by an independent auditor and, in particular, the audit (Apator S.A.) and review (other companies in the Group) of the semi-annual statements and the audit of the annual statements. The entity performing the function of statutory auditor in Apator S.A. and the Apator Group is chosen by the Supervisory Board of Apator S.A. that makes sure that independence in the performance of the entrusted tasks is maintained. All subsidiaries are audited by the same entity authorised to audit financial statements. The results of the audits are presented by the auditor to the Management Board, the Audit Committee of the Supervisory Board and the Supervisory Board.

The Audit Committee of the Supervisory Board of Apator S.A. participates in the process of monitoring the effectiveness of the internal control system. Its basic task is to advise the Supervisory Board on issues related to monitoring:

- separate and consolidated financial reporting,
- effectiveness of internal control, internal audit, risk management, compliance systems,
- performance of financial audit activities (in particular, the audit carried out by the audit firm, taking into account all conclusions and findings of the Audit Supervision Commission arising from the audit of the audit firm),
- independence of the statutory auditor and audit firm.

Financial data, which is the basis for the preparation of financial statements and periodical reports, is also used for monthly financial and operational reporting. After the closure of the monthly accounting period, the senior management (Management Board) under the supervision of the Supervisory Board performs monthly analysis of the financial results of Apator S.A., individual entities of the Apator Group and consolidated results of the Apator Group. The analysis of the achieved results is made by comparing them to the adopted business assumptions contained in the annual budget, the budget for a given period and the adopted development strategy. Identified deviations are analysed on a regular basis considering their impact on the current results of a given company and the Apator Group, and possible corrective measures are taken. The whole senior and middle management is involved in the budgeting process, which covers all areas of operation. The prepared budgets are adopted by the Management Boards of individual companies and approved by the Supervisory Boards. The budget of the Apator Group is adopted by the Management Board of Apator S.A. and approved by the Supervisory Board of the company.

Based on the assessment of the applied procedures, the Management Board of Apator S.A. states that, as of 31 December 2022, there were no circumstances that could adversely affect the effectiveness of internal control in the scope of the preparation of financial statements.

15.6. Indication of holders of any securities with special control rights and a description of those rights

Each bearer share gives the right to one vote, while registered shares are preference shares - one share gives the right to four votes at the Shareholders Meeting. The principles of disposal of registered shares and their conversion are regulated by the Statute of Apator S.A.

15.7. Implementation of the share buy-back programme

The share buy-back programme in 2020/2021

Based on the authorisation under Resolution no. 23/VI/2021 of the Ordinary General Shareholders Meeting of Apator S.A. of 29 June 2021, the Management Board of Apator S.A. the share buy-back programme for the purpose of their redemption and reduction of the share capital. An amount not higher than PLN 10 million was allocated for that purpose. The implementation of the programme lasted from 10 August 2021 to 31 May 2022.

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

The repurchase of shares was carried out through Erste Securities Polska S.A. with its headquarters in Warsaw. On 28 June 2022, the Shareholders Meeting of Apator S.A. adopted Resolution no. 26/VI/2022 on closing the above-mentioned programme.

As part of the share buy-back programme, 130,155 bearer shares were bought (for a total amount of PLN 13,015.5 thousand), giving 130,155 votes at the Shareholders Meeting, constituting 0.3971% of the share capital and 0.2376% of the total number of votes.

| Summary of the share buy-back programme - the state as of the closing date | | | | |
|--|------------------|--------------------|-----------------|------------------|
| | Number of shares | Share in capital % | Number of votes | Share in votes % |
| Registered shares | - | - | - | - |
| Bearer shares | 130.155 | 0.40% | 130.155 | 0.24% |
| Total bought shares | 130.155 | 0.40% | 130.155 | 0.24% |

The above shares were redeemed on 14 November 2022, i.e. upon registration by the Regional Court in Toruń, 7th Commercial Division of the National Court Register of the decrease in the share capital of Apator SA by PLN 13,015.5 (according to the information in sec. 15.2).

The share buy-back programme in 2022/2023

On 28 June 2022, the Shareholders Meeting of Apator S.A. adopted Resolution no. 32/VI/2022 on the implementation of another share buy-back programme for the purpose of their redemption and reduction of the share capital, in the amount not exceeding PLN 10 million, from 7 July 2022 to 31 May 2023.

No shares were acquired by the company under the above-mentioned programme.

15.8. Restrictions on the exercise of voting rights based on shares

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

- restrictions on the exercise of voting rights by holders of a certain proportion or number of votes,
- time restrictions on the exercise of voting rights,
- provisions according to which, with the cooperation of the company, the capital rights attached to securities are separated from the possession of securities.

15.9. Indication of any limitations concerning transfer of ownership right to shares of Apator S.A.

Registered preference shares are subject to restrictions with regard to their disposal. Such shares may only be disposed of by shareholders and their heirs or legal successors only to shareholders holding registered shares. The disposal of registered shares to persons other than the shareholders holding registered shares requires the authorisation of the Management Board. If the Management Board does not authorise the transfer of shares, it should, within 60 days: identify another purchaser, determine the price in line with the price of bearer shares on the date of submission of the request. If the Management Board does not take a position within 60 days of the written application for permission to dispose of shares, the disposal of shares is not subject to any restrictions.

Bearer shares are not subject to any restrictions on the transfer of ownership.

15.9.1. Information on the issue of securities of Apator S.A.

In 2022, Apator S.A. did not issue any securities.

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
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15.9.2. Information on agreements which may result in changes to the proportions of shares held by existing shareholders

Apator S.A. does not have any information on any agreements, including those that could have been concluded after the balance sheet date, as a result of which the proportions of shares held by existing shareholders and bondholders may change in the future (Apator S.A. did not issue bonds).

15.9.3. Audit system for employee share schemes

Apator S.A. does not implement an employee share scheme.

15.10. Description of the rules for changing the Statute of Apator S.A.

Pursuant to Art. 14 item 15 of the Statute, the Statute of Apator S.A. may be amended during the Shareholders Meeting by a majority of three-quarters of votes. In the case of the intention to amend the Statute, the notice of convening the Shareholders Meeting must include a reference to the existing provisions and the proposed changes. In a resolution amending the Statute, the Shareholders Meeting may authorise the Supervisory Board to determine the consolidated text of the Statute or to make other editorial amendments.

The amendment to the Statute becomes effective upon its entry into the National Court Register. The obligation to report the amendments to the Statute rests with the Management Board of the company. Pursuant to Art. 430 sec. 2 of the Code of Commercial Companies, the Management Board is obliged to report the amendment to the Statute not later than within 3 months from the adoption of the relevant resolution by the Shareholders Meeting; however, Art. 22 of the Act on the National Court Register requires the submission of the application for entry into the Register no later than within 7 days from the date of the event justifying the entry.

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|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
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| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

15.11. Composition and description of the manner of operation of the company's governing bodies

15.11.1. Composition of the governing bodies of Apator S.A. as of 31 December 2022



15.11.2. General Shareholders Meeting

Principles and powers of the Shareholders Meeting

The Shareholders Meeting is subject to the provisions of the Code of Commercial Companies, the Statute of the Company and the Regulations of the Shareholders Meeting of Apator S.A. The Statute of the Company and the Regulations of Shareholders Meetings of Apator S.A. are available on the website of Apator S.A. at: www.apator.com in the Investor Relations tab.

Shareholders Meetings may be convened as Ordinary General Shareholders Meetings or Extraordinary General Shareholders Meetings. Ordinary General Shareholders Meetings are convened annually, no later than by the end of June.

Shareholders Meetings are convened by the announcement made in the manner prescribed by the Code of Commercial Companies for public companies at least 26 days before the date of the Shareholders Meeting. Only persons who are shareholders of the company 16 days prior to the date of the Shareholders Meeting (date of registration of participation in the Shareholders Meeting) have the right to participate in the Shareholders Meeting. The list of persons entitled to participate in the Shareholders Meeting is determined based on a list drawn up by the Central Securities Depository of Poland (KDPW S.A.) in accordance with the principles set out in the Code of Commercial Companies.

Shareholders may attend the Shareholders Meetings and exercise their voting rights in person or may be represented by a proxy; they may vote differently using each of their shares. Each series A registered share is preferred and has four votes, while each bearer share has one vote.

Shareholders holding at least half of the share capital or at least half of the total number of votes in the Company may convene the Extraordinary General Shareholders Meetings by appointing the Chairman of the Meeting.

A shareholder or shareholders representing at least 1/20 of the share capital may:

- request the convening of an Extraordinary General Shareholders Meeting and the inclusion of certain matters on the agenda of that Meeting. The request to convene an Extraordinary General Shareholders Meeting should be submitted to the Management Board in writing or in an electronic form.

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|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
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| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

- request the inclusion of specific matters in the agenda of the Shareholders Meeting. The request should be submitted to the Management Board no later than 21 days before the scheduled date of the Meeting. The Management Board is obliged to announce immediately, and no later than 18 days prior to the scheduled date of the Meeting, any amendments to the agenda made at the request of shareholders. The announcement is made in the manner appropriate for convening the Shareholders Meeting;
- prior to the date of the Shareholders Meeting, submit to the company, in writing or by means of electronic communication, draft resolutions concerning the items placed on the agenda of the Shareholders Meeting or the items to be placed on the agenda. The Company immediately announces draft resolutions on its website. Each shareholder may submit draft resolutions regarding matters included in the agenda during the Shareholders Meeting.

The following persons should be present at the Shareholders Meeting:

- members of the company's Supervisory Board and Management Board in a composition that makes it possible to provide substantive answers to the questions posed during the Shareholders Meeting,
- the statutory auditor, if the company's financial matters are to be discussed.

The Shareholders Meeting is valid irrespective of the number of shareholders present and the shares represented at it, unless the provisions of the Code of Commercial Companies provide otherwise.

The Shareholders Meeting may only adopt resolutions on matters on the agenda, with the exception of resolutions on points of order, which may only relate to matters concerning to the conduct of the meeting. A resolution on abandoning to consider any matter included in the agenda may be adopted only for good reasons. The request in such a case must be reasoned. The Shareholders Meeting may not adopt a resolution on removal from the agenda or on abandoning consideration of an issue placed on the agenda at the request of shareholders.

Resolutions are adopted by an absolute majority of votes, unless the provisions of the Company's Statute or the Code of Commercial Companies provide otherwise. Voting is open except for the situations specified in Art. 420 of the Code of Commercial Companies, i.e. secret ballot is ordered:

- in the case of elections and motions for the dismissal of members of company bodies,
- in the case of motions to hold the above-mentioned persons accountable,
- in the case of personal matters,
- at the request of at least one shareholder or a shareholder's proxy present at the Shareholders Meeting.

Resolutions of the Shareholders Meeting are binding for all shareholders.

In accordance with the Statute of Apator S.A., the Shareholders Meeting of Apator S.A. is the only body authorised to make decisions on:

- issuance of shares, convertible bonds or bonds with priority rights,
- purchase of shares for their redemption,
- increasing or reduction of share capital,
- determining the number, election and dismissal of the Members of the Supervisory Board.

15.11.3. Supervisory Board

Composition:

In 2022, the composition of the Supervisory Board of Apator S.A. was as follows:

- Janusz Niedźwiecki - Chairman of the Supervisory Board,
- Mariusz Lewicki - Deputy Chairman of the Supervisory Board,
- Janusz Marzygłiński - Member of the Supervisory Board,
- Danuta Guzowska - Member of the Supervisory Board,
- Kazimierz Piotrowski - Member of the Supervisory Board,

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
| Period covered by the financial statements: | 1 January 2022 – 31 December 2022 | Reporting currency: | polish zloty (PLN) |
| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

- Tadeusz Sosgórnik - Member of the Supervisory Board,
- Marcin Murawski - Member of the Supervisory Board.

The current term of office of the Supervisory Board ends on the day when the Shareholders Meeting in 2025 is held.

The number of shares held by the Members of the Supervisory Board at the end of 2022 was as follows:

| Item | The state as of 31 December 2022 | | | | |
|----------------------|----------------------------------|-------------------------|-------------------|-------------------------|-----------------------|
| | Shares | Nominal value of shares | Votes | Share in capital, total | Share in votes, total |
| Janusz Niedźwiecki | 255,810 | 25,581.00 | 945,117 | 0.78% | 1.73% |
| Mariusz Lewicki | 2,314,000 | 231,400.00 | 5,876,128 | 7.09% | 10.75% |
| Janusz Marzygliński | 404,849 | 40,484.90 | 1,353,431 | 1.24% | 2.48% |
| Danuta Guzowska | 1,520,279 | 152,027.90 | 4,382,921 | 4.66% | 8.02% |
| Kazimierz Piotrowski | 587,147 | 58,714.70 | 2,107,853 | 1.80% | 3.86% |
| Tadeusz Sosgórnik | 1,624,200 | 162,420.00 | 6,034,200 | 4.98% | 11.04% |
| Marcin Murawski | 0 | 0 | 0 | 0.00% | 0.00% |
| Total | 6,706,285 | 670,628.5 | 20,699,650 | 20.55% | 37.88% |

Members of the Supervisory Board do not hold shares in other companies in the Apator Group.

Principles of appointing and dismissing executives and their rights, in particular the right to decide on the issue or buyout of shares

Members of the Supervisory Board of Apator S.A. are appointed and dismissed by the Shareholders Meeting, which determines the number of members of the Supervisory Board and their remuneration. The members of the Supervisory Board should have due knowledge and experience. The Supervisory Board may consist of 5 to 7 members, elected by the Shareholders Meeting, for a joint term of 5 years. The reduction of the number of members of the Supervisory Board during the term of office to not less than 5 members does not require any addition to the composition of the Supervisory Board.

At the first meeting, the Supervisory Board elects the Chairman and the Deputy Chairman from among its members.

Members of the Supervisory Board are bound by the non-competition clause. Members of the Supervisory Board may not be: Members of the Management Board, Proxies, Chief Accountant employed by the company, Legal Counsel or Lawyer, persons who report directly to a Member of the Management Board. Also, members of the Supervisory Board may not be members of the subsidiary's Management Board.

It is permitted to adopt resolutions by the Supervisory Board in writing or using means of direct remote communication. For the validity of resolutions of the Supervisory Board, it is required that all Members of the Supervisory Board are notified of the content of the resolution of the Supervisory Board. Adoption of resolutions in the above manner does not apply to the election of the Chairman and Deputy Chairman of the Supervisory Board, the appointment of a Member of the Management Board and the dismissal and suspension of a Member of the Management Board.

Resolutions in writing or by means of direct remote communication are adopted by an absolute majority of votes with the participation of:

- at least 3 members, if the Supervisory Board is composed of five members,
- at least 4 members, if the Supervisory Board is composed of five members.

Resolutions of the Supervisory Board are passed by an absolute majority of votes.

The Shareholders Meeting adopts the Regulations of the Supervisory Board.

The Supervisory Board is not authorised to decide on the issue or redemption of shares.

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
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| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

Manner of operation of the Supervisory Board

The manner of operation of the Supervisory Board is specified in the Code of Commercial Companies, the Statute of Apator S.A. and in the Regulations of the Supervisory Board of Apator S.A. The Statute and the Regulations can be found on the website of Apator S.A. at: www.apator.com in the Investor Relations tab.

The Supervisory Board supervises the activities of the company and the group of companies in all areas of their activities through:

- analysing materials obtained from the Management Board, which the Supervisory Board had requested,
- obtaining information and detailed explanations from the Members of the Management Board and other company employees during the meetings of the Supervisory Board,
- participation of the Members of the Supervisory Board in the meetings of the Management Board,
- activities of the Audit Committee,
- activities of the statutory auditor who, on behalf of the Supervisory Board, reviewed and audited the financial and accounting documentation and the financial statements prepared on its basis.

The Supervisory Board, within the scope of its supervision, concentrates on matters of significant importance for the operation of Apator S.A. and the Apator Group. Moreover, the Supervisory Board executes permanent supervision over the work of the Management Board; however, it is not authorised to give binding orders to the Management Board concerning the way of management of the Company's matters. The description of the activity of the Supervisory Board over a financial year is included in the report on the activity of the Supervisory Board being the subject of discussion and approval by the Shareholders Meeting.

The list of powers of the Supervisory Board can be found in Art. 15, sec. 11 of the Company's Statute. The Supervisory Board performs its duties collectively; however, it may delegate its Members to perform supervisory activities independently.

Pursuant to the provisions of the Statute, the Supervisory Board meets once a quarter or more often if necessary, at the request of the Chairman of the Supervisory Board. In 2022, 23 meetings of the Supervisory Board took place. The Members of the Supervisory Board performed their duties personally, in a composition enabling the adoption of resolutions. All members of the Management Board of Apator S.A. also participated in the meetings of the Supervisory Board of Apator S.A, i.e., in accordance with good practices, in the composition that made it possible to give substantive answers to posed questions. Furthermore, the Management Board provided the Supervisory Board with exhaustive information on all important matters concerning the activity of Apator S.A. and the Apator Group.

At the meetings of the Supervisory Board, resolutions were adopted on matters that were listed in the agendas sent to the members of the Supervisory Board in notices of the meetings.

The Audit Committee operates within the Supervisory Board, but the Nomination Committee and the Remuneration Committee have not been appointed. Those functions are performed by the whole Supervisory Board.

15.11.4. Audit Committee of the Supervisory Board of Apator S.A.

Composition

In 2022, the composition of the Audit Committee was as follows:

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

The term of office of the Audit Committee is the same for its Members and is similar to the term of office of the Supervisory Board.

| | | | |
|---|---|---------------------|--------------------|
| Name of the organisational unit: | Apator Group | | |
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| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |

Principles of appointment and description of the manner of operation of the Audit Committee

The Audit Committee is a body of the Supervisory Board and has been operating in Apator S.A. since 23 September 2009. It is composed of three members, including the Chairman, appointed by the Supervisory Board from among its members.

The purpose of the functioning of the Audit Committee is to liaise with the auditors and advise the Supervisory Board on matters related to:

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

The main tasks of the Audit Committee include:

- monitoring the financial reporting process (including: assessment of adopted accounting standards, information circulation, prepared documents and planned changes in that area),
- monitoring the effectiveness of internal control, internal audit, risk management and compliance systems,
- monitoring the performance of auditing activities,
- monitoring the independence of the statutory auditor who audits the financial statements.

Detailed principles of the way of work of the Audit Committee are set out in the Regulations of the Audit Committee of the Supervisory Board of Apator S.A. available on the website of Apator S.A. at: www.apator.com in the Investor Relations tab.

Pursuant to the Regulations, meetings of the Audit Committee are held as required, but not less frequently than twice a year, before the company publishes its financial statements (semi-annual and annual). In 2022, 12 meetings of the Committee were held, during which 7 resolutions were adopted (including 3 votings by circulation).

The report on the Audit Committee's activities for a given financial year is part of the report on the activity of the Supervisory Board.

Compliance with the Act on statutory auditors, audit companies and public supervision

To the extent indicated by the Act of 11 May 2017 on statutory auditors, audit companies and public supervision:

- Marcin Murawski and Kazimierz Piotrowski meet the criteria of independence from Apator S.A.
- Marcin Murawski and Mariusz Lewicki have the necessary knowledge and skills in accounting or auditing of financial statements:
 - Marcin Murawski graduated from the Faculty of Management and Marketing at the University of Warsaw (specialisation: Corporate Finance); since 2003, he has been a Certified Auditor (PIBR no. 90053); since 2000, he has been a British Chartered Certified Accountant (ACCA no. 0251448) and a Certified Internal Auditor (exam in 2005). Additionally, Marcin Murawski has professional experience in accounting resulting from the following roles:
 - ✓ 1997 - 2005 - Employee in the Audit Department of the audit firm PwC (manager since 2002),
 - ✓ 2006 - 2012 - Director of Internal Audit Department of Warta S.A. Insurance Group,
 - ✓ since 2012, independent member of Supervisory Boards and Member of Audit Committees of companies listed on GPW: (CCC S.A. - Chairman of the Audit Committee - until June 2019, Apator S.A. - Chairman of the Audit Committee, GTC S.A. - Chairman of the Audit Committee, Seco/Warwick S.A. - Chairman of the Audit Committee), Raiffaisen Bank International AG, Polish branch (Member of the Steering Committee) and Asseco Business Solutions S.A. - Member of the Supervisory Board).
 - Mariusz Lewicki graduated from the Faculty of Economic Sciences at the Nicolaus Copernicus University in Toruń in the field of economics and production organisation, he completed Postgraduate Studies in Tax

| | | | |
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Law and Postgraduate Studies in Commercial Law at the Faculty of Law and Administration at the Nicolaus Copernicus University. Additionally, Mariusz Lewicki has professional experience in accounting resulting from the following roles:

- ✓ 1991 - 1999 - Head of Accounting Department in state enterprise PZAE Apator and Apator SA (legal successor of PZAE Apator),
 - ✓ 1994 - 2001 - Chief Accountant in Reuther Polska Sp. z o.o. and Rotar Poland Sp. z o.o.,
 - ✓ 1993 - 2013 - Chief Accountant in ZPDZ "Nagro",
 - ✓ 2001 - 2007 - Financial Director, Proxy in Apator Control Sp. z o.o. (it was a subsidiary of Apator S.A.),
 - ✓ 2007 - 2013 - Financial Advisor at Z.P.H.U. Walter,
 - ✓ 2008 - 2018 - Deputy Chairman of the Supervisory Board of PHS Hydrotor S.A. (2008 - June 2014), Chairman of the Supervisory Board of PHS Hydrotor S.A. (July 2014 - June 2018), Chairman of the Audit Committee of PHS Hydrotor S.A. (since June 2009), Member of the Audit Committee of PHS Hydrotor S.A. (July 2017 - June 2018), President of the Management Board of PHS Hydrotor S.A. (since July 2018),
 - ✓ since 2015, until now - Deputy Chairman of the Supervisory Board of Agromet ZEHS Lubań S.A. (June 2015 - June 2018), Chairman of the Supervisory Board of Agromet ZEHS Lubań S.A. (since July 2018),
 - ✓ 2009 - December 2015 - Chairman of the Audit Committee of Apator S.A., then Member of the Audit Committee of Apator S.A. until now,
 - ✓ May 2019 until now - Chairman of the Supervisory Board of Więcborskie Zakłady Metalowe Wizamor Sp. z o.o.
- All Members of the Audit Committee have knowledge and skills in the industry in which Apator S.A. operates:
 - Marcin Murawski has knowledge and skills in the industry in which Apator S.A. operates acquired while performing the following functions:
 - ✓ since 2013 until now - Member of the Supervisory Board of Apator S.A. - knowledge of the electromechanical sector in the field of manufacturing of metering equipment and systems for energy utility distribution companies (electricity metering and switchgear),
 - ✓ since 2015 until now - Member of the Supervisory Board and Chairman of the Audit Committee of Seco/Warwick S.A. - knowledge of the electromechanical sector in the field of mechanical equipment manufacturing.
 - Mariusz Lewicki has knowledge and skills in the industry in which Apator S.A. operates acquired while performing the following functions:
 - ✓ since 2000 until now - Member of the Supervisory Board of Apator S.A., since 2010 Deputy Chairman of the Supervisory Board - knowledge of the electromechanical sector in the field of manufacturing of metering equipment and systems for energy utility distribution companies (electricity metering and switchgear),
 - ✓ since 2005 until now - Chairman of the Supervisory Board of Apator Mining Sp. z o.o. (subsidiary of Apator S.A.) - knowledge of the electromechanical sector in the area of production of machinery and equipment for the mining industry, performed by the company until the end of 2018,
 - ✓ since 2007 until now - Chairman of the Supervisory Board of Apator Metrix S.A. (subsidiary of Apator S.A.) - knowledge of the electromechanical sector in the field of manufacturing of metering equipment and systems for energy utility distribution companies (gas metering),
 - ✓ since 2014 until now - Member of the Supervisory Board of Apator Elkomtech S.A. (subsidiary of Apator S.A.) - knowledge of the electromechanical sector in the area of production of systems supporting the work of energy services in the field of energy transmission and distribution (control and supervision systems),

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- ✓ since 2020 until now - Member of the Supervisory Board of Apator Powogaz S.A. (subsidiary of Apator S.A.) - knowledge of the water and sewerage sector in the area of production of water meters, heat meters and cost allocators,
 - ✓ since 2008 until now - Deputy Chairman of the Supervisory Board of PHS Hydrotor S.A. (2008 - June 2014), Chairman of the Supervisory Board of PHS Hydrotor S.A. (July 2014 - June 2018), Chairman of the Audit Committee of PHS Hydrotor S.A. (since June 2009), Member of the Audit Committee of PHS Hydrotor S.A. (July 2017 - June 2018), President of the Management Board of PHS Hydrotor S.A. (since July 2018), Chairman of the Supervisory Board of Więcborskie Zakłady Metalowe Wizamor Sp. z o.o. (since May 2019) - knowledge of the electromechanical sector in the area of manufacturing of mechanical equipment.
- Kazimierz Piotrowski has knowledge and skills in the industry in which Apator S.A. operates acquired while performing the following functions:
- ✓ 1993 - 2000 - Member of the Management Board of Apator S.A., including: Director of Administrative Affairs (from 1993 to 1998) and Chief Financial Officer (1998-2000) - knowledge of the electromechanical sector in the field of manufacturing of metering equipment and systems for energy utility distribution companies (electricity metering and switchgear),
 - ✓ 2005 - 2008 - President of the Management Board of Apator Metrix S.A. (subsidiary of Apator S.A.)
 - knowledge of the electromechanical sector in the field of manufacturing of metering equipment and systems for energy utility distribution companies (gas metering),
 - ✓ 2009 - 2013 - Chairman of Supervisory Board of FAP Pafal S.A. (subsidiary of Apator S.A.)
 - knowledge of the electromechanical sector in the area of manufacturing of metering equipment for energy utility distribution companies (electricity metering),
 - ✓ since 2001 until now - Member of the Supervisory Board of Apator Mining Sp. z o.o. (subsidiary of Apator S.A.) - knowledge of the electromechanical sector in the area of manufacturing of machinery and equipment for the mining industry, performed by the company until the end of 2018,
 - ✓ since 2013 until now - Member of the Supervisory Board of Apator Metrix S.A. (subsidiary of Apator S.A.) - knowledge of the electromechanical sector in the field of manufacturing of metering equipment for energy utility distribution companies (gas metering),
 - ✓ since 2015 until now - Member of the Supervisory Board of Apator S.A., Member of the Audit Committee - knowledge of the electromechanical sector in the area of manufacturing of metering equipment and systems for energy utility distribution companies (electricity metering and switchgear).

Information on the statutory auditor appointment procedure

Based on the company's auditor selection procedure, on 25 March 2021, the Audit Committee made a recommendation to the Supervisory Board to select the audit firm PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audytyt Sp. k. with its headquarters in Warsaw, to review and audit the separate and consolidated financial statements for the years 2021-2023.

Transparent and clear selection criteria are followed in the selection of the audit firm for the audit of the financial statements. The main of those are:

- experience in auditing financial statements of similar groups of companies (in relation to the size of the Apator Group of Companies, dispersed geographical structure and the industry in which the Apator Group of Companies operates),
- experience in the area of risk management, internal control, IT control and corporate governance,
- maintenance of the principles of impartiality and independence of the audit firm,
- no conflict of interest,
- optimisation of audit costs.

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In the process of selecting audit firms, the rotation principle is applied for a period not longer than 10 years, while in the process of selecting a key statutory auditor by the selected audit firm, the rotation principle is applied for a period not longer than 5 years.

The provision of permitted non-audit services is only possible to the extent not related to the Company's tax policy, following the approval of the Audit Committee and assessment of the risks and independence safeguards. The scope of the provision of other non-audit services is in line with the provisions of the Act of 11 May 2017 on statutory auditors, audit companies and public supervision.

In view of the new statutory requirements, the Audit Committee, after assessing the risks and safeguards to independence, on 22 February 2023, agreed to the performance by the auditor - PricewaterhouseCoopers Polska Sp. z o.o. Audyt sp. k. of additional services, based on Article 136 sec. 2 of the Act of 11 May 2017 on statutory auditors, audit companies and public supervision consisting of:

- assessment of the correctness of the tagging of the consolidated financial statements for 2022 in the XBRL format, in accordance with the European Single Electronic Format (ESEF) for reporting introduced by ESMA - remuneration of PLN 34 thousand,
- assessment of the Supervisory Board's report on remuneration for 2022, subject to Art. 90g, sec.10 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies - remuneration PLN 22 thousand.

The Audit Committee systematically monitors the financial reporting and auditing processes and presents relevant information in this regard to the Supervisory Board.

15.11.5. Management Board

Composition

Since 25 November 2021 and throughout 2022, the composition of the Management Board of Apator S.A. was as follows:

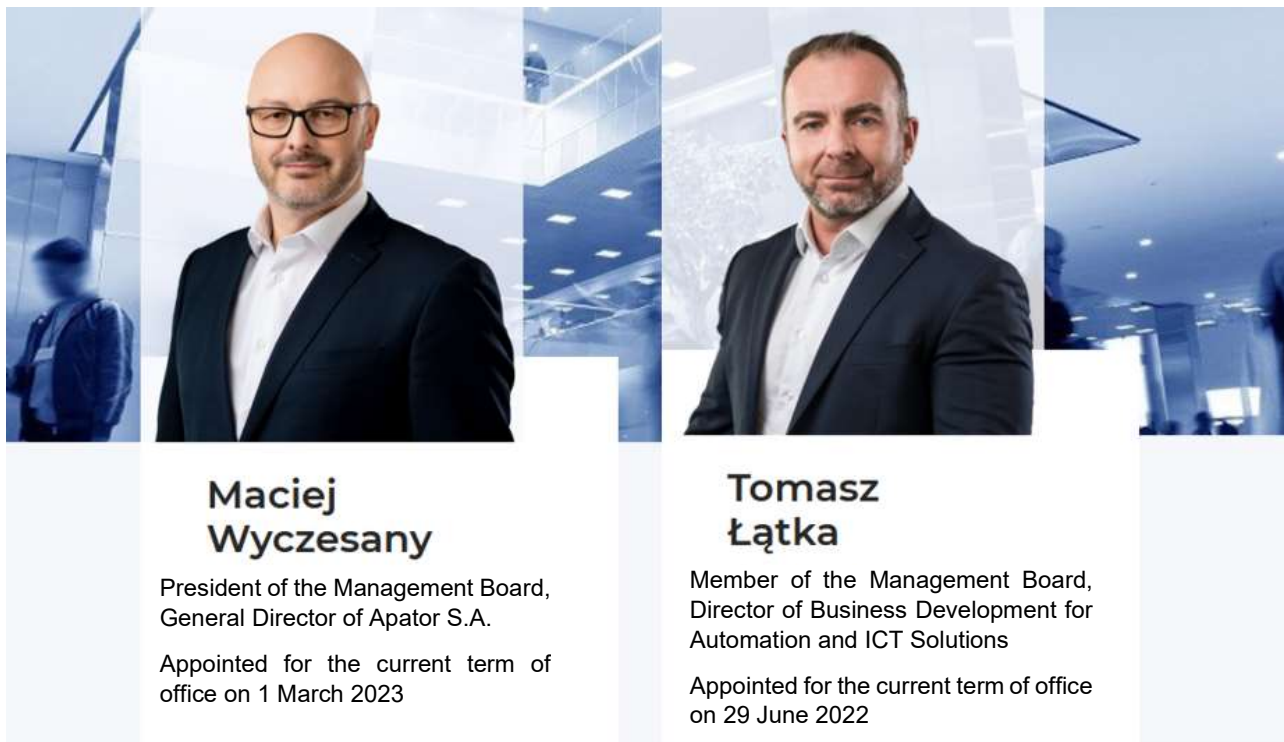
1. Arkadiusz Chmielewski - President of the Management Board, Director for Business Development of the Apator Group,
2. Tomasz Łątka - Member of the Management Board, General Director of Apator S.A.

Due to the resignation from the performance of the function of the President of the Management Board of Apator S.A. submitted by Arkadiusz Chmielewski on 31st January 2023, with effect FROM 28 February 2023, and the appointment of Maciej Wyczesany to that position, with effect on 1 March 2023, the Management Board of Apator S.A. consists of the following persons:

1. Maciej Wyczesany - President of the Management Board,
2. Tomasz Łątka – Member of the Management Board.

The joint three-year term of office of the Management Board ends on the date of the Ordinary General Shareholders Meeting in 2025.

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Maciej Wyczesany

President of the Management Board,
General Director of Apator S.A.

Appointed for the current term of office on 1 March 2023

Tomasz Łątka

Member of the Management Board,
Director of Business Development for Automation and ICT Solutions

Appointed for the current term of office on 29 June 2022

In Apator S.A., independent proxy is appointed for the following persons:

- Małgorzata Mazurek - Finance Director,
- Jolanta Dombrowska - Management and Promotions Director of the Apator Group,
- Artur Bratkowski - Metering Equipment and Systems Director,
- Krzysztof Kluszczynski - Automation Director (since 3 January 2022).

Principles of appointing and dismissal executives and their rights, in particular the right to decide on the issue or buyout of shares

Members of the Management Board of Apator S.A. are appointed and dismissed in accordance with the provisions of the Code of Commercial Companies and the Statute of the company. The Management Board of Apator S.A. consists of one to six members appointed for three years by the Supervisory Board for a joint term of office. The Supervisory Board adopts resolutions on:

- determination of the number of Members of the company's Management Board,
- appointment of the President of the Management Board and then, at the request of the President, of other Members of the Management Board,
- dismissal of Members of the company's Management Board,
- suspending all or individual Members of the Management Board for important reasons,
- delegating Members of the Supervisory Board to temporarily perform the duties of Members of the Management Board,
- remuneration for the Management Board taking into account its motivational character.

The Members of the Management Board may be dismissed at any time by the Supervisory Board or the Shareholders Meeting before the expiry of their term of office. This does not prejudice their claims under their employment contract.

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Description of the manner of operation of the Management Board

The Management Board of Apator S.A. acts based on the provisions of the Code of Commercial Companies, the Statute of the Company and the Regulations of the Management Board of Apator S.A. The Regulations of the Management Board are adopted by the Supervisory Board.

The work of the Management Board is supervised by the President of the Management Board. Resolutions of the Management Board are passed by an absolute majority of votes. In the case of an equal number of votes, the casting vote is held by the President of the Management Board.

Two Members of the Management Board acting jointly, a Member of the Management Board acting jointly with a Proxy or two Proxies acting jointly are authorised to make statements regarding the Company's property rights and obligations and to sign them. Each member of the Management Board has the right and obligation to manage the company's affairs, not exceeding the scope of the company's ordinary activities.

Proxies are appointed by the Management Board. The granted power of attorney may be revoked by any Member of the Management Board. Members of the Management Board and Proxies are bound by a non-competition clause.

The Management Board supervises the overall operation of the company, represents the company externally, manages its assets and all matters not reserved for other bodies, is responsible for the proper keeping of the company's accounts and strictly adheres to the provisions of the Statute, the Regulations of the Management Board and resolutions of the company's authorities. While performing its activities, the Management Board takes into account both the interest of the company and the whole Apator Group. When making decisions on matters related to the company, the Members of the Management Board act within the limits of justified economic risk, i.e. after consideration of all information, analyses and opinions, which, in the opinion of the Management Board, should be taken into consideration in a given case taking into account the interest of the company and the Apator Group. The legitimate long-term interests of shareholders, creditors, employees, other entities and persons cooperating with the company in the field of economic activity, as well as the interests of local communities are taken into account. The Management Board acts with particular care to ensure that all transactions with persons whose interests affect the interests of the company are made on an arm's length basis.

The Management Board is not authorised to decide on the issue or redemption of shares.

Detailed principles of the way of functioning of the Management Board are specified by the Regulations of the Management Board of Apator S.A., which is available on the website of Apator S.A. at: www.apator.com in the Investor Relations tab. The powers of individual members of the Management Board in matters of ordinary management are divided into areas of activity in which individual members of the Management Board play a leading role.

Division of tasks and responsibilities between Members of the Management Board:

| President of the Management Board | Member of the Management Board |
|---|--|
| <ul style="list-style-type: none"> ▪ Setting directions and operationalisation of strategy of Apator S.A. and the Apator Group ▪ Supervision over companies in the Apator Group and over consolidated financial results ▪ Supervision over matters of the Management Board of Apator S.A. and managing its works in line with the Code of Commercial Companies Code, the Statute of Apator S.A. and internal regulations in force in Apator S.A. | <ul style="list-style-type: none"> ▪ Setting directions and operationalisation of strategy of Apator S.A. and the Apator Group ▪ Business development in the field of Automation and ICT Solutions ▪ Co-management of the affairs of the Management Board of Apator S.A. in line with the Code of Commercial Companies, the Statute of Apator S.A. and internal regulations in force in Apator S.A. |

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- Supervision over areas: financial, purchase, manufacturing, technological, design, marketing and sales of the products in Apator S.A.
- Business process management in the Automation and ICT Solutions lines

15.12. Remuneration policy

On 2 July 2020, the Ordinary General Shareholders Meeting of Apator S.A. pursuant to Art. 90d of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (consolidated text Dz. U./Journal of Laws/of 2019, item 623 as amended, hereinafter referred to as the Act on Public Offering, adopted the Remuneration Policy for the Members of the Management Board and Supervisory Board.

The purpose of the Remuneration Policy is to define the principles of remuneration of the Management Board of the Company in a way that supports the implementation of the long-term business strategy, long-term interests and stability of the Apator Group.

The full content of the Remuneration Policy is available on the website: www.apator.com in the Investor Relations tab.

Remuneration of the Members of the Management Board

The President of the Management Board of Apator S.A. is employed based on a managerial contract for a definite time, while the Member of the Management Board is employed based on an employment contract for an indefinite time. Regardless of the form of employment, the remuneration system for the Members of the Management Board of Apator S.A. consists of fixed remuneration - basic remuneration and variable remuneration - annual bonuses granted by the Supervisory Board.

Components of the remuneration of the Member of the Management Board:

| | |
|-------------------------------------|--|
| Basic remuneration | Basic remuneration is paid monthly in the amount set out in a resolution of the Board, on the date of payment of the remuneration to the Company's employees. The amount of basic remuneration is determined by the Supervisory Board, taking into account the expectations of the Member of the Management Board, the company's achieved profit level and remuneration benchmarks. |
| Variable remuneration | <p>Variable remuneration represents up to 80% of basic remuneration and is paid in the form of an annual bonus on the date following the approval of the Company's financial statements by the Shareholders Meeting.</p> <p>The payment of the annual bonus depends on the achievement of certain management objectives by the individual Members of the Management Board and on the Company's performance. The management objectives are primarily financial and non-financial indicators. The level of performance of the objectives is the basis for granting the annual bonus to the Management Board of Apator S.A.</p> |
| Additional non-cash benefits | <p>Each Member of the Management Board may also receive additional non-cash benefits from the Company, under the principles applicable to the Company's employees, such as:</p> <ul style="list-style-type: none"> • contribution to the costs of renting an apartment. • co-financing of benefits available to the Company's employees (multisport card and medical package, additional life and motor insurance), • a company car for private use. <p>The Company does not offer additional pension schemes and does not grant remuneration in the form of financial instruments.</p> |

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Upon termination of the employment relationship, the Members of the Management Board are entitled to severance pay in the amount of 3 months' gross basic salary and the possibility of obtaining compensation for non-competition (if decided so by the Supervisory Board).

Gross remuneration of the Members of the Management Board for the 2022 term of office is as follows:

| Item | Remuneration from Apator SA for 2022 | | | Remuneration from other companies in the Apator Group, including provisions for bonuses for 2022 and non-salary benefits | Total remuneration |
|-----------------------|--------------------------------------|----------------------|---|--|--------------------|
| | basic remuneration | 2022 bonus provision | non-salary benefits (company car, health package, life insurance) | | |
| | PLN thousand | PLN thousand | PLN thousand | | |
| Arkadiusz Chmielewski | 778.3 | 624.0 | 4.8 | 60.0 | 1,467.1 |
| Tomasz Łątka | 600.0 | 480.0 | 18.5 | 24.0 | 1,122.5 |
| Total | 1,378.3 | 1,104.0 | 23.3 | 84.0 | 2,589.6 |

In 2022, Members of the Management Board were members of the bodies of subsidiary companies:

- Arkadiusz Chmielewski - Member of the Supervisory Board of Apator Powogaz S.A.
Member of the Board of Directors of GWi Ltd. (until 1 October 2022)
- Tomasz Łątka - President of the Management Board of Apator Elkomtech S.A.*
Member of the Supervisory Board of Apator Rector Sp. z o.o.

*) 3 January 2022 Apator Elkomtech S.A. was merged with Apator S.A.

The remuneration of the Members of the Management Board is determined based on transparent procedures and principles, taking into account its incentive nature and ensuring effective and smooth management of the company. The remuneration meets the criteria of the scope of responsibility resulting from the performed function and remains in reasonable relation to the level of remuneration of the members of management boards in similar companies in a comparable market.

Remuneration of the Members of the Supervisory Board

The basis for remuneration of the Members of the Supervisory Board for performing their functions in the supervisory body are resolutions of the Shareholders Meeting. The principles of remuneration of a Member of the Supervisory Board may be set out in the resolution appointing a Supervisory Board Member or in a separate resolution.

Remuneration of the Members of the Supervisory Board

| | |
|-------------------------------------|---|
| Basic remuneration | Member of the Supervisory Board receives remuneration in the form of a fixed monthly amount determined by resolution of the Shareholders Meeting, irrespective of attendance at meetings of the Supervisory Board. The remuneration of the Members of the Supervisory Board is paid on the same date as the remuneration of the Company's employees. |
| Variable remuneration | Members of the Supervisory Board do not receive additional remuneration in a form of a bonus. |
| Additional non-cash benefits | Each Member of the Supervisory Board may receive additional non-cash benefits from the Company, under the principles applicable to the Company's employees, such as: <ul style="list-style-type: none"> • co-financing of benefits available to the Company's employees (multisport card and medical package, additional life and motor insurance), • ECP The Company does not offer additional pension schemes and does not pay remuneration to the Members of the Supervisory Board in a form of financial instruments. |

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Members of the Supervisory Board, pursuant to Art. 392, sec. 3 of the Code of Commercial Companies are entitled to the reimbursement of expenses (e.g. business trips) related to the performance of their duties.

The remuneration of the Supervisory Board was determined at the Ordinary General Shareholders Meeting on 2 July 2020. In accordance with resolution no. 30/VII/2020, the remuneration levels are:

- Chairman of the Supervisory Board - PLN 8,500 gross per month,
- other Members of the Supervisory Board - PLN 7,000 gross per month,
- allowance for serving in committees of the Supervisory Board - PLN 1,500 gross per month.

Remuneration of the Members of the Supervisory Board did not constitute a significant item of the company's operating costs and did not significantly affect its financial result.

The 2022 remuneration was as follows:

| Item | Fixed remuneration from Apator S.A. | Additional non-cash benefits from Apator S.A. | Remuneration from other companies of the Apator Group | Total remuneration |
|----------------------|-------------------------------------|---|---|--------------------|
| | PLN thousand | PLN thousand | PLN thousand | PLN thousand |
| Janusz Niedźwiecki | 102.0 | | 24.0 | 126.0 |
| Mariusz Lewicki | 102.0 | 1.5* | 84.0 | 187.5 |
| Janusz Marzygliński | 84.0 | | 38.9 | 122.9 |
| Danuta Guzowska | 84.0 | | 0.0 | 84.0 |
| Marcin Murawski | 102.0 | 1.5* | 0.0 | 103.5 |
| Kazimierz Piotrowski | 102.0 | | 48.0 | 150.0 |
| Tadeusz Sosgórnik | 84.0 | 0.9** | 160.8 | 245.7 |
| Total | 660.0 | 3.9 | 355.7 | 1,019.6 |

*) Employee Capital Plans (PPK)

***) Luxmed package, Multisport card

In 2022, Members of the Supervisory Board of Apator SA also performed functions in the bodies of the companies of the Apator Group, which is also related to obtaining remuneration from those companies:

- Janusz Niedźwiecki - Member of the Supervisory Board of Apator Telemetry Sp. z o.o.,
- Mariusz Lewicki - Chairman of the Supervisory Board of Apator Metrix S.A.,
Chairman of the Supervisory Board of Apator Mining Sp. z o.o.,
Deputy Chairman of the Supervisory Board of Apator Elkomtech S.A. *,
Member of the Supervisory Board of Apator Powogaz S.A.,
- Janusz Marzygliński - Chairman of the Supervisory Board of Apator Rector Sp. z o.o.,
Member of the Supervisory Board of Apator Powogaz S.A. (from 27 May 2022),
- Kazimierz Piotrowski - Deputy Chairman of the Supervisory Board of Apator Metrix S.A.,
Member of the Supervisory Board of Apator Mining Sp z o.o.
- Tadeusz Sosgórnik - Chairman of the Supervisory Board of Apator Powogaz S.A.,
Chairman of the Supervisory Board of FAP Pafal S.A.,
Member of the Supervisory Board of Apator Elkomtech S.A. *,
Commercial Director of Apator Mining Sp. z o.o.

*) 3 January 2022 Apator Elkomtech S.A. was merged with Apator S.A.

The Supervisory Board, pursuant to Art. 90g of the Act of 29th July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Dz. U./Journal of Laws/ of 2005 no. 184, item 1539), is obliged to prepare a report on the remuneration of the Members of the Management Board and the Supervisory Board for 2022, which will be a separate document. The report will be published at the moment of convening the Ordinary General Shareholders Meeting of Apator S.A.

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15.13. Diversity policy

The purpose of the diversity policy in Apator S.A. is to build awareness and an organisational culture open to diversity, which leads to an increase in work efficiency and counteracts discrimination. Based on the Code of Ethics in force, the basis of diversity management in Apator S.A. is the creation of equal opportunities in access to professional development and promotion.

When appointing the company's authorities and key managers, the company strives for ensuring versatility and diversity, particularly in respect of gender, educational branch, age and professional experience. High qualifications and substantive preparation for performing a specific function are the aspects that matter most.

15.14. Sponsorship policy

One of the strategic objectives of the Apator Group is to create brand recognition and its proper perception, i.e. well-considered image activities. The sponsorship policy depends on the general strategy of development of the Apator Group and is an integral part of its communication and external promotion.

Sponsorship policy objectives:

- building brand recognition,
- building a positive image - as a socially friendly company, involved in various local initiatives, often of international scope,
- building the company's good reputation and gaining public recognition and sympathy by taking part in high-profile events (involvement in prestigious projects),
- promoting the brand outside the circle of customers and recipients of products, e.g. as an attractive employer,
- increasing investor interest,
- increasing employee engagement,
- positive impact of the organisation on the environment.

In 2022, In 2022, the Apator Group allocated 4.4% of the consolidated net profit for sponsorship and charity activities. The main activities were carried out in the following scope:

- support for cultural events and science (Polish Mathematical Society (Toruń branch), Polish Society of Mechanical Engineers and Technicians (Toruń branch), I International Toruń Legal Days "Law - Society - Democracy", World Copernican Congress, 21st International Children and Youth Art Competition "Always green, always blue"),
- sports sponsorship (Business run, Starogard Sports Club, co-financing of employees' participation in sports competitions),
- charity work (support for the More Beautiful World Foundation, the Friends of Children Society in Toruń, the Social and Charity Foundation "Help for the Family and the Earth", Hospice Hope, the Polish Red Cross and the Kuyavian-Pomeranian Voivodeship Flag of the Polish Scouting Association - support during Christmas Eve for the residents of Toruń and preparation of 1 thousand Christmas parcels).

16. Report on non-financial information

Pursuant to Art. 49b, sec. 1 and Art. 55 sec. 2b-e of the Accounting Act, the parent company - Apator S.A. and the Apator Group are obliged to prepare the report on non-financial information for 2022. The report was published in the form of a separate document (combining the reports of the Company and the Apator Group) together with the report of the Management Board on the activity of Apator S.A. and the Apator Group in 2022, and was posted on the website www.apator.com on the day of publication of the separate and consolidated reports for 2022.

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Signatures

26 April 2023

Maciej Wyczesany

signed with a qualified electronic signature

President of the Management Board, General Director of Apator S.A.

26 April 2023

Tomasz Łątka

signed with a qualified electronic signature

Member of the Management Board, Director of Business Development for Automation and ICT Solutions

| | | | |
|---|---|---------------------|--------------------|
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| Rounding level: | all amounts are expressed in thousands of PLN (unless stated otherwise) | | |