



Report on the activity of the Supervisory Board of Apator SA in 2022

Toruń, 31 May 2023



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Period covered by the financial statements:	01 January 2022 – 31 December 2022

1. Introduction

The Supervisory Board of Apator SA, acting under Art. 382(3) of the Commercial Companies Code, and Art. 15 sec. 11 of the Statute of Apator SA and 2021 Best Practice for GPW Listed Companies, would like to present the *Report on the activity of the Supervisory Board of Apator SA in 2022* to the Ordinary General Shareholders Meeting.

This report is prepared in accordance with item 2.11 of the 2021 Best Practice for GPW Listed Companies and includes:

- *information on the composition of the Board and its committee, with an indication of which Board members meet the independence criteria set out in the Act of 11 May 2017 on statutory auditors, audit firms and public supervision, and which of them do not have actual and significant ties with a shareholder holding at least 5% of the total number of votes in the Company, as well as information on the composition of the supervisory board in the context of its diversity;*
- *summary of the activities of the Board and its committee;*
- *an assessment of the Company's application of the principles of corporate governance and the manner of fulfilling the information obligations concerning their application laid down in the WSE Rules and in the regulations on current and periodic information provided by issuers of securities, together with information on the actions taken by the Supervisory Board to perform this assessment;*
- *a consolidated assessment of the Company's situation, including an assessment of the internal control systems, risk management, compliance and the internal audit function, together with information on the steps the Board has taken to make this assessment; this assessment shall cover all relevant controls, including in particular reporting and operational controls;*
- *an assessment of the reasonableness of the expenditure referred to in Rule 1.5 of the 2021 Best Practice for GPW Listed Companies, i.e. expenditure to support culture, sport, charities, media, community organisations, trade unions, etc;*
- *information on the degree of implementation of the diversity policy with regard to the Management Board and the Supervisory Board.*

2. Composition of the Supervisory Board

In accordance with the Statute of Apator SA, the Supervisory Board may be composed of 5 to 7 members, elected by the General Meeting for 5 years for a common term of office. 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.

Throughout the reporting period covering 2022, the composition of the ninth-term Supervisory Board was as follows:

- | | | |
|------------------------|---|--|
| ▪ Janusz Niedźwiecki | - | Chairperson of the Supervisory Board, |
| ▪ Mariusz Lewicki | - | Deputy Chairperson 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 day when the General Shareholders Meeting is held in 2025

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The 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 performed.

Professional CVs of the members of the Supervisory Board are available on Apator SA's website in the "Investor Relations" tab.

2.1. Independence of Supervisory Board Members

In accordance with the requirements of the 2021 Best Practice for GPW Listed Companies, at least two members of the supervisory board meet the independence criteria set out in the Act of 11 May 2017 on statutory auditors, audit firms and public supervision and do not have actual and significant ties to a shareholder holding at least 5% of the total number of votes in the Company.

With reference to the Act of 11 May 2017 on statutory auditors, audit firms and public supervision, the independence criteria required under this Act are met by three Supervisory Board members: Janusz Niedźwiecki, Marcin Murawski and Kazimierz Piotrowski.

Furthermore, apart from the criteria listed in the aforementioned Act, Janusz Niedźwiecki and Marcin Murawski also meet the condition of having no actual and significant ties to a shareholder holding at least 5% of the total number of votes in the Company, as required by the 2021 Best Practice for GPW Listed Companies.

2.2. Diversity of Supervisory Board Members

In 2022 and at the date of publication of this Report, the diversity ratio of the Supervisory Board members in terms of gender and age is as follows:

- gender ratio on the Supervisory Board:

women:	14.3%
men:	85.7%

- Supervisory Board member age range:

30–49 y.o.:	14.2%
50–65 y.o.:	42.9%
over 65 y.o.:	42.9%

3. Summary of Supervisory Board Activities in 2022

3.1. Supervisory Board Meetings

In accordance with the Statute, the Supervisory Board meets quarterly, or more often if necessary, at the invitation of the Chairperson of the Board.

In 2022, the Supervisory Board operated based on the adopted meeting schedule. The agenda was established on a case-by-case basis by the Chairperson of the Supervisory Board, based on the situation of the Company and the Apator Group, as well as the legal requirements, and the information needs of the Supervisory Board; it was then sent to the Supervisory Board members in notices of meetings well in advance.

In 2022, the Supervisory Board held 23 meetings, during which it took positions on matters on the agenda and adopted 45 resolutions (including 10 by circulation).

Irrespective of regular meetings, the Supervisory Board members were in constant, direct contact with the Management Board to comprehensively supervise the activities of the Company and the Apator Group.

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3.2. Supervisory Board Supervision Areas

The Supervisory Board carries out its activities based on the specific powers granted by the Statute of Apator SA, the Regulations of the Supervisory Board of Apator SA and the principles of corporate governance specified in 2021 Best Practice for GPW Listed Companies.

The Supervisory Board exercised constant supervision over Company and Group activities in all areas of its operations and supervised the work of the Management Board by:

- examining materials received from the Management Board at the Supervisory Board's request,
- obtaining information and detailed explanations from the members of the Management Board and other Company employees during the meetings of the Supervisory Board,
- activities of the Audit Committee and attending its meetings,
- 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.

All members of the Supervisory Board exercised due diligence in the performance of their duties using their knowledge and experience and effectively carried out their statutory tasks, guided in their actions by the interests of the Company and the Group. Apart from exercising its supervisory function, the Supervisory Board supported the Management Board with expertise in strategic areas, in line with the 2021 Best Practice for GPW Listed Companies.

The areas of supervision of the Supervisory Board in 2022 included corporate and financial supervision of Apator SA and other domestic and foreign Apator Group companies. The Board's 2022 areas of special oversight concerned:

- approving the separate and consolidated financial budget,
- analysing the separate and consolidated financial results, including economic parameters in terms of profitability, liquidity, net debt, working capital (especially inventories) and the extent to which these have been achieved in relation to the approved budget,
- analysing the macroeconomic environment and risks arising from it (including the war in Ukraine) and their impact on the current situation of the Apator Group and directions of development of particular segments and business lines,
- examining the materialising risks of the accelerating transition away from gas and the write-off of R&D work at GWi, which operates in the Gas Segment,
- approving the updated business strategy of the Apator Group,
- appointing the Management Board of Apator SA for the next term of office,
- consenting for Apator SA to dispose of rights or incur liabilities exceeding PLN 20 mln in value and issuing opinions on such actions towards the Apator Group, in particular:
 - ✓ Apator SA's participation in significant public tenders (Energa, PGE, Tauron Dystrybucja),
 - ✓ conclusion of a multi-product agreement with ING Bank Śląski SA,
 - ✓ conclusion by the subsidiary Apator Powogaz SA of the final contract concerning its new headquarters in Q1 2022, i.e. the acquisition of land and a production and warehouse building with office and employee facilities in Jaryszki from Jan Konieczny and JAKON INWEST 2 sp. z o.o.,
 - ✓ conclusion of significant product sales contracts by Apator Group companies on domestic and foreign markets,
- analysing relocation stages of Apator Powogaz SA and visiting its new facility after relocation, including a summary of total expenditures incurred, which amounted to PLN 54 mln in 2 years,
- product and process quality management at Apator SA; analysing operations optimisation activities and visiting Apator SA production departments,
- optimising Apator Group assets, including the sale of real estate in Łódź scheduled for 2023 (preliminary agreement) and in Świdnica (agreement executed in December 2022),

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- issuing a recommendation to sell shares in AO Teplovodomer based in Russia,
- reviewing decisions of the Apator SA Management Board made in the form of resolutions,
- reviewing transactions with affiliated entities,
- reviewing the Apator Group personnel policy, including the remuneration and bonus systems of Management Boards of Apator Group companies, as well as the remuneration levels,
- reviewing the implementation of the sponsorship policy,
- reviewing the dividend policy and recommending dividend payments,
- analysing legal changes (compliance), including the impact of amendments to the Commercial Companies Code on the activities of the Supervisory Board,
- amending the Regulations of the Management Board of Apator SA,
- selecting the statutory auditor and ensuring compliance with all formal and legal requirements related to this process,
- attending Audit Committee meetings and analysing its decisions and recommendations, including on Internal Auditor's reports,
- compliance by the Apator SA Management Board with the information duties towards the Supervisory Board under the amendment to the Commercial Companies Code (Art. 380 [1]),
- delegating the Chairperson of the Supervisory Board to act independently in supervisory activities in the period leading up to the 2023 Ordinary General Shareholders Meeting of Apator SA.

In addition, the Supervisory Board gave a positive opinion on all motions for the General Shareholders Meeting held on 28 June 2022, and representatives of the Board participated in this Meeting to ensure they were ready for substantive discussion during its course.

The Supervisory Board believes that it has performed its duties properly and in accordance with formal and legal requirements in 2022, providing substantive support to the Management Board and appropriate supervision over all aspects of the activity of Apator SA and the Apator Group.

3.3. Human Resources Policy Implemented by the Supervisory Board.

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

- *determining the number of Members of the Company's Management Board,*
- *appointing the President of the Management Board and then, on his request, the other members of the Management Board,*
- *determining the rules of remuneration for the Management Board in line with the adopted remuneration policy for Members of the Management Board,*
- *suspending all or individual Members of the Management Board for important reasons,*
- *dismissing Members of the Company's Management Board,*
- *delegating Members of the Supervisory Board to temporarily perform the duties of Members of the Management Board,*
- *representing the Company in contracts between the Company and the Board Members, as well as in disputes between the Company and Board Members,*

3.3.1. Composition of the Management Board of Apator SA in 2022

In accordance with Art. 16 of the Statute of Apator SA, the Company's Management Board is composed of 1 to 6 members appointed for 3 years for a common term of office.

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As of the date of the Ordinary General Shareholders Meeting, 28 June 2022, when the Management Board's term of office came to an end, its composition was as follows:

- Arkadiusz Chmielewski — President of the Management Board, Director for Business Development of the Apator Group,
- Tomasz Łątka — Member of the Management Board, General Director of Apator SA.

Therefore, the Supervisory Board of Apator SA appointed the Management Board for a new common 3-year term of office, commencing 29 June 2022 and ending on the date of the 2025 Ordinary General Shareholders Meeting. The following individuals were reappointed to the Board:

- Arkadiusz Chmielewski — President of the Management Board, Director for Business Development of the Apator Group,
- Tomasz Łątka — Member of the Management Board, General Director of Apator SA.

3.3.2. Apator SA Management Board Remuneration System

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

- determining the rules of remuneration for the Management Board in line with the adopted remuneration policy for Members of the Management Board,
- preparing and presenting a report to the General Shareholders Meeting on the remuneration of the Members of the Management Board and the Supervisory Board,
- detailing the remuneration policy for Members of the Management Board and Supervisory Board, within the limits determined by the General Shareholders Meeting,
- deciding on temporary withdrawal from the application of the remuneration policy for Members of the Management Board and Supervisory Board within the limits specified in the remuneration policy.

The principles of the remuneration system for Management Board Members result from the Remuneration Policy for the members of the Management Board and Supervisory Board, adopted by the General Shareholders Meeting, which aims to support the long-term business strategy and long-term interests and stability of the Apator Group.

The full content of the Remuneration Policy is available at www.apator.com in the "Investor Relations" tab.

Pursuant to Article 90d of the Act on Public Offerings and 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), the Supervisory Board has prepared the 2022 remuneration report as a separate document containing data on remuneration levels.

4. Audit Committee

4.1. Composition of the Audit Committee

An Audit Committee operates as part of the Supervisory Board. 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. The Committee's composition did not change throughout 2022 and was as follows:

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

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4.2. Independence of the Audit Committee Members

With reference to the Act of 11 May 2017 on statutory auditors, audit firms and public supervision, the independence criteria required under this Act are met by two Audit Committee Members, i.e.: Marcin Murawski and Kazimierz Piotrowski.

The criteria for independence within the Audit Committee, as set out in the "2021 Best Practice for GPW Listed Companies", are met by its Chairperson — Marcin Murawski.

4.3. Compliance with the Act on Statutory Auditors

The Supervisory Board of Apator SA declares that the regulations regarding the requirements to have knowledge and skills in the industry in which the issuer operates and in accounting or auditing of financial statements are complied with:

- Marcin Murawski and Mariusz Lewicki have knowledge and skills in accounting or auditing:
 - 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 Public Accountant (PIBR No. 90053); since 2000 he has been a British Certified Public 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, an independent member of Supervisory Boards and Member of Audit Committees of GPW-listed companies: (CCC SA — Chairperson of the Audit Committee — until June 2019, Apator SA — Chairperson of the Audit Committee, GTC S.A. — Chairperson of the Audit Committee, Seco/Warwick SA — Chairperson of the AC), Raiffeisen Bank International AG, Poland Branch (Member of the Steering Committee) and Asseco Business Solutions SA — Member of the Supervisory Board).
 - Mariusz Lewicki graduated from the Faculty of Economics at Nicolaus Copernicus University in Toruń, in the field of economics and production organisation; Postgraduate Studies in Tax Law and in Commercial Law at the Faculty of Law and Administration at 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 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 at Apator Control Sp. z o.o. (former subsidiary of Apator SA),
 - ✓ 2007–2013 — Financial advisor at Z.P.H.U. Walter,
 - ✓ 2008–2018 — Deputy Chairperson of the Supervisory Board of PHS Hydrotor SA (2008–June 2014), Chairperson of the Supervisory Board of PHS Hydrotor SA (July 2014–June 2018), Chairperson of the Audit Committee of PHS Hydrotor SA (since June 2009), Member of the Audit Committee of PHS Hydrotor SA (July 2017–June 2018), President of the Management Board of PHS Hydrotor SA (since July 2018),
 - ✓ from 2015 to this day — Deputy Chairperson of the Supervisory Board of Agromet ZEHS Lubań SA (June 2015–June 2018), Chairperson of the Supervisory Board of Agromet ZEHS Lubań SA (since July 2018),
 - ✓ from 2009 to December 2015 — Chairperson of the Audit Committee of Apator SA, then Member of the Audit Committee of Apator SA until now,

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- ✓ from May 2019 until this day — Chairperson 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 SA operates:
 - Marcin Murawski has knowledge and skills in Apator SA's industry acquired while performing the following functions:
 - ✓ from 2013 to this day — Member of the Supervisory Board of Apator SA — knowledge of the electrical machinery sector in the area of manufacturing of metering equipment and systems for energy utility distribution companies (electricity metering and switchgear),
 - ✓ from 2015 to this day — Member of the Supervisory Board and Chairperson of the Audit Committee of Seco/Warwick SA — knowledge of the electrical machinery sector in the area of mechanical equipment manufacturing.
 - Mariusz Lewicki has knowledge and skills in Apator SA's industry acquired while performing the following functions:
 - ✓ from 2000 to this day — Member of the Supervisory Board of Apator SA, Deputy Chairperson of the Supervisory Board since 2010 — knowledge of the electrical machinery sector in the area of manufacturing of metering equipment and systems for energy utility distribution companies (electricity metering and switchgear),
 - ✓ from 2005 to this day — Chairperson of the Supervisory Board of Apator Mining Sp. z o.o. (a subsidiary of Apator SA) — knowledge of the electrical machinery sector in the area of mining machinery and equipment manufacturing, which the company carried out until the end of 2018,
 - ✓ from 2007 to this day — Chairperson of the Supervisory Board of Apator Metrix SA (a subsidiary of Apator SA) — knowledge of the electrical machinery sector in the field of manufacturing of metering gear for energy distribution companies (gas metering),
 - ✓ from 2014 to 2021 — Member of the Supervisory Board of Apator Elkomtech SA (a subsidiary of Apator SA) — knowledge of the electrical machinery sector in the field of manufacturing of systems supporting the work of energy services in the field of transmission and energy distribution (control and supervision systems),
 - ✓ from 2020 to this day — Member of the Supervisory Board of Apator Powogaz SA (a subsidiary of Apator SA) — knowledge of the water and sewerage sector in the field of manufacturing of water meters, heat meters and cost allocators,
 - ✓ from 2008 to this day — Deputy Chairperson of the Supervisory Board of PHS Hydrotor SA (2008–June 2014), Chairperson of the Supervisory Board of PHS Hydrotor SA (July 2014–June 2018), Chairperson of the Audit Committee of PHS Hydrotor SA (since June 2009), Member of the Audit Committee of PHS Hydrotor SA (July 2017–June 2018), President of the Board of PHS Hydrotor S.A. (since July 2018), Chairperson of the Supervisory Board of Więcborskie Zakłady Metalowe Wizamor Sp. z o.o. (since May 2019) — industry knowledge of the electromechanical sector in the area of mechanical equipment manufacturing.
 - Kazimierz Piotrowski has knowledge and skills in Apator SA's industry acquired while performing the following functions:
 - ✓ 1993–2000 — Member of the Management Board of Apator SA, including: Administrative Director (1993–1998) and Financial Director (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 SA (a subsidiary of Apator SA) — knowledge of the electrical machinery sector in the field of manufacturing of metering gear for energy distribution companies (gas metering),

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- ✓ 2009–2013 — Chairperson of the Supervisory Board of FAP Pafal SA (a subsidiary of Apator SA) — knowledge of the electrical machinery sector in the field of manufacturing of metering equipment for energy distribution companies (electricity metering),
- ✓ from 2001 to this day — Member of the Supervisory Board of Apator Mining Sp. z o.o. (a subsidiary of Apator SA) — knowledge of the electrical machinery sector in the area of mining machinery and equipment manufacturing, which the company carried out until the end of 2018,
- ✓ from 2013 to this day — Member of the Supervisory Board of Apator Metrix SA (a subsidiary of Apator SA) — knowledge of the electrical machinery sector in the field of manufacturing of metering gear for energy distribution companies (gas metering),
- ✓ from 2015 to this day — Member of the Supervisory Board of Apator SA, Member of the Audit Committee — knowledge of the electrical machinery sector in the area of manufacturing of metering equipment and systems for energy utility distribution companies (electricity metering and switchgear).

4.4. Meetings of the Audit Committee

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

The Audit Committee operated based on the adopted work plan for 2022. While performing its duties in the reporting period, the Committee held 12 meetings during which it adopted 7 resolutions (including 3 votes by circulation) and took positions on matters on the agenda.

4.5. Scope of Work of the Audit Committee

The Audit Committee's main tasks are:

- *supervising the financial reporting process,*
- *monitoring the effectiveness of internal control, internal audit, risk management and compliance systems,*
- *monitoring the performance of auditing activities,*
- *controlling and monitoring the independence of the statutory auditor and the audit firm, in particular when services other than auditing are provided to the Company,*

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

The 2022 scope of work of the Audit Committee included:

- analysing the current situation of Apator SA and the Apator Group in the scope of debt, liquidity and financial securities,
- overseeing financial risk management, particularly the currency risk hedging policy and carrying out ongoing analysis of the status of futures contracts,
- discussing the terms and conditions of the multi-product credit facility for the Apator Group,
- working with the auditor, including analysing the scope and timing of work carried out as part of the audit process,
- discussing the course of auditing financial statements of Apator and Apator Group companies with the statutory auditor,
- auditing the financial statements and the 2021 Management Board reports and issuing a positive recommendation to the Supervisory Board,
- auditing the separate financial statements of Apator SA, assessing Apator Group's consolidated financial statements for the first half of 2022 and the Report on the Management Board's activities in the first half of 2022,
- reviewing the 2022 quarterly financial statements,

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- issuing a recommendation to the Supervisory Board regarding the financial statements and the 2021 Report of the Management Board of Apator Elkomtech SA (taken over by Apator SA on 3 January 2022),
- monitoring the independence of the auditor PricewaterhouseCoopers Polska sp. z o.o. Audyt sp.k. (handling the auditing of statements of Apator SA and other Apator Group companies since 2018),
- updating the auditor selection procedure,
- approving additional auditor services (XBRL, remuneration report),
- overseeing the internal audit function:
 - ✓ processing internal audit reports (including assessing the risk of cyber attacks on the Apator Group's IT resources and the degree of their immunity; assessing the implementation of an MES system at Apator SA),
 - ✓ analysing the recommendations made by the Internal Auditor and their implementation, including approving the 2022 audit plan,
- supervising the internal control, risk management and compliance systems and evaluating their effective functioning.

Audit Committee meetings are held with other Supervisory Board members participating as guests.

5. Best Practices for GPW Listed Companies

5.1. Application of Best Practices for GPW Listed Companies by Apator SA

A report on the application of the "2021 Best Practice for GPW Listed Companies" is available at www.apator.com in the "Investor Relations" tab, "Corporate Governance" section. Apator SA complies with most of the principles contained in the Best Practice except for the following:

- Principle 2.1. Companies should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.

Company's comment: The Company has a diversity policy for its bodies and key managers but 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 Meeting of Shareholders, 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 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 Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.

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Company's comment: See justification regarding Principle 2.1.

- Principle 2.11.6 In addition to its responsibilities laid down in the legislation, the supervisory board prepares and presents an annual report to the annual general meeting once per year. Such report includes at least the following: (...) information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals 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. Companies should enable their shareholders to participate in a general meeting by means of electronic communication (e-meeting) if justified by the expectations of shareholders notified to the company, provided that the company is in a position to provide the technical infrastructure necessary for such general meeting to proceed. The principle is not implemented.

Company's comment: The Company believes that 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 a form of participation in General Meetings currently receives little interest from shareholders. However, if general legal solutions are adopted to minimise the risks involved, the company will consider providing the technical infrastructure necessary to hold General Meetings in such a way.

5.2. Assessment of the Application of Corporate Governance Principles by Apator SA Together With Information on the Steps Taken by the Board to Make This Assessment

The Supervisory Board of Apator SA gave a positive opinion on the 2022 Management Board annual report, which includes a chapter on Corporate Governance regarding the application of the "2021 Best Practice for GPW Listed Companies" and the requirements arising therefrom. The Board has also conducted an independent fact-finding exercise and, on this basis, assessed that the company is duly complying with its disclosure obligations relating to applying corporate governance principles. The Company's published explanations and comments are comprehensive and provide sufficient factual information on applying the Principles set out in the 2021 Best Practice for GPW Listed Companies.

Pursuant to sec. 29(3a) of the Warsaw Stock Exchange Rules, the Company reported an incidental breach of the 2021 Good Practice on 29 June 2022. The incidental breach concerned the item "General Meeting, Shareholder Relations", i.e. 4.8. Draft General Meeting resolutions concerning items on the meeting agenda should be submitted by shareholders at least 3 days before the General Meeting.

In the announcement about convening the Ordinary General Shareholders Meeting on 28 June 2022, Apator SA requested that Shareholders submit draft resolutions no later than 3 days before the Meeting; however, one Shareholder submitted two draft resolutions during the Meeting, which resulted in an incidental breach of Rule 4.8 of the 2021 Best Practice.

In 2022, and up to the date of this report, the Company did not record any other violations of the 2021 Best Practice, nor was there any breach by the Supervisory Board of the rules of 2021 Best Practice for GPW Listed Companies adopted by the Company. The members of the Supervisory Board personally performed their duties in connection with the Supervisory Board meetings, guided in their actions by Company interests and independence of opinion and judgement.

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6. Internal Control System, Risk Management System, Compliance System and Internal Audit Function

The company's risk protection system is based on the Three Lines of Defence model:

- First 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.

6.1. Internal Control System

The internal control system covers all processes (sales, purchasing, development, operational, investment, financial and support processes). The internal control system is organised to include:

- self-monitoring initiated and carried out systematically and continuously by all company employees within the limits of their duties and powers,
- functional control embedded in the organisational structure and exercised by managers and directors of the Company's organisational units,
- institutional control exercised by the controlling team at Apator SA and its subsidiaries, based on the order of the Management Board and the ISO Plenipotentiary.

Reports and recommendations from external audits (auditor audits, client audits and management system certification audits) serve as additional support for the internal control system and organisational improvement.

6.2. 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 evolving economic environment and changes concerning the influence of particular factors on business and strategic objectives.

The risk management policy adopted by the Group includes controlling risks 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.

Risk management is carried out by the Risk Manager and is supported by the Group's Financial Committee made up of finance representatives from each Group company which is tasked with overseeing the Group's financial processes and their further integration.

A detailed analysis and description of the most important risks are included in the 2022 Management Board report

on Group activities (<https://www.apator.com.pl/relacje-inwestorskie/dane-finansowe-i-raporty-okresowe>).

6.3. Legal Compliance Monitoring System

Apator SA defines "compliance" as the observance of legal obligations resulting from generally applicable legal acts and rules voluntarily adopted for use by the Company (e.g. 2021 Best Practice for GPW Listed Companies, ISO Standards).

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The purposes of the compliance system are as follows:

- legal monitoring and adaptation of operations to legal requirements and announced legal changes,
- raising employee awareness of the consequences of non-compliance with the law,
- protecting confidential information and business secrets,
- protecting the financial result,
- protecting the Company's reputation,
- cooperating with supervisory authorities.

Apator SA has a Compliance Team tasked with supporting the Management Boards and employees of Apator Group companies in identifying legal regulations and implementing them in internal procedures. The performance of the system and the Compliance Team is reviewed annually by the Audit Committee and Supervisory Board of Apator SA under the "Internal Control, Risk Management and Compliance System Effectiveness Evaluation".

The following activities were carried out as part of the compliance system in 2022:

- monitoring and communicating legal changes, including:
 - ✓ rights and duties of the Supervisory Boards,
 - ✓ corporate and holding company law (amendments to the Commercial Companies Code),
 - ✓ public procurement law,
 - ✓ key environmental legislation,
 - ✓ Polish Deal;
- updating documentation and internal regulations in accordance with legal requirements, including those arising from amendments to the Commercial Companies Code,
- legal services, including:
 - ✓ preparing legal analyses,
 - ✓ participating in negotiation processes,
 - ✓ legal support for General Meetings in Apator Group companies and Supervisory Board meetings,
 - ✓ interpreting legislation and providing legal advice,
- internal training,
 - ✓ changes in the law, internal regulations, conclusion of contracts,
 - ✓ training for Supervisory Boards, Management Boards, proxies and employees.

The year 2022 saw no notifications concerning legal infringements recorded at Apator SA or Apator Group companies.

6.4. Internal Audit

Internal Audit at Apator SA is an independent verification and advisory activity under the third line of risk defence.

Apator SA has a separate internal audit function, and an Internal Auditor has been appointed. The Internal Auditor is authorised to carry out audits in all Apator Group companies. The Internal Auditor reports directly to the President of the Management Board of Apator SA but functionally reports to the Audit Committee of the Supervisory Board. At the same time, the Supervisory Board of Apator SA is competent to appoint and dismiss the Internal Auditor, which supports the independence of the Auditor's opinion. Further, the Audit Committee of the Supervisory Board approves the Internal Auditor's work plan (audit plan).

In 2022, the Internal Audits covered the following areas:

- course and prospects of the "Relocation of Apator Powogaz SA" investment project — relocation carried out on time; additional costs were incurred that could not have been predicted before deciding to relocate,

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- MES implementation at Apator SA — the investment project schedule and budget were found to be exceeded,
- inventory write-downs in Group companies — the need was identified for increased monitoring by the Group's controlling of the scale and structure of inventory write-downs and inventory turnover to prevent prolonged inventory backlogs,
- verifying the implementation of recommendations from previous audits.

6.5. Assessment of Internal Control Systems, Risk Management, Compliance and Internal Audit Function, Together With Information on the Steps Taken by the Board to Make This Assessment

To assess internal control, risk management, compliance and the internal audit function, the Supervisory Board and the Audit Committee receive periodic reports and cyclical information prepared and presented by the individual organisational units responsible for the various systems. Accordingly, during the Audit Committee meetings, the Supervisory Board:

- reviewed the financial, operational, strategic and market risk exposures of each business segment and analysed the risk management effectiveness report; this included reviewing risk and control assessments developed by business process owners and management,
- obtained the results of audits on the compliance of business processes with ISO standards (9001, 14001, 27001, 45001), legal requirements and internal regulations in individual companies,
- commissioned internal audits at individual Group companies, reviewed the results and assessed the implementation of the corrective actions recommended by the internal auditor,
- reviewed the legal changes relating to the activities of Group companies and the manner and degree of their implementation into the organisation, as drawn up by the Compliance Team.

Based on its analysis of the materials and reports prepared as part of the systems and its meetings with the Management Board, business process owners and key employees, the Supervisory Board carried out its annual system assessment and found no significant inadequacies or gaps that would require corrective action. Nonetheless, given today's unstable macroeconomic situation, the Supervisory Board points to the need to continuously improve the effectiveness of these systems (especially risk management) and improve efficiency mechanisms.

7. Consolidated Evaluation of the Company's Situation

The Supervisory Board exercised constant supervision over budget performance and, at each meeting, analysed the current financial and economic results of Apator SA and the results in specific business segments, in particular, sales, costs incurred, margins and working capital and financial liquidity management. The Supervisory Board also examined the current consolidated financial results and the situation and risks faced by individual Apator Group companies in relation to the current circumstances, both on the domestic market and globally.

The year 2022 brought significant challenges for businesses, including Apator Group companies. After a period of setbacks due to the persisting pandemic, the macro-environment was further destabilised as a result of Russia's armed aggression in Ukraine. This situation negatively affected the level of the Apator Group's 2022 financial results and margins. Facing significant inflation, persistent problems with component availability and exchange rate volatility, the Group took steps to improve operational efficiency and make its pricing policy more flexible. Unfortunately, this only partially mitigated the negative impact of the environment on results and margins.

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The year 2022 saw the Apator Group achieve a record level of revenues exceeding PLN 1 billion. However, margins and profit generation levels were significantly weaker. Adjusted EBITDA amounted to PLN 101.7 million, while adjusted net profit was PLN 20.8 million. The adjustment to results related to the Q3 2022 write-down of development work at GWi, a UK Gas Segment company.

The consolidated financial results for 2022 were as follows:

Specification	2022	2021	Change	Dynamics
Sales revenue	1,081,792	940,083	141,709	115.1%
Gross sales profit	224,261	213,577	10,684	105.0%
Sales profit	45,090	48,740	-3,650	92.5%
Operating profit	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 before tax	15,915	85,244	-69,329	18.7%
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>

**) Results adjusted for the impact of Apator Powogaz S.A.'s real estate sale for 2021, and for write-downs of development work and goodwill (relating to the UK company GWi) for 2022.*

The unstable economic conditions call for decisions aimed primarily at optimising operations, as well as exploiting market opportunities more effectively. In 2022, the structure of the Group was simplified by merging Apator SA with Apator Elkomtech SA to support the development of comprehensive solutions (hardware + ICT). Moreover, the successful relocation of the following production companies was vital in terms of increasing the efficiency and scale of operations: Apator Powogaz and Apator Telemetry.

The Apator Group continues along its strategic path and supports the green transition and digitisation of all energy sectors. The Group has a stable foundation in the form of a comprehensive range of utility metering solutions; it is also supplying smart electricity meters as part of the ongoing rollout in Poland, developing the RES product range and increasing the share of sales of ultrasonic water meters and services in the water and heat segment.

In view of the continuing unfavourable macroeconomic factors (inflationary pressure, limited component availability, high financing costs and exchange rate volatility), the greatest challenge of 2023 is to effectively manage the level of working capital and debt, which represents an additional financial burden for the Apator Group. However, maintaining an adequate level of working capital guarantees the execution of current contracts and serves as a safeguard for newly acquired orders.

Considering the macroeconomic situation and proper liquidity management, the Supervisory Board recommends paying a lower dividend from the 2022 profit than in previous years.

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7.1. Assessing the 2022 Financial Statements of Apator SA and Apator Group

Apator SA prepares separate and consolidated financial statements in accordance with legal requirements, including IAS/IFRS standards. The 2022 financial statements were audited by PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp. k.

The Supervisory Board supervised the process of preparing the financial statements. Based on the positive recommendation of the Audit Committee of 26 April 2023, the Supervisory Board evaluated the financial statements of Apator SA and Apator Group prepared by the Management Board. The Supervisory Board confirms that the financial data presented in the periodic reports are reliable, correct and actual and are 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.

8. Assessment of the Reasonableness of Expenditures Incurred by Apator Group for Sponsoring, Charity or Other Similar Activities

The sponsoring policy is subordinate to the general strategy of development of the Apator Group and is an integral part of its communication and external promotion.

Sponsoring policy objectives:

- building brand recognition,
- 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 by taking part in high-profile events (involvement in prestigious initiatives),
- promoting the brand outside the circle of customers and product recipients, e.g. as an attractive employer,
- increasing investor interest,
- increasing employee engagement,
- positive impact of the organisation on the environment.

The year 2022 saw the Apator Group allocate PLN 317,6 thousand, i.e. 4.4% of consolidated net profit, to sponsoring and charitable activities. The main activities in this area were as follows:

- supporting cultural events and science,
- sports sponsorship,
- charitable activities.

At its meeting on 26 April 2023, the Supervisory Board determined the 2022 expenditure incurred to support culture, sports and charitable institutions as reasonable and appropriate based on the detailed statement provided by the Company under Rule 1.5 of the 2021 Best Practice for GPW Listed Companies.

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9. Information on the Degree of Implementation of the Diversity Policy With Regard to the Management Board and the Supervisory Board

Apator SA did not adopt Rule 2.1 of the 2021 Best Practice on the diversity policy concerning the Management Board and the Supervisory Board.

on behalf of the Supervisory Board of Apator SA

**Chairperson of the Supervisory Board
Janusz Niedźwiecki**

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