

Report on the activities of the Supervisory Board of Apator SA for year 2020



Toruń, 2 June 2021 r.



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1. Legal basis for the Supervisory Board's activities

The Supervisory Board of Apator SA acts based on the provisions of the Commercial Companies Code, the Statute of the Company, the Regulations of the Supervisory Board and "Best Practice for WSE Listed Companies 2016".

2. Composition of the Supervisory Board

According to the Statute of Apator SA, the Supervisory Board can be composed of 5 to 7 members elected by General Assembly, for a period of 5 years, for a joint term of office. Decreasing the number of Supervisory Board members during the term of office to not less than 5 members shall not result in the necessity to supplement the composition of the Supervisory Board.

During the reporting period covering 2020, with the holding of the Annual General Meeting on 2 July 2020, the 8th term of office of the Supervisory Board, consisting of:

- ✦ Janusz Niedźwiecki - Chairman of the Supervisory Board,
- ✦ Mariusz Lewicki - Deputy Chairman of the Supervisory Board,
- ✦ Janusz Marzygliński - Member of the Supervisory Board,
- ✦ Danuta Guzowska - Member of the Supervisory Board,
- ✦ Kazimierz Piotrowski - Member of the Supervisory Board,
- ✦ Marcin Murawski - Member of the Supervisory Board

The Ordinary General Meeting on 2 July 2020 appointed a Supervisory Board of 7 members for a further ninth term:

- ✦ Janusz Niedźwiecki - Chairman of the Supervisory Board,
- ✦ Mariusz Lewicki - Deputy Chairman of the Supervisory Board,
- ✦ Janusz Marzygliński - Member of the Supervisory Board,
- ✦ Danuta Guzowska - Member of the Supervisory Board,
- ✦ Kazimierz Piotrowski - Member of the Supervisory Board,
- ✦ 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 date of the General Meeting of Shareholders in 2025.

The diverse composition of the Supervisory Board, which includes individuals with both business experience and expertise backed by many years of professional practice, ensures that supervisory duties are properly and effectively performed and that the tasks and responsibilities assigned are duly discharged.

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The professional CVs of the members of Supervisory Board are available on the website Apator SA in the folder Investor's relations.

The way of operation of the Supervisory Board is specified by the Commercial Companies Code, Articles of Association of Apator SA and Regulations of the Supervisory Board of Apator SA.

3. Independence of Supervisory Board Members

In accordance with the requirements of the "Best Practices for WSE Listed Companies 2016", at least two members of the Supervisory Board meet the independence criteria.

In 2020 and at the date of publication of this report, the status of independent Board Member is fulfilled by Janusz Niedźwiecki and Marcin Murawski.

4. Meetings of the Supervisory Board

In accordance with the Articles of Association, the Supervisory Board meets quarterly, or more often if necessary, at the invitation of the Chairman of the Board.

In 2020, the Supervisory Board held 29 meetings, during which it took positions on matters on the agenda and adopted 56 resolutions (of which 15 votes were taken by circulation).

In 2020, the Supervisory Board operated on the basis of an adopted meeting schedule and agenda, which was adapted during the year to the extraordinary circumstances of the COVID-19 pandemic, and for security reasons Supervisory Board Members were able to participate in meetings by means of direct remote communication.

Independently from regular meetings, the members of the Supervisory Board in order to perform comprehensive supervision over the activity of the Company and Apator Group were in permanent and direct contact with the Executive Board.

5. Audit Committee

5.1. Personal composition of the Audit Committee

There is an Audit Committee within the Supervisory Board. The term of office of the Audit Committee is common for its members and coincides with the term of office of the Supervisory Board. In 2020, the term of office of the Audit Committee ended on the date of the Annual General Meeting. Accordingly, a further term of 5 years for the Audit Committee commenced on 2 July 2020. The composition of the Committee remained unchanged and operated as follows throughout the year 2020:

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

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5.2. Independence of the members of the Audit Committee

In accordance with the requirements of the "Code of Best Practice for WSE Listed Companies 2016", the criteria of independence are met by the Chairman of the Audit Committee - Marcin Murawski.

However, with reference to the Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017, the independence criteria required by this Act are met by the majority of the Audit Committee members, i.e. the Polish Financial Supervision Authority, the Polish Financial Supervision Authority and the Polish Financial Supervision Authority. Marcin Murawski and Kazimierz Piotrowski.

5.3. Compliance with the requirements of the Act on Statutory Auditors

The Supervisory Board of Apator SA declares that the regulations concerning the requirements to have the knowledge and skills in the industry where the issuer operates and in accounting or auditing of financial statements are observed:

- ✦ Marcin Murawski and Mariusz Lewicki have knowledge and skills in the field of accounting or auditing financial statements:
 - Marcin Murawski graduated in Management and Marketing from the Faculty of Management at the University of Warsaw (specialization: Enterprise Finance), since 2003 he has been a Certified Public Accountant (PIBR no. 90053), since 2000 he has been a Certified British Certified Public Accountant (ACCA no. 0251448) and a Certified Internal Auditor (exam in 2005). Additionally, Marcin Murawski has professional experience in the field of accounting resulting from the following functions:
 - 1997-2005 - Employee in the audit department of PWC (since 2002 as a manager),
 - 2006 - 2012 - Director of the Internal Audit Department of Warta SA Insurance Group,
 - since 2012 an independent member of Supervisory Boards and Member of Audit Committees of companies listed on WSE (CCC SA - Chairman of Audit Committee - till June 2019, Apator SA - Chairman of the Audit Committee, GTC SA - Chairman of the Audit Committee, Seco/Warwick SA - Chairman of the KA), as well as Santander Aviva TU SA and Santander Aviva TUnŻ SA (Chairman of the Audit Committee) and Raiffaisen Bank International AG, Poland Branch (Member of the Steering Committee).
 - Mariusz Lewicki graduated from the Faculty of Economics at the Nicolaus Copernicus University (UMK) in Toruń in the field of economics and production organization, Postgraduate Studies in Tax Law and Postgraduate Studies in Commercial Law at the Faculty of Law and Administration at UMK. Additionally, Mariusz Lewicki has professional experience in accounting 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 at 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 SA),
 - 2007-2013 - Financial Advisor at Z.P.H.U. Walter,
 - 2008 - 2018 - Deputy Chairman of the Supervisory Board of PHS Hydrotor SA (2008 06.2014), Chairman of the Supervisory Board of PHS Hydrotor SA (07.2014 - 06.2018),

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Chairman of the Audit Committee of PHS Hydrotor SA (since 06.2009), Member of the Audit Committee of PHS Hydrotor SA (07.2017 - 06.2018), President of the Executive Board of PHS Hydrotor SA (since 07.2018),

from 2015 to the present - Deputy Chairman of the Supervisory Board of Agromet ZEHS Lubań SA (06.2015-06.2018), Chairman of the Supervisory Board of Agromet ZEHS Lubań SA (from 07.2018),

from 2009 to December 2015 - Chairman of the Audit Committee of Apator SA and then Member of the Audit Committee of Apator SA till now,

from May 2019 to the present day - Chairman of the Supervisory Board of Więcborska Zakłady Metalowe Wizamor Sp. z o.o.

✦ all members of the Audit Committee have knowledge and skills in the field of industry in which Apator SA operates:

- Marcin Murawski has the knowledge and skills in the industry in which Apator SA operates, acquired during the performance of the following functions:

since 2013 till now - Member of the Supervisory Board of Apator SA - knowledge of the electrical machinery sector in the area of production of devices and measurement systems for energy distribution companies (metering of electricity and switchgear),

from 2015 to the present - Member of the Supervisory Board and Chairman of the Audit Committee of Seco/Warwick SA - knowledge of the electrical machinery sector in the area of mechanical engineering.

- Mariusz Lewicki has the knowledge and skills in the branch in which Apator SA operates, acquired during the performance of the following functions:

since 2000 till now - Member of Supervisory Board of Apator SA, since 2010 Deputy Chairman of the Supervisory Board - knowledge of the electromechanical sector in the area of production of metering equipment and systems for energy utilities distribution companies (electricity metering and switchgear),

since 2005 till now - Chairman of the Supervisory Board of Apator Mining sp. z o.o. (subsidiary of Apator SA) - knowledge of the electromechanical sector in the area of production of machines and equipment for mining, which the company conducted until the end of 2018,

since 2007 till now - Chairman of the Supervisory Board of Apator Metrix SA (entity dependent on Apator SA) - knowledge of the electrical machinery sector in the area of production metering gear for energy distribution companies (gas metering),

since 2014 till now - Member of the Supervisory Board of Apator Elkomtech SA (entity dependent on Apator SA) - knowledge of the electrical machinery sector in the area of production system supporting the work of energy services in the field of transmission and energy distribution (control and supervision systems),

since 2020 till now - Member of Supervisory Board of Apator Powogaz SA (subsidiary of Apator SA) - knowledge of water and sewerage sector in the area of manufacturing of water meters, heat meters and cost allocators,

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since 2008 till now - Deputy Chairman of the Supervisory Board of PHS Hydrotor SA (2008 - 06.2014), Chairman of the Supervisory Board of PHS Hydrotor SA (07.2014 - 06.2018), Chairman of the Audit Committee of PHS Hydrotor SA (since 06.2009), Member of the Audit Committee of PHS Hydrotor SA (07.2017 - 06.2018), President of the Executive Board of PHS Hydrotor S.A. (since 07.2018), Chairman of the Supervisory Board of Więcborskie Zakłady Metalowe Wizamor Sp. z o.o. (from May 2019) - industry knowledge of the electromechanical sector in the area of mechanical equipment production.

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Kazimierz Piotrowski has the knowledge and skills in the branch in which Apator SA operates acquired during the performance of the following functions:

1993-2000 - Member of the Executive Board of Apator SA, including Administrative Director (from 1993 to 1998) and Financial Director (1998-2000) - knowledge of the electromechanical sector in the area of production of measuring devices and systems for energy distribution companies (electricity metering and switchgear).

2005 - 2008 - President of the Executive Board of Apator Metrix SA (subsidiary of Apator SA) - knowledge of the electrical machinery sector in the area of production metering gear for energy distribution companies (gas metering),

years 2009 - 2013 - Chairman of the Supervisory Board of FAP Pafal SA (subsidiary of Apator SA) - knowledge of the electrical machinery sector in the area of production of metering equipment for energy distribution companies (metering of electricity),

since 2001 till now - Member of the Supervisory Board of Apator Mining sp. z o.o. (subsidiary of Apator SA) - knowledge of the electrical machinery sector in the area of machine manufacturing and equipment for the mining industry, which the company was running until the end of 2018,

since 2013 till now - Member of the Supervisory Board of Apator Metrix SA (entity dependent on Apator SA) - knowledge of the electrical machinery sector in the area of production metering gear for energy distribution companies (gas metering),

since 2015 till now - Member of the Supervisory Board of Apator SA, Member of the Audit Committee - knowledge of the electrical machinery sector in the area of production of equipment and measurement systems for energy distribution companies (electricity metering and switchgear),

5.4. Meetings of the Audit Committee

In accordance with the Regulations of the Audit Committee, the Committee meets as required, but at least twice a year. Meetings of the Audit Committee should be held at least before the Company publishes its separate and consolidated financial statements (half-yearly and annual).

In the performance of its duties, the Audit Committee held 11 meetings during the reporting period, during which it adopted 7 resolutions (of which 4 votes were taken by circulation) and took positions on matters on the agenda.

In 2020, the Audit Committee operated on the basis of an adopted work plan adapted on an ongoing basis to the prevailing situation resulting from the COVID-19 pandemic and, for security reasons, Committee Members were also able to participate in meetings by means of direct remote communication.

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5.5. The scope of work of the Audit Committee

The Audit Committee's main tasks are:

- 1) *monitoring the financial reporting process,*
- 2) *monitoring the effectiveness of internal control, internal audit, risk management, compliance systems,*
- 3) *monitoring the performance of financial audit activities,*
- 4) *to control and monitor the independence of the statutory auditor and audit firm, in particular where services other than audit are provided to the Company.*

The Audit Committee fully performed its tasks provided for in the applicable regulations.

The scope of work of the Audit Committee in 2020 included:

- analysis of current situation of Apator Group in the scope of liquidity, sales, materials, production processes and provision of safety of the employees in view of the influence of pandemic Covid-19,
- cooperation with the statutory auditor, including the analysis of the scope and schedule of work carried out within the financial audit process,
- discussion with the certified auditor on the course of the process of financial statements review in Apator and companies of Apator Group,
- audit of financial statements and reports of the Executive Board for 2019 and issuing a positive recommendation to the Supervisory Board,
- audit of individual financial statement of Apator SA, assessment of consolidated financial statement of Apator Group for the 1st half of 2020 and the report of the Executive Board on activity in the 1st half of 2020,
- a review of the quarterly financial statements published in 2020,
- monitoring the independence of the auditor PricewaterhouseCoopers Polska sp. z o.o. Audyt sp.k. (dealing with audit/review of statements of Apator SA and other companies in Apator Group since 2018)
- to approve the provision of additional services by the auditor for the evaluation of the 2019-2020 remuneration report and the verification of financial statements in XBRL format (new reporting standard),
- supervision over the FX risk hedging policy and periodical analysis of the status of futures contracts,
- supervision of the implementation of the internal audit function, including approval of the audit plan for 2020,
- analysis of reports and recommendations issued by the Internal Auditor,
- supervision over the internal control system,
- supervision over the risk management system,
- supervision over the system of compliance with regulations and legal risks,
- recommendation of executing new multi-product contract with ING Bank Śląski SA intended for financing the current activity of Polish companies of Apator Group,
- a recommendation to amend the Regulations of the Audit Committee.

Systematic reporting by the Audit Committee to the Supervisory Board of the results of supervisory and monitoring activities in relation to the financial reporting processes and the audit of financial statements ensures

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good communication between the management and supervisory bodies and, as a result, allows to improve the quality of the financial reporting process.

6. Information on performance of duties by the Supervisory Board related to the Ordinary General Shareholders Meeting of Apator SA held on 2nd July 2020

The Supervisory Board on 25 May 2020 gave a favourable opinion on the proposals for the Annual General Meeting with regard to:

- reports of the Executive Board on activity of Apator SA and Apator Group in 2019,
- separate and consolidated financial statements for 2019,
- acknowledgement for the Members of the Executive Board of Apator SA,
- distribution of the company's profit for the financial year 2019 and payment of the remaining part of the dividend,
- changes in the content of the Statute of Apator SA resulting from
 - new powers of the Supervisory Board and the General Meeting resulting from amendments to the Act of 29 July 2005 on public offerings and conditions for introducing financial instruments into an organised trading system and on public companies (Journal of Laws of 2019, item 623, as amended),
 - reduction of share capital in connection with the completion of the Share Repurchase Programme for cancellation of own shares and the reduction of share capital adopted by the General Meeting of Shareholders on 27 May 2019,
- amendments to the Regulations of the Supervisory Board reflecting the changes in the content of the Statute.
 - amendments to the Rules of Procedure of General Meetings,
 - giving an opinion on the remuneration policy for members of the Executive Board and the Supervisory Board.

In addition, the Supervisory Board gave its opinion on the introduction of a new Share Repurchase Programme for the purpose of redemption and reduction of share capital and the intention to create a Share Redemption Fund to finance the Share Repurchase Programme. The Board furthermore presented a report on its activities in 2019 to the Annual General Meeting and obtained its approval.

All members of the Supervisory Board also attended the General Meeting of the Company in order to ensure that they were ready for substantive discussions during the meeting.

7. Human resources policy performed by the Supervisory Board

As part of the HR policy, the Supervisory Board is responsible for:

- determining the number of members of the Company's Executive Board,




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- appointing the President of the Executive Board and then, at the request of the President, other Members of the Executive Board,
- establishing the principles of remuneration for the Executive Board in accordance with the adopted remuneration policy for Members, The Executive Board,
- suspending all or individual Members of the Executive Board from their duties for important reasons,
- dismissal of Members of the Executive Board of the Company,
- delegating members of the Supervisory Board to temporarily perform the duties of members of the Executive Board,
- representing the company in the contract between the company and a Member of the Executive Board, as well as in a dispute between the company and a Member of the Executive Board.

7.1. Composition of the Executive Board of the Apator SA

Pursuant to § 16 of the Statute of Apator SA the Executive Board of the Company consists of 1 to 6 Members appointed for 3 years for common term of office.

On 1st September 2020 The Supervisory Board of Apator SA extended the composition of the Executive Board of the Company from two to three persons and appointed Tomasz Łątka to its composition. Therefore the Executive Board of Apator SA acts in the following composition:

		
<p>Mirosław Klepacki</p> <p>Prezes Zarządu, President of the Executive Board, General</p> <p>Powołany w skład obecnej kadencji w dniu: 27.05.2019 Appointed on May 27, 2019</p>	<p>Arkadiusz Chmielewski</p> <p>Członek Zarządu, Dyrektor ds. Member of the Executive Board, for Business development</p> <p>Powołany w skład obecnej kadencji w dniu: 27.05.2019 Appointed on May 27, 2019</p>	<p>Tomasz Łątka</p> <p>Członek Zarządu, Dyrektor ds. Member of the Executive Board, for Network Automation</p> <p>Powołany w skład obecnej kadencji w dniu: 01.09.2020 Appointed on 01.09.2020</p>

The current term of office of the Board of Directors ends on the date of the 2022 Annual General Meeting.

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7.2. Executive Board remuneration system

As part of the remuneration policy, the competence of the Supervisory Board includes:

- establishing the principles of remuneration for the Executive Board in accordance with the adopted remuneration policy for Members, The Executive Board,
- preparing and presenting to the General Meeting a report on remuneration of the Members of the Executive Board and the Supervisory Board,
- specifying the remuneration policy for Members of the Executive Board and Supervisory Board within the limits set by the General Meeting,
- making a decision on temporary withdrawal from the application of the remuneration policy for Members of the Executive Board and Supervisory Board within the limits indicated in the remuneration policy.

On 2nd July 2020 Ordinary General Shareholders Meeting of Apator SA based on art. 90d of the Act on Public Offer and Conditions of Introducing Instruments to the Organized Trading System and Public Companies dated 29th July 2005 (i.e. Journal of Laws of 2019, item 623, as amended, hereinafter referred to as the Offering Act) adopted a Remuneration Policy for the Members of the Executive Board and Supervisory Board.

The objective of the Remuneration Policy is to determine the rules of remuneration of the Executive Board of the Company in the manner supporting the performance of long-term business strategy, long-term interests and stability of Apator Group.

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

In accordance with the Offer Act, the Board has prepared a remuneration report for 2019-2020 as a separate document and information on remuneration levels is included in that report.

8. Code of Best Practice for WSE Listed Companies

8.1. State of application of DPSN by Apator SA

The current set of corporate governance rules is the "Code of Best Practice for WSE Listed Companies 2016", which was adopted by virtue of Resolution No. 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board of 13 October 2015.

Apator SA applies all detailed rules of Best Practice for WSE Listed Companies 2016 Company.

As recommendations, the company does not apply:

- ✦ recommendation IV.R.2: "Where justified by the shareholder structure or the shareholders' expectations expressed to the company, and where the company is able to provide the technical infrastructure necessary for the smooth running of the general meeting by electronic means, it should enable shareholders to participate in the general meeting by such means, in particular by means of electronic communication:
 - 1) real-time transmission of General Meetings in real time,
 - 2) real-time two-way communication whereby shareholders may address the general meeting from a location other than the venue of the general meeting,
 - 3) exercising, in person or by proxy, the right to vote during the General Meeting".

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Justification: this recommendation is not applied due to legal and technical considerations. The Statute of Apator SA in the form currently in force does not provide for the possibility to participate in the General Meeting with the use of means of electronic communication in particular through two-way communication in real time. In order to enable shareholders to familiarise themselves with the proceedings, the company broadcasts the proceedings in real time, and a video record of the proceedings is posted on its website at www.apator.com.

8.2. Application of the Best Practices for WSE Listed Companies by the Supervisory Board in 2020

In 2020, the Supervisory Board did not break any of the Best Practices of WSE Listed Companies adopted for application by the Supervisory Board. Members of the Supervisory Board performed their duties related to meetings of the Supervisory Board in person and were guided in their conduct by the interest of the Company and independence of opinions and judgements.

Members of the Supervisory Board promptly informed themselves of potential conflicts of interest and refrained from speaking in the discussion at the Supervisory Board meeting and from voting on the resolution on the matter in which the conflict of interest arose, in accordance with the procedures that operate in the company.

Information on the remuneration of the Supervisory Board Members can be found in the Supervisory Board's remuneration report for 2019 - 2020, which is a separate document.

8.3. Assessment of compliance of Apator SA with disclosure obligations concerning the application of corporate governance

In the opinion of the Supervisory Board, the Company duly meets the disclosure requirements related to the application of corporate governance rules.

The report on the application of the principles of Best Practices for WSE Listed Companies is available on the website www.apator.com in the Investor Relations tab.

9. Assessment of financial statements of Apator SA and the Apator Group for 2020

Apator SA prepares separate and consolidated financial statements in accordance with legal requirements, including IAS/IFRS standards. The statements for 2020 were audited by

PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp. k.

The Supervisory Board supervised the process of preparing financial statements. On the basis of positive recommendation of the Audit Committee of 23rd April 2021 it made the assessment of the financial statements of Apator SA and Apator Group prepared by the Executive Board. The Supervisory Board stated that the financial data presented in the periodical reports are reliable, correct and actual and are prepared in accordance with the books, documents and the actual state of affairs as well as with the accounting principles in force, applied in a continuous manner on the basis of the books of account kept.

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10. Supervision over the activity of Apator and Apator Group

The Supervisory Board shall exercise permanent supervision over the Company's operations and the work of the Executive Board through:

- *analysing materials received from the Executive Board at the request of the Board,*
- *obtaining information and detailed explanations from Members of the Executive Board and other employees of the Company during meetings of the Supervisory Board,*
- *activities of the Audit Committee,*
- *activities of the certified auditor who, on behalf of the Supervisory Board, reviewed and audited the financial and accounting documentation and the financial statements prepared on its basis.*

Following the outbreak of the COVID-19 pandemic, the Board's focus in 2020 was on overseeing the Board's assurance of operational continuity, the preservation of financial liquidity and the measures taken to guarantee safety for employees.

In addition to the above, the Supervisory Board's areas of oversight in 2020 included:

- separate and consolidated financial results, including the analysis of operating costs and the level of assumed provisions for warranty repairs,
- the degree to which financial budgets are implemented,
- current review of the decisions of the Executive Board of Apator SA taken in the form of resolutions,
- expressing the consent to dispose of the right or incurring of liabilities by Apator SA with the value over PLN 20 million (in accordance with the Statute of the Company), in particular expressing the consent to participation of the Company in significant public tenders,
- giving opinions (within internal corporate governance) on the activities of the companies in the Apator Group concerning the disposal of the right or incurring the liabilities above PLN 20 million,
- analysis of economic situation and risks in particular segments and business lines of Apator Group,
- analysis of current situation and prospects of development of key companies for the activity of Apator Group (Apator Powogaz SA, Apator Metrix SA, Apator Elkomtech SA, Apator Rector sp. z o.o.),
- sale of real estate and relocation of Apator Powogaz SA,
- entering new areas of activity (RES),
- development of the capital group
- corporate and financial supervision over foreign entities of the Apator Group,
- optimization of the property of the Apator Group (real estate),
- analysis of commitments of Apator Group,
- investment outlays in Apator Group,
- R&D area in the Apator Group,
- dividend policy,
- execution of the share buy-back program of Apator SA,
- procedure for evaluating related party transactions,
- personnel policy of Apator Group and the system of remuneration of the Executive Board of entities in Apator Group,
- sponsorship policy,

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- Analysis of the Internal Auditor's reports and comments of the Audit Committee and analysis of the implementation of recommendations,
- changes in law (compliance).

11. Evaluation of the internal control system, risk management system, system of supervision over compliance with legal requirements and functioning of internal audit

The system of protection of the company against risk is based on the model of three lines of defence:

- *1 line of defence - operational management including self-control and functional control embedded in the organisational structure and performed by managers of organisational units,*
- *Second line of defence - ISO process audits, institutional internal control, risk review, compliance, financial control, corporate governance,*
- *Third line of defence - internal audit - independent verification and advisory activity.*

11.1. Internal control system

The internal control system covers all processes (sales, purchases, development, operational, investment, financial and support processes). The organisation of the internal control system shall include:

- self-control initiated and exercised in a systematic and continuous manner by all employees of the company within the limits of the duties and powers conferred upon them,
- functional control embedded in the organisational structure and exercised by managers and directors of the company's organisational units,
- institutional control performed by the controlling team in Apator SA and subsidiaries on the basis of the order of the Executive Board and Plenipotentiary of ISO.

Additional support for the internal control system and support for the improvement of the organisation are reports and recommendations from external audits (statutory auditor audits, client audits and audits certifying the management system).

Internal audit reports and an assessment of the effectiveness of the system for 2020 were presented before the Audit Committee of the Supervisory Board on 25 March 2021.

11.2. Risk Management System

The company's risk management system is based on ISO 31000 and is aimed at ensuring a uniform approach to risk identification and assessment, defining risk response plans and monitoring the effectiveness of risk management in business processes, projects and initiatives. Risk management conducted within the system is a continuous process, subject to modifications, which is a consequence of the changing economic environment and changes concerning the influence of particular factors on business and strategic objectives. Risk management is carried out by the Risk Manager and is supported by the Committees operating within the group:

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- The Financial Committee composed of representatives of finance from individual Group companies, whose task is to supervise financial processes in the Group and their further integration,
- Financial Risk Committee established to support control mechanisms and uniform financial risk management.

The analysis and description of the most important risks is described in detail in the Executive Board's report for year 2020 (<http://www.apator.com/pl/relacje-inwestorskie/raporty/raportyokresowe/skonsolidowany-raport-roczny-za-2020-rok>).

11.3. System of supervision over compliance with legal requirements (compliance)

Apator SA defines Compliance as observance of legal obligations resulting from legal acts commonly binding or voluntarily adopted for application by the Company (e.g. Good Practices of Companies Listed on the Warsaw Stock Exchange, ISO standards).

The purpose of the compliance system is to:

- legal monitoring and adaptation of actions to the requirements and announced legal changes,
- building employee awareness of the consequences of non-compliance with the law,
- protection of confidential information and business secrets,
- protection of the financial result,
- protection of the reputation,
- cooperation with supervisory authorities;

In Apator SA operates Compliance Team, which task is to support the Executive Board and employees of the companies in the Apator Group in identification of legal regulations and their implementation to internal procedures.

In 2020, the most important challenges were:

- COVID-19 - an analysis of the constraints, obligations and opportunities for the use of the crisis shield,
- notification of companies of Apator Group to the Central Register of Actual Beneficiaries,
- preparing remuneration policies and related party transactions,
- accession of further companies to employee share ownership plans,
- analysis of the new public procurement law (from 1 January 2021)
- draft amendments to the Companies Act concerning holding law.

In 2020, no notifications regarding the infringements of the law were recorded in the companies of Apator Group.

11.4. Internal Audit

Internal Audit in Apator SA is the independent verification and advisory activity within the third pillar of the protection against risk.

In Apator SA there is a separate internal audit department and the Auditor was appointed Internal. The Internal Auditor reports directly to the President of the Executive Board of Apator SA in organizational structure but functionally reports to the Audit Committee of the Supervisory Board. At the same

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time, the Supervisory Board of Apator SA is competent for the consent to appoint and dismiss the Internal Auditor, which supports the independence of the opinion of the Auditor. In addition, the Internal Auditor's work plan (audit plan) is approved by the Audit Committee of the Supervisory Board.

In 2020, the subject of Internal Audits were, among others, the following areas:

- audit of fixed costs in Apator Group,
- information policy of the Apator Group
- quality processes at the design stage of new products,
- legal disputes: scale of the phenomenon, risks and prognosis,
- organisation of the purchasing process,
- verification of the implementation of recommendations from previous audits.

11.5. Assessment of the systems

The Supervisory Board positively assesses the effectiveness of the risk management system, compliance, internal control and internal audit function for 2020. The Supervisory Board points to the continuous need for further improvement of all the above systems.

12. Assessment of the rationale of the sponsoring, charity or other similar policy of similar nature

Sponsoring policy is subordinated to general strategy of development of the Apator Group and it is integral part of its communication and external promotion.

Objectives of the sponsorship policy:

- *building brand awareness,*
- *building a positive image of a socially friendly company, involved in various local initiatives, often with international reach,*
- *building the company's good reputation and gaining public recognition and sympathy through participation in undertakings with high standards (cooperation in prestigious undertakings),*
- *brand promotion outside the circle of customers and product recipients, e.g. as an attractive employer*
- *support for promotional and commercial activities, increasing brand awareness among potential business partners,*
- *increased interest of investors,*
- *increase employee engagement,*
- *positive impact of the organisation on its environment.*

The Supervisory Board positively evaluates the company's sponsorship activities aimed at supporting Young Talents and local initiatives in the area of sport, culture and science.

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In 2020 in accordance with adopted policy assuming the allocation of 0.5% of net profit of Apator SA for sponsoring activity, the Company performed the following actions:

- ✦ support in the fight against the pandemic:
 - financial support for hospitals in Toruń: Wojewódzki Szpital Zespolony im. L. Rydygiera (Voivodship Complex Hospital named after L. Rydygier) and Specjalistyczny Szpital Miejski im. Mikołaja Kopernika (Nicolaus Copernicus City Specialist Hospital),
 - support for the campaign led by the Municipality of Toruń in the form of a donation to the Badamy - Wspieramy Medyków campaign,
- ✦ science:
 - launching online training cycle for customers and designers "E-academy of Apator". These are substantive training sessions on switchgear, where you can learn about ARS, RBK series disconnectors and surge arresters, cam switches, and you can also find out more about systems.
 - Polish Mathematical Society, Branch in Toruń (prizes for the winners of the Józef Marcinkiewicz Mathematical Competition),
- ✦ culture:
 - leading event: Tofifest festival,
 - Support for cultural events (Artus Festival, IV National Review of Children and Youth Art "My Beautiful - Safe Place 2020", Beautiful World Foundation),
- ✦ sport:
 - leading action: Twarde Pierniki - sponsor of youth and senior teams,
 - sports sponsorship (World Masters Athletics Indoor Championships, Supporters' Association Motorsports "Stal" Toruń, "Blue Ribbon of the Gulf of Gdansk" Regatta, International Sports Club "Falcons" from Toruń),
- ✦ charity activity:
 - leading action: support for the Children's Hospice of Hope,
 - Gaszyn Challenge - involvement of the employees in taking up the challenge and transfer of financial means by Apator SA to Fundacja Się Pomaga for Frank Dziemecki who fights with disease,
 - other support: Society of the Friends of Children in Toruń, Family and Earth Assistance Foundation, Association for the Care of Abandoned Children Bl. Ks. Br. Markiewicza, PCK,
 - additionally, Apator SA financed the Christmas help: arrangement of the collection of Christmas gifts for the wards and their families of Social and Charitable Foundation "Helping Family" and "Hope" hospice. Apator transferred small gifts for the volunteers taking part in the action Noble Financial support for Hufca ZHP, which organised a Christmas Eve party (delivered) for the inhabitants of Toruń.

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13. Assessment of the activity and financial results of Apator SA and Apator Group

The Supervisory Board exercised constant supervision over the execution of the budget and at each meeting it analysed the current financial and economic results of Apator SA and the results of particular business segments and in particular the level of sales, costs incurred, level of margins, management of working capital and financial liquidity. The Supervisory Board also analysed the current consolidated financial results and the situation and risks in particular companies of Apator Group and their development plans.

In 2020, the most significant factor affecting the global economy was a pandemic that triggered a global crisis and strongly shook the foundations of world trade. However, despite the uncertain and challenging market conditions, the Group conducted its operations without major disruptions, as a result achieving an increase in sales revenue by 7% y-o-y (at a turnover level of PLN 934.9 million) and net profit by approximately 13% y-o-y (at a level of over PLN 62 million). Diversified business of Apator Group and wide offer portfolio enable Apator Group to run stable activity and to generate reliable financial results.

In the perspective of the whole 2020, the process of relocation of Apator Powogaz SA to the modern manufacturing plant and the performance of the investments bringing the improvement of effectiveness and efficiency of manufacturing processes in this Company are worth noticing. One of the strategic priorities is also further robotization and automation of operating processes in the entire Apator Group. Therefore, to support the performance of these assumptions, in 2020 a new team of experienced engineers (operating within Apator Metrix SA) was established to implement automation solutions and to increase the scalability of production. In addition, the Group is actively developing its offer for the dynamically growing renewable energy market (especially photovoltaics) and developing new initiatives to respond to trends in economic and sustainable utility management. At the end of 2020 the Group also acquired an organised part of Atrem SA, with which it assumed competence in the area of software for the gas industry and processes related to the transmission and distribution of gaseous fuels. It allowed Apator Group to come into existence as the supplier of complete system solutions for the customers of Gas segment.

The Supervisory Board confirms that the Group's development directions are appropriate. Intensive work is underway to update strategic initiatives and capitalise on the opportunities presented by the energy transformation, the digitalisation of the energy sector and the growing importance of smart solutions for all the Group's business segments. And additionally, in the current market reality, high competitive pressure and price erosion, investments leading to significant increases in the efficiency of production processes are particularly important. The Supervisory Board also emphasises the stable foundations and secure financial position Group, which provides security for the continuation of operations when the long-term effects of pandemics and supply chain turbulence are difficult to predict.

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14. Self-assessment of the work of the Supervisory Board

Personal composition, competences and professional experience of the members of the Supervisory Board ensure effective supervision over all areas of activity of Apator SA and its capital group. The Supervisory Board, in accordance with the principles arising from the DPSN, supported the Executive Board with expertise in strategic areas in addition to its supervisory function. The cooperation was based on trust and joint action in the interest of the company and all its stakeholders.

The year 2020 was the period of active and intensive work of the Supervisory Board and the time involvement of the members of the Board in the matters of the Company and Apator Group significantly exceeded the market standards in this scope.

The Supervisory Board believes that, guided in its conduct by the interests of the company and its group, it has performed its duties properly and in accordance with the formal and legal requirements, providing professional support on the merits and adequate supervision of all aspects of its activities.

The Supervisory Board requests the General Meeting of Shareholders to approve the report on the Board's activities and to grant a vote of acceptance to all persons performing the functions of Members of the Supervisory Board in 2020.

Chairman of the Supervisory Board
Janusz Niedźwiecki

Apator SA

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