# THE SECO/WARWICK GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR

THE YEAR ENDED DECEMBER 31ST 2013

**CONTENTS**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (PLN '000)

| PLN '000 | Note | Dec 31 2013 | Dec 31 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *10* | 80,215 | 49,769 |
| Investment property | *12* | 399 | 409 |
| Goodwill | *13* | 78,861 | 60,720 |
| Intangible assets | *11* | 19,589 | 16,462 |
| Investments in associates | *15* | 3,404 | 19,077 |
| Financial assets available for sale | | 3 | 3 |
| Non-current receivables | *18* | 1,691 | 2,113 |
| Loans and receivables | *19* | 0 | 13 |
| Other assets | | 59 | 0 |
| Deferred tax assets | *6* | 15,851 | 10,565 |
| | | **200,071** | **159,131** |
| **Current assets** | | | |
| Inventories | *16* | 32,648 | 28,349 |
| Trade receivables | *18* | 84,671 | 72,235 |
| Income tax assets | *18* | 2,566 | 634 |
| Other current receivables | *18* | 12,532 | 16,762 |
| Prepayments and accrued income | *20* | 3,593 | 2,840 |
| Financial assets at fair value through profit or loss | *19* | 3,822 | 4,028 |
| Loans and receivables | *19* | 548 | 8 |
| Cash and cash equivalents | *21* | 44,268 | 55,556 |
| Contract settlement | *17* | 98,653 | 83,362 |
| | | **283,302** | **263,775** |
| **ASSETS HELD FOR SALE** | 7 | **721** | **3,708** |
| **TOTAL ASSETS** | | **484,094** | **426,613** |

| PLN '000 | Note | Dec 31 2013 | Dec 31 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | *22* | 3,693 | 3,652 |
| Statutory reserve funds | *22* | 199,708 | 189,136 |
| Other capital | *22* | 3,147 | 0 |
| Retained earnings/(deficit) | *23* | 48,178 | 56,701 |
| **Non-controlling interests** | | **5,442** | **1,153** |
| | | **260,167** | **250,642** |
| **Non-current liabilities** | | | |
| Borrowings and other debt instruments | *24* | 16,069 | 3,100 |
| Financial liabilities | *24* | 4,479 | 267 |
| Other non-current liabilities | *24* | 473 | 26 |
| Deferred tax liabilities | *6* | 20,850 | 19,010 |
| Provision for retirement and similar benefits | *27* | 3,331 | 6,408 |
| Other provision | *27* | 822 | 0 |
| Accruals and deferred income | *28* | 4,143 | 4,515 |
| | | **50,166** | **33,326** |
| **Current liabilities** | | | |
| Borrowings and other debt instruments | *24* | 18,050 | 17,620 |
| Financial liabilities | *24* | 4,165 | 867 |
| Trade payables | *26* | 56,473 | 32,459 |
| Income tax payable | *26* | 376 | 5,431 |
| Taxes, customs duties and social security payable | *26* | 5,340 | 1,550 |
| Other current liabilities | *26* | 7,165 | 5,234 |
| Provision for retirement and similar benefits | *27* | 8,291 | 6,446 |
| Other provisions | *27* | 16,292 | 5,569 |
| Accruals and deferred income | *28* | 57,608 | 67,469 |
| | | **173,761** | **142,645** |
| **TOTAL EQUITY AND LIABILITIES** | | **484,094** | **426,613** |

Date: April 29th 2014

| Person responsible for keeping accounting records: Ryszard Rej | Paweł Wyrzykowski *President of the Management Board* | Wojciech Modrzyk *Vice-President of the Management Board* | Jarosław Talerzak *Vice-President of the Management Board* |
|---|---|---|---|

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
(PLN '000)

| PLN '000 | Note | Year ended Dec 31 2013 | Year ended Dec 31 2012 |
|---|---|---|---|
| Revenue from sale of finished goods | | 469,360 | 484,683 |
| Revenue from sale of merchandise and materials | | 18,614 | 12,509 |
| **Revenue** | **1,2** | **487,974** | **497,192** |
| Finished goods sold | | -361,626 | -368,306 |
| Merchandise and materials sold | | -12,448 | -9,836 |
| **Cost of sales** | **2.3** | **-374,074** | **-378,142** |
| **Gross profit/(loss)** | | **113,900** | **119,050** |
| Other income | *4* | 4,302 | 2,982 |
| Distribution costs | *2.3* | -30,071 | -25,203 |
| Administrative expenses | *2.3* | -65,057 | -54,085 |
| Other expenses | *4* | -6,254 | -3,275 |
| **Operating profit/(loss)** | | **16,819** | **39,470** |
| Finance income | *5* | 5,080 | 8,267 |
| Finance costs | *5* | -2,688 | -8,541 |
| Share of net profit/(loss) of associates | | -567 | 1,122 |
| **Profit/(loss) before tax** | | **18,645** | **40,011** |
| Actual tax expense | *6* | -5,273 | -11,948 |
| **Net profit/(loss) from continuing operations** | | **13,372** | **28,370** |
| Loss on discontinued operations | | | - |
| Profit/(loss) attributable to non-controlling interests | | -1,849 | -307 |
| **Net profit/(loss) for financial year** | | **15,221** | **28,677** |

**OTHER COMPREHENSIVE INCOME:**

| | | |
|---|---|---|
| Valuation of derivative instruments in a cash flow hedge | -316 | 3,114 |
| Exchange differences on translating foreign operations | -12,035 | -12,121 |
| Actuarial gains/(losses) on a defined benefit retirement plan | 1,812 | -311 |
| Income tax on other comprehensive income | -574 | -483 |
| **Other comprehensive income, net of tax** | **-11,114** | **-9,801** |
| **Total comprehensive income** | **4,107** | **18,876** |

Date: April 29th 2014

| Person responsible for keeping accounting records: Ryszard Rej | Paweł Wyrzykowski | Wojciech Modrzyk | Jarosław Talerzak |
|---|---|---|---|
| | *President of the Management Board* | *Vice-President of the Management Board* | *Vice-President of the Management Board* |

## CONSOLIDATED STATEMENT OF CASH FLOWS
(PLN '000)

| | Note | for the period Jan 1–Dec 31 2013 | for the period Jan 1–Dec 31 2012 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax | *30* | **18,645** | **39,537** |
| Adjustments for: | | **9,328** | **20,861** |
| Share of net profit of associates | *3* | 567 | -1,122 |
| Depreciation and amortisation | | 7,926 | 7,291 |
| Foreign exchange gains/(losses) | | -5,949 | -1,954 |
| Interest and profit distributions (dividends) | | 1,782 | 1,359 |
| Gain/(loss) on investing activities | | -3,481 | 1,143 |
| Balance-sheet valuation of derivative instruments | | -195 | -8,544 |
| Change in provisions | | 8,063 | 5,011 |
| Change in inventories | | 1,208 | -1,068 |
| Change in receivables | | 9,141 | 24,307 |
| Change in current liabilities (other than financial liabilities) | | 11,201 | 6,953 |
| Change in accruals and deferrals | | -23,177 | -12,829 |
| Other adjustments | | 2,911 | 314 |
| **Cash from operating activities** | | **28,643** | **60,398** |
| Income tax (paid)/recovered | | -19,129 | -3,461 |
| **Net cash flows from operating activities** | | **9,514** | **56,937** |
| **INVESTING ACTIVITIES** | | | |
| **Cash provided by investing activities** | | **1,283** | **1,305** |
| Proceeds from disposal of intangible assets and property, plant and equipment | | 1,207 | 797 |
| Proceeds from disposals of financial assets | | - | 508 |
| Other inflows from financial assets | | 71 | - |
| Cash paid in connection with derivative instruments | | - | - |
| **Cash used in investing activities** | | **22,828** | **11,030** |
| Investments in intangible assets, property, plant and equipment, and investment property | | 12,861 | 7,923 |
| Acquisition of related entities | | 9,967 | 2,264 |

| | | |
|---|---|---|
| Acquisition of financial assets | - | 25 |
| Cash attributable to entities the Group no longer controls | - | - |
| Cash paid in connection with derivative instruments | - | 818 |
| **Net cash flows from investing activities** | **-21,545** | **-9,725** |
| **FINANCING ACTIVITIES** | | |
| **Cash provided by financing activities** | **19,370** | **10,778** |
| Net proceeds from issue of shares or other equity instruments and additional contributions to equity | 41 | 643 |
| Borrowings and other debt instruments | 19,329 | 10,135 |
| **Cash used in financing activities** | **18,550** | **22,642** |
| Dividends and other distributions to owners | - | - |
| Repayment of borrowings and other debt instruments | 15,721 | 20,810 |
| Payment of finance lease liabilities | 448 | 433 |
| Interest paid | 2,381 | 1,398 |
| **Net cash flows from financing activities** | **820** | **-11,864** |
| **Total net cash flows** | **-,11,211** | **35,347** |
| **Net change in cash, including:** | **-11,169** | **35,271** |
| - effect of exchange rate fluctuations on cash held | -77 | 75 |
| **Cash at beginning of the period** | **55,586** | **20,239** |
| **Cash at end of the period, including:** | **44,375** | **55,586** |
| - restricted cash | 10,239 | 16,572 |

Date: April 29th 2014

| | | | |
|---|---|---|---|
| Person responsible for keeping accounting records: Ryszard Rej | Paweł Wyrzykowski<br>*President of the Management Board* | Wojciech Modrzyk<br>*Vice-President of the Management Board* | Jarosław Talerzak<br>*Vice-President of the Management Board* |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** (PLN '000)

| | Share capital | Statutory reserve funds | Capital reserve from revaluation of derivatives | Other components of equity | Foreign exchange differences | Retained earnings/(deficit) | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| Twelve months ended Dec 31 2012 | | | | | | | | |
| **Equity as at Jan 1 2012** | **3,652** | **177,662** | **-942** | **-** | **12,289** | **38,879** | **-208** | **231,332** |
| Total comprehensive income for the twelve months ended Dec 31 2012 | - | - | 2,522 | - | -12,121 | 305 | - | **-9,294** |
| Correction of previous years' errors | - | - | - | - | - | -132 | - | **-132** |
| Changing the method of settlement of the pension plan | - | - | - | - | - | -508 | - | **-508** |
| Transfer of 2011 earnings | - | 11,475 | - | - | - | -11,475 | - | **-** |
| Net profit | - | - | - | - | - | 28,677 | - | **28,677** |
| Equity attributable to non-controlling interests in SECO/WARWICK Retech | - | - | - | - | - | 113 | 543 | **656** |
| Equity attributable to non-controlling interests in SECO/WARWICK GmbH | - | - | - | - | - | -908 | 208 | **-700** |
| Equity attributable to non-controlling interests in OOO SCT | - | - | - | - | - | - | 610 | **610** |
| **Equity as at Dec 31 2012** | **3,652** | **189,136** | **1,580** | **-** | **168** | **54,953** | **1,153** | **250,642** |
| Twelve months ended Dec 31 2013 | | | | | | | | |
| **Equity as at Jan 1 2013** | **3,652** | **189,136** | **1,580** | **-** | **168** | **54,953** | **1,153** | **250,642** |
| Total comprehensive income for the twelve months ended Dec 31 2013 | - | - | -256 | - | -12,035 | 1,178 | - | **-11,114** |
| Issue of shares | 41 | - | - | - | - | - | - | **41** |
| Management Options | - | - | - | 3,147 | - | - | - | **3,147** |
| Correction of previous years' errors | - | - | - | - | - | -676 | - | **-676** |
| Changing the method of settlement of the pension plan | - | - | - | - | - | -457 | - | **-457** |
| Transfer of 2012 earnings | - | 10,571 | - | - | - | -10,571 | - | **-** |
| Net profit | - | - | - | - | - | 15,221 | - | **15,221** |
| Equity attributable to non-controlling interests in SECO/WARWICK Retech | - | - | - | - | - | - | -419 | **-419** |
| Equity attributable to non-controlling interests in SECO/WARWICK Allied | - | - | - | - | - | -896 | 5,318 | **4,422** |
| Equity attributable to non-controlling interests in OOO SCT | - | - | - | - | - | -30 | -610 | **-640** |
| **Equity as at Dec 31 2013** | **3,693,** | **199,708** | **1,324** | **3,147** | **-11,867** | **58,721** | **5,441** | **260,167** |

Date: April 29th 2014

| | | | |
|---|---|---|---|
| Person responsible for keeping accounting records: Ryszard Rej | Paweł Wyrzykowski | Wojciech Modrzyk | Jarosław Talerzak |
| | *President of the Management Board* | *Vice-President of the Management Board* | *Vice-President of the Management Board* |

# THE SECO/WARWICK GROUP

## SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2013

## I. GENERAL INFORMATION

### 1. Parent

The Parent of the SECO/WARWICK Group is SECO/WARWICK Spółka Akcyjna of Świebodzin. The Company was incorporated on January 2nd 2007 by virtue of the decision issued by District Court for Zielona Góra, VIII Commercial Division of the National Court Register, and entered in the Register of Entrepreneurs of the National Court Register under No. KRS 0000271014.

| | | |
|---|---|---|
| Name: | | **SECO/WARWICK S.A.** |
| Legal form: | | Joint-stock company (spółka akcyjna) |
| Registered offices: | | ul. Sobieskiego 8, 66-200 Świebodzin, Poland |
| Core business according to the Polish Classification of Business Activities (PKD): | | |
| | 28.21.Z | Manufacture of ovens, furnaces and furnace burners, |
| | 33.20.Z | Installation of industrial machinery and equipment, |
| | 28.29.Z | Manufacture of other general-purpose machinery n.e.c., |
| | 28.24.Z | Manufacture of power-driven hand tools, |
| | 28.99Z | Manufacture of other special-purpose machinery n.e.c., |
| | 28.94.Z | Manufacture of machinery for textile, apparel and leather production, |
| | 46.14.Z | Agents involved in the sale of machinery, industrial equipment, ships and aircraft, |
| | 46,19,Z | Agents involved in the sale of a variety of goods, |
| | 46.69.Z | Wholesale of other machinery and equipment, |
| | 71.12.Z | Engineering activities and related technical consultancy, |
| | 72.11.Z | Research and experimental development on biotechnology. |
| National Court Register (KRS) No.: | | KRS 0000271014 |
| Industry Identification Number (REGON) | | 970011679 |

### 2. Duration of the Group

SECO/WARWICK S.A. and other entities of the SECO/WARWICK Group have been registered to operate for an unlimited period of time, except for SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd. established for the period of 27 years.

### 3. Presented periods

These consolidated financial statements contain data for the period January 1st–December 31st 2013. The comparative data is presented as at December 31st 2012 in the case of the statement of financial position, and for the period from January 1st to December 31st 2012 in the case of the statement of comprehensive income, statement of cash flows, and statement of changes in equity.

### 4. Composition of SECO/WARWICK S.A.'s governing bodies

As at December 31st 2013, the composition of the SECO/WARWICK Management Board was as follows:
- Paweł Wyrzykowski – President of the Management Board
- Wojciech Modrzyk – Vice-President of the Management Board
- Jarosław Talerzak – Vice-President of the Management Board

As at December 31st 2012, the composition of the SECO/WARWICK Management Board was as follows:
- Paweł Wyrzykowski – President of the Management Board
- Wojciech Modrzyk – Vice-President of the Management Board
- Witold Klinowski − Member of the Management Board
- Józef Olejnik − Member of the Management Board

As at December 31st 2013, the composition of the SECO/WARWICK Supervisory Board was as follows:
- Andrzej Zawistowski – Chairman of the Supervisory Board
- Henryk Pilarski – Deputy Chairman of the Supervisory Board
- Jeffrey Boswell – Member of the Supervisory Board
- James A. Goltz – Member of the Supervisory Board
- Zbigniew Rogóż – Member of the Supervisory Board
- Gutmann Habig – Member of the Supervisory Board
- Witold Klinowski – Member of the Supervisory Board

As at December 31st 2012, the composition of the SECO/WARWICK Supervisory Board was as follows:
- Andrzej Zawistowski – Chairman of the Supervisory Board
- Henryk Pilarski – Deputy Chairman of the Supervisory Board
- Jeffrey Boswell – Member of the Supervisory Board
- James A. Goltz – Member of the Supervisory Board
- Zbigniew Rogóż – Member of the Supervisory Board
- Gutmann Habig – Member of the Supervisory Board

**Changes in the composition of the Management Board**

On December 14th 2012, in Current Report No. 38/2012, the SECO/WARWICK Management Board reported on Mr Witold Klinowski's resignation from the position of Member of the Company's Management Board. The resignation was due to Mr Klinowski's intention to accept the position of Member of the SECO/WARWICK Supervisory Board.

On December 14th 2012, in Current Report No. 38/2012, the SECO/WARWICK Management Board reported on Mr Józef Olejnik's resignation from the position of Member of the Company's Management Board Mr Olejnik cited his retirement age as the reason behind the resignation.

On December 14th 2012, in Current Report No. 39/2012, the SECO/WARWICK Management Board reported on Mr Jarosław Talerzak's appointment to the Management Board. Mr Talerzak was appointed by the Supervisory Board to serve as Vice-President of the Management Board, with effect from January 1st 2013.

**Changes in the composition of the Supervisory Board:**

On November 28th 2012, the Extraordinary General Meeting of SECO/WARWICK S.A., by virtue of Resolution No. 10, appointed Mr Witold Klinowski to serve as Member of the Company's Supervisory Board as of January 1st 2013 (for details see Current Report No. 36/2012).

## 5. Auditors

PKF Consult Sp. z o.o.
ul. Orzycka 6, lok. 1B
02-695 Warsaw, Poland

## 6. Significant shareholders of the parent

The table below lists the shareholders holding over 5% of the total vote at the General Meeting as at December 31st 2013:

| Shareholder | Number of shares | Ownership interest (%) | Number of votes at GM | % of total voting rights |
|---|---|---|---|---|
| SW Poland Holding B.V. (Netherlands) | 3,387,139 | 31.71% | 3,387,139 | 31.71% |
| Spruce Holding Limited Liability Company (USA) | 1,419,294 | 13.29% | 1,419,294 | 13.29% |
| Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK | 904,794 | 8.47% | 904,794 | 8.47% |
| Funds represented by PKO BP BANKOWY PTE S.A. | 849,698 | 7.96% | 849,698 | 7.96% |
| Bleauhard Holdings LLC | 743,456 | 6.96% | 743.456 | 6.96% |
| ING NN OFE | 600,000 | 5.62% | 600,000 | 5.62% |
| AMPLICO | 577,470 | 5.41% | 577,470 | 5.41% |

The data presented in the table is based on notifications received from the shareholders.

## 7. Subsidiaries

SECO/WARWICK S.A. is the parent of the following subsidiaries:

- SECO/WARWICK EUROPE S.A. (before October 19th 2012: SECO/WARWICK ThermAL S.A.),
- SECO/WARWICK Corporation,
- SECO/WARWICK Rus,
- Retech Systems LLC,
- SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.,
- SECO/WARWICK GmbH,
- SECO/WARWICK Service GmbH,
- SECO/WARWICK Allied Pvt., Ltd. (Mumbai) India.
- SECO/WARWICK do Brasil Ind. de Fornos Ltda.

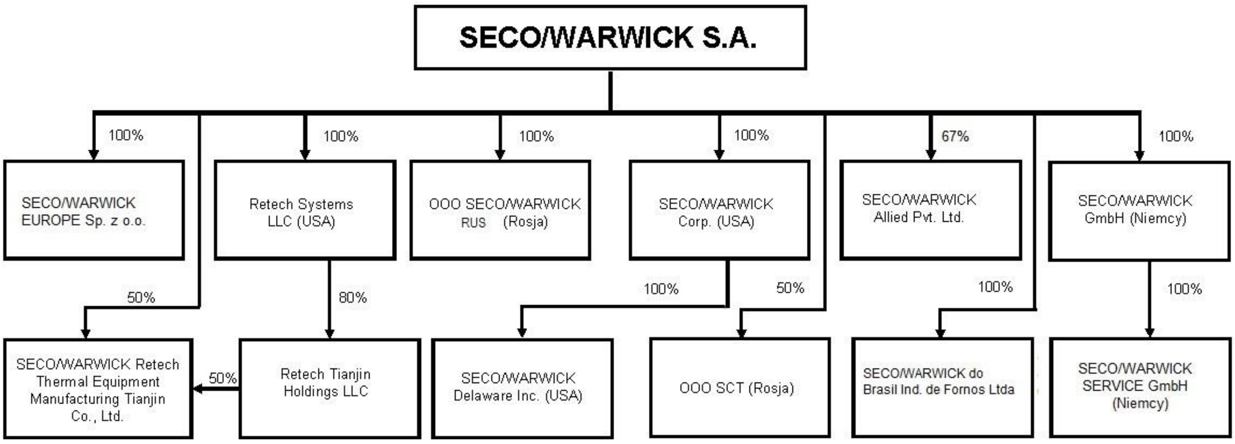
Other Group companies are:

- SECO/WARWICK of Delaware Inc.
- Retech Tianjin Holdings LLC.

**8. Organisation of the Group:**

- OOO SCT (Solnechnogorsk) Russia, in which the parent company holds 50% of shares entitling to 50% of the total number of votes at the General Meeting of Shareholders

**9. Organisation of the Group:**



**II. Key financial data translated into the euro**

The table below presents average EUR/PLN exchange rates quoted by the National Bank of Poland for the periods covered by these financial statements and by the historical financial information:

| **Financial year** | **Year ended December 31st 2013** | **Year ended December 31st 2012** |
|---|---|---|
| Average exchange rate for the period* | 4.2110 | 4.1736 |
| Exchange rate effective for the last day of the period | 4.1472 | 4.0882 |

**) Average of the exchange rates effective for the last day of each month in the period.*

Assets and equity and liabilities in the consolidated statement of financial position have been translated using the EUR/PLN exchange rates quoted by the National Bank of Poland for the last day of the period.

Items of the consolidated statement of comprehensive income and consolidated statement of cash flows have been translated using the exchange rates calculated as the arithmetic means of the EUR/PLN mid-market rates quoted by the National Bank of Poland as effective for the last day of each month in the reporting period.

The table below presents key items of the consolidated statement of financial position, statement of comprehensive income and statement of cash flows disclosed in the consolidated financial statements and the comparative data, translated into the euro:

| ***Key consolidated financial data*** | **2013** | **2012** | **2013** | **2012** |
|---|---|---|---|---|
| | (PLN '000) | | (EUR '000) | |
| Revenue | 487,974 | 497,192 | 115,881 | 119,128 |
| Cost of sales | -374,074 | -378,142 | -88,833 | -90,603 |
| Operating profit/(loss) | 16,819 | 39,763 | 3,994 | 9,527 |
| Profit/(loss) before tax | 18,645 | 40,011 | 4,428 | 9,587 |
| Net profit/(loss) | 15,221 | 28,677 | 3,615 | 6,871 |
| Net cash flows from operating activities | 9,514 | 56,937 | 2,259 | 13,642 |
| Net cash flows from investing activities | -21,545 | -9,725 | -5,116 | -2,330 |
| Net cash flows from financing activities | 820 | -11,864 | 195 | -2,843 |
| | **Dec 31 2013** | **Dec 31 2012** | **Dec 31 2013** | **Dec 31 2012** |
| Total assets | 484,094 | 426,613 | 116,728 | 104,352 |
| Total liabilities | 223,927 | 175,972 | 53,995 | 43,044 |
| including current liabilities | 173,761 | 142,645 | 41,898 | 34,892 |
| Equity | 260,167 | 250,642 | 62,733 | 61,309 |
| Share capital | 3,693 | 3,652 | 890 | 893 |

**III. Statement of compliance**

In compliance with the requirements laid down in the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities, dated February 19th 2009, the Management Board of the Parent represents that to the best of its knowledge these consolidated financial statements and the comparative data have been prepared in compliance with the accounting standards applicable to the Group and give an accurate, fair and clear view of the Group’s assets, financial standing and financial performance.

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) endorsed by the EU, and their scope is compliant with the requirements set forth in the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities, dated February 19th 2009 (Dz.U. of 2009 No. 33, item 259). These financial statements cover the period from January 1st to December 31st 2013 and a comparative period from January 1st to December 31st 2012.

The Management Board represents that the auditor of these consolidated financial statements was appointed in compliance with the applicable laws, and that both the auditing firm and the qualified auditors who performed the audit met the conditions required to issue an impartial and independent auditor's opinion, in accordance with the applicable provisions of Polish law. In line with the corporate governance principles adopted by the Management Board, the auditor was appointed by the Company’s Supervisory Board (Resolution No. 8/2013 on appointment of the auditor). The Supervisory Board appointed the auditor with due regard for the impartiality and objectivity of the selection itself as well as of the performance of the auditor’s tasks.

Date: April 29th 2014

| Paweł Wyrzykowski | Wojciech Modrzyk | Jarosław Talerzak |
|---|---|---|
| *President of the Management Board* | *Vice-President of the Management Board* | *Vice-President of the Management Board* |

## IV. Compliance with International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and the IFRS endorsed by the European Union. As at the date of approval of these financial statements for publication, given the ongoing process of implementation of the IFRS in the European Union and the scope of the Group's business, as far as the accounting policies applied by the Group are concerned there are no differences between the IFRS which have come into force and the IFRS endorsed by the European Union.

IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

## V. Going concern assumption and comparability of accounts

These consolidated financial statements have been prepared on the assumption that the Group would continue as a going concern for the 12 months after the end of the most recent reporting period, i.e. December 31st 2013. As at the date of signing these financial statements, the Parent's Management Board was aware of no facts or circumstances that would involve a threat to the Group's continuing as a going concern in the 12 months after the end of the reporting period, as a result of any planned or forced discontinuation or material downsizing of its existing operations.

By the date of these consolidated financial statements for 2013, no events occurred which have not but should have been disclosed in the accounting books for the reporting period. In these financial statements no material events related to prior years are disclosed.

## VI. Basis of consolidation

### a) Subsidiaries

A subsidiary is an entity with respect to which the Group has the power to govern its financial and operating policies. Such power is usually derived from the holding of the majority of the total vote in the entity's governing bodies. While assessing whether the Group controls a given entity, the existence and effect of potential voting rights which may be exercised or converted at a given time are taken into consideration.

As at the date of acquisition of a subsidiary (obtaining control), the assets, equity and liabilities of the acquiree are measured at fair value. An excess of the acquisition cost over the fair value of net identifiable assets of the acquiree is recognised as goodwill under assets in the balance sheet. If the acquisition cost is lower than the fair value of net identifiable assets of the acquiree, the difference is recognised as profit for the period in which the acquisition took place. Non-controlling interests are recognised at the fair value of net assets attributable to such interests. In subsequent periods, losses attributable to non-controlling interests are attributed to owners of the parent and non-controlling interests even if, as a consequence, the value of non-controlling interests turns negative. Subsidiaries sold during a financial year are consolidated from the beginning of the financial year to the date of disposal. Financial results of entities acquired during a year are recognised in the financial statements from the date of acquisition.

Income and expenses, receivables and payables, and unrealised gains arising from intra-Group transactions are eliminated. Unrealised losses are also eliminated, but only to the extent there is no evidence of impairment of the asset transferred in the transaction. The accounting policies of the subsidiaries have been changed whenever it was deemed necessary to align them with the accounting policies applied by the Group.

### b) Equity and transactions related to non-controlling shareholders

Interests held by non-controlling shareholders include interests in consolidated companies which are not owned by the Group. Equity held by non-controlling shareholders is determined as the value of net assets of the related entity which are attributable, as at the acquisition date, to shareholders from outside the group. The value is reduced/increased by increases/decreases in equity attributable to the value of interests held by non-controlling shareholders. As a rule, the Group treats transactions with non-controlling shareholders as transactions with third parties not related to the Group.

### c) Associates

An associate is an entity over which the Group has significant influence, but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of the total vote in an entity's governing bodies. Investments in associates are accounted for using the equity method and are initially recognised at cost.

The Group's share in an associate's net profit (loss) is recognised in the statement of comprehensive income, and the Group's share of the movements in the entity's other components of equity after the acquisition date is recognised under other components of equity. The carrying amount of the investment is adjusted for the total changes as from the acquisition date.

**d) Companies included in the consolidated financial statements**

The following Group entities are included in these consolidated financial statements for the periods ended December 31st 2013 and December 31st 2012:

| Item | % of total vote | |
|---|---|---|
| | **Dec 31 2013** | **Dec 31 2012** |
| SECO/WARWICK S.A. | Parent | |
| SECO/WARWICK EUROPE Sp. z o.o. | 100% | 100% |
| SECO/WARWICK Corp. | 100% | 100% |
| SECO/WARWICK of Delaware, Inc | 100% | 100% |
| SECO/WARWICK Rus | 100% | 100% |
| SECO/WARWICK GmbH | 100% | 100% |
| SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd. | 90% | 100% |
| Retech Systems LLC | 100% | 100% |
| SECO/WARWICK Allied Pvt., Ltd. | 67% | 50% |
| OOO SCT | 50% | 50% |
| SECO/WARWICK Service GmbH | 100% | 100% |

**VII. Description of applied accounting policies, including methods of measurement of assets, equity and liabilities, income and expenses**

These consolidated financial statements have been prepared based on a historical cost approach, except with respect to financial derivatives, which are measured at fair value. Liabilities under the pension plan operated by a subsidiary are also measured at fair value.

These financial statements are presented in the złoty ("PLN"), and unless specified otherwise, all amounts are given in thousands of PLN.

**Presentation of financial statements**

Presentation of the statement of financial position

In accordance with IAS 1 Presentation of Financial Statements, assets and liabilities are presented in the statement of financial position as current and non-current.

In accordance with IFRS 5, non-current assets held for sale are presented separately in the statement of financial position.

Presentation of the statement of comprehensive income

In accordance with IAS 1 Presentation of Financial Statements, in the statement of comprehensive income expenses are presented by function.

Earnings per share

Earnings per share for each period are determined by dividing net profit for the period by the weighted average number of shares outstanding in the period. The weighted average number of shares accounts for the dilutive effect of the issue of shares on the Warsaw Stock Exchange.

**Intangible assets**

As intangible assets the Group recognises such assets which are identifiable (they can be separated or sold), are controlled by the entity and are highly probable to bring future economic benefits to the entity.

Intangible assets include mainly software and development expense, and are initially recognised at cost, which includes purchase price, import duties and non-deductible taxes included in the price, decreased by discounts and rebates and increased by all expenditure directly connected with the preparation of the asset for its intended use.

In order to determine whether an internally generated intangible asset meets the recognition criteria, the entity distinguishes two phases in the asset origination process:

- the research phase,
- the development phase.

All expenditure incurred in the first phase is charged directly to expenses of the period.

Intangible assets created as a result of development work are capitalised by the Group only if the following criteria are met:

- it is certain that the intangible asset will be completed,
- it is possible to demonstrate that the asset can be used or sold,
- the expenditure incurred can be measured reliably.

Goodwill arises on acquisition of a business and corresponds to the excess of the cost of business combination over the acquirer's share in the fair value of net identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is recognised at cost less any cumulative impairment losses. Goodwill is not amortised.

The table below summarises the Group's accounting policies with respect to intangible assets:

| Item | Patents and licences | Software |
|---|---|---|
| Useful life | 5–10 years | 5–15 years |
| Amortisation method | Amortised over agreement term using straight-line method | Amortised using straight-line method |
| Origin | Acquired | Acquired |
| Impairment testing/measuring recoverable amount | Annual impairment testing | Annual impairment testing |

**Property, plant and equipment**

Property, plant and equipment are carried at cost less cumulative depreciation and impairment losses, if any.

Depreciation is charged using the straight-line method by estimating the useful lives of given assets, which are as follows:

| | |
|---|---|
| Buildings and structures | from 10 to 40 years |
| Machinery and equipment | from 5 to 30 years |
| Vehicles | from 5 to 10 years |
| Other tangible assets | from 5 to 15 years |

Non-current assets held under finance lease agreements are recognised in the statement of financial position and depreciated in accordance with the same policies as those applied to other non-current assets.

Non-current assets held under finance leases and liabilities corresponding to those assets were initially recognised at amounts equal to the discounted value of future lease payments. Lease payments made in the reporting period were charged to finance lease liabilities in an amount equal to the principal, and the excess (finance charge) was charged in full to finance costs of the period.

Any gains and losses arising on a sale or liquidation are determined as the difference between the income from the sale and the net value of the tangible assets, and are recognised in profit or loss.

The Group has adopted the rule that the residual value of tangible assets is always equal to “zero”.

**Non-current assets under construction**

Non-current assets under construction include expenditure on property, plant and equipment and intangible assets which are not yet fit for use but it is highly probable that they will be completed. Non-current assets under construction are presented in the statement of financial position at cost less any impairment losses. Non-current assets under construction are not depreciated or amortised.

**Investment property**

The Group classifies as investment property all property which is considered a source of income (earns rentals) and/or is held for capital appreciation.

Investment property is carried at cost less cumulative depreciation and impairment losses, if any.

Depreciation is charged over the estimated useful life of the investment property, using the straight-line method. Land is not depreciated.

**Financial assets and liabilities**

**Financial assets** include equity interests in related entities, assets at fair value through profit or loss, hedging derivatives, loans and receivables and cash and cash equivalents.

**Financial liabilities** include borrowings and other debt instruments, other types of financing, overdraft facilities, financial liabilities at fair value through profit or loss, hedging derivatives, trade payables, liabilities to suppliers of property, plant and equipment, and lease liabilities.

Except for investments in subsidiaries, jointly controlled entities and associates, which are carried at cost in accordance with IAS 27 and IAS 28, financial assets and liabilities are recognised and measured in line with IAS 39 Financial Instruments: Recognition and Measurement.

***Recognition and measurement of financial assets***

Upon initial recognition, financial assets are recognised at fair value, which in the case of investments not measured at fair value through profit or loss is increased by transaction costs directly attributable to such assets.

*Receivables*

Trade receivables are recognised and carried at amounts initially invoiced, less any impairment losses on doubtful receivables. Impairment losses on receivables are estimated when the collection of the full amount of a receivable is no longer probable.

If the effect of the time value of money is material, the value of a receivable is determined by discounting the projected future cash flows to their present value using a discount rate that reflects the current market estimates of the time value of money. If the discount method is applied, any increase in the receivable amount with the passage of time is recognised as finance income.

Other receivables include in particular prepayments made in connection with planned purchases of property, plant and equipment, intangible assets and inventories.

*Cash and cash equivalents*

Cash and cash equivalents are held mainly in connection with the need to meet the Group’s current demand for cash rather than for investment or any other purposes.

Cash and cash equivalents include cash in bank accounts, cash in hand, as well as all liquid instruments which may immediately be converted into cash of known amount and in the case of which the risk of value changes is insignificant.

***Recognition and measurement of financial liabilities***

*Liabilities under borrowings*

Liabilities under borrowings and other financial liabilities are initially recognised at fair value and then carried at amortised cost using the effective interest rate method.

Transaction costs directly attributable to the acquisition or issue of a financial liability increase the carrying amount of the liability, because upon initial recognition the liability is recognised at the fair value of amounts paid or received in exchange for the liability. Thereafter, such costs are amortised throughout the term of the liability, using the effective interest rate method.

***Hedge accounting***

There are three types of hedging relationships:

a) a fair value hedge: a hedge of the exposure to changes in the fair value of a recognised asset or liability or an identified portion of such an asset, liability or highly probable future liability that is attributable to a particular risk and could affect the statement of comprehensive income;
b) a cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability and (ii) could affect the statement of comprehensive income;
c) a hedge of a net investment in a foreign operation as defined in IAS 21.

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. The relevant documentation identifies the hedging instrument, the hedged item or transaction, the nature of the hedged risk, as well as how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the fair value of the hedged item or cash flows attributable to the hedged risk.
b) The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
d) The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument, can be reliably measured.
e) The hedge is assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

**Inventories**

Inventories are measured at cost, using the weighted average cost formula. Any downward adjustment of the value of inventories to the net selling price is made through recognition of write-downs. Furthermore, inventories that are slow-moving or which have become obsolete or whose usability has become in any way limited are revalued as at the end of each financial year. If the circumstances leading to a decrease in the value of inventories cease to apply, the write-down is reversed.

Write-downs of inventories and stocktaking discrepancies are charged to cost of sales.

**Deferred income tax**

In line with IAS 12 Income Taxes, deferred income tax is determined using the liability method and recognised in the financial statements for all temporary differences between the carrying amounts of assets and liabilities and their tax values, as well as for any unused tax loss carry-forwards. Deferred tax assets are recognised for temporary differences to the extent it is probable that the assets will be realised and that taxable profit will be available against which the differences can be utilised. Unrecognised deferred tax assets are reviewed as at each reporting date. Any previously unrecognised deferred tax assets are recognised to the extent that it is probable that there will be future taxable income available against which the assets can be realised.

Deferred tax assets are recognised for all deductible temporary differences arising from investments in subsidiaries and associates only to the extent it is probable that:

- the temporary differences will reverse in the foreseeable future, and

- taxable profit will be available against which the temporary differences can be utilised.

In line with IAS 12, deferred tax assets and liabilities are not discounted. Deferred income tax is determined based on the tax rates that have been enacted or substantively enacted by the end of the reporting period.

**Provisions**

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the Group anticipates that the costs for which provisions have been made will be recovered, e.g. under an insurance agreement, any such recovery is recognised as a separate item of assets, but only when it is practically certain to occur.

The cost related to a given provision is disclosed in the statement of comprehensive income net of any recoveries. If the effect of the time value of money is material, the amount of a provision is determined by discounting the projected future cash flows to their present value, using a pre-tax discount rate reflecting the current market estimates of the time value of money, as well as any risk associated with a given obligation. If the discount method has been applied, any increase in the provision with the passage of time is charged to finance costs.

The estimates of outcome and financial effect are determined by the judgement of the management, supplemented by experience of similar transactions and, in some cases, reports from independent experts.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group recognises the following provisions:

- provision for warranty repairs – on the basis of the historical cost of warranty repairs;
- provision for accrued holiday entitlements – in an amount equivalent to the number of days of accrued unused holidays multiplied by average gross daily pay;
- provision for retirement benefits and length-of-service awards – calculated by actuaries;
- provision for employee benefits – bonus payments, salaries and wages;
- provision for probable costs related to the current financial year which will only be invoiced in the following year (accrued expenses). Depending on the type of accrued expenses, they are charged to costs of products sold, selling costs or general and administrative expenses;
- provision for a defined benefit plan. Fixed contributions are paid to a separate entity (a fund), as a consequence of which the actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested will be insufficient to meet the expected benefits) are borne by the Group.

Assumptions underlying the estimates and the provision amounts are reviewed as at the end of each reporting period.

**Accruals and deferred income**

In order to ensure the matching of revenues with related expenses, expenses relating to future periods and deferred income are posted under liabilities of a given reporting period.

Accrued expenses

The Group recognises accrued expenses at probable values of current-period liabilities arising in particular under:

- services provided to the Company by its trading partners, where the liability can be reliably estimated,
- up to the estimated contract revenue, advances received under construction contracts reduce the receivables under settlement of long-term contracts.

Deferred and accrued income

Deferred/accrued income includes primarily government grants intended to finance assets and revenue, as well as any excess of estimated revenue related to the stage of completion of a long-term contract, in accordance with IAS 11, over advances received.

Government grants are disclosed in the statement of financial position at the amount of funds received and then recognised as income over the periods necessary to match them with the related costs they are intended to compensate, on a systematic basis. Government grants are not credited directly to equity.

Accruals and deferrals settled over a period longer than 12 months as from the end of the reporting period are classified as non-current accruals and deferrals, whereas those settled over a period of 12 months or shorter are classified as current accruals and deferrals.

**Functional currency and presentation currency**

*a) Functional currency and presentation currency*

Items of the financial statements are measured in the currency of the primary economic environment in which the Company operates (“functional currency”). The financial statements are presented in the Polish złoty (PLN), which is the functional currency and the presentation currency of the Group.

*b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of these transactions, as well as from changes in the carrying amounts of monetary assets and liabilities expressed in foreign currencies, are recognised in profit or loss, unless they are taken to equity (when they qualify for recognition as cash flow hedges or hedges of net investments).

**VIII. Material judgements and estimates**

In view of the fact that many items presented in the consolidated financial statements cannot be measured accurately, certain estimates need to be made in the preparation of the consolidated financial statements. The Management Board reviews such estimates taking into account the changes in the factors on which such estimates were based, new information and past experience. Therefore, the estimates made as at December 31st 2013 may change in the future.

*Depreciation/amortisation charges*

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

*Depreciation/amortisation charges for assets used under finance lease agreements*

Depreciation/amortisation charges for items of property, plant and equipment and intangible assets used under finance lease agreements are determined based on their expected useful lives, which is consistent with depreciation policy for assets that are owned. Useful lives equal to agreement term are not applied. The Group assumes that assets used under lease agreements must be purchased.

*Deferred tax assets*

Deferred tax assets are recognised in respect of all unused tax losses to be deducted in the future to the extent it is probable that taxable profit will be available which will enable these losses to be utilised.

*Provision for accrued holidays*

Provision for accrued holidays is determined based on the number of days of accrued unused holidays as at the end of the reporting period.

*Provision for old-age and disability retirement benefits*

Disability severance payments and retirement bonuses are paid to employees of the Group’s subsidiaries operating under Polish law in accordance with the provisions of Art. 92 of the Polish Labour Code, whereas at foreign companies such payments or bonuses are paid in accordance with the local labour laws. Actuarial valuation of long- and short-term benefits is performed as at the end of each financial year.

*Provision for warranty repairs*

Provision for warranty repairs is calculated on the basis of the historical costs of manufacturing of the equipment sold and of the warranty repairs made in the previous years.

*Long-term contracts*

To account for long-term contracts, the Group applies the provisions of IAS 11 Construction Contracts. When the outcome of a construction contract can be estimated reliably, the percentage of completion method is used. The stage of completion is determined by reference to the contract costs incurred to date and the total costs planned to be incurred.

At the end of each reporting period, the Group makes estimates regarding the outcome of each contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognised in profit or loss.

The amount of such a loss is determined irrespective of: whether or not work has commenced on the contract, the stage of completion of contract activity, or the amount of profits expected to arise on other contracts which are not treated as single construction contracts in accordance with IAS 11:9.

The Group applies the above rules to account for commercial contracts related to the Group’s core business whose performance terms exceed three months and whose total value is material from the point of view of reliability of the financial statements (revenue, expenses, and the financial result). The Company accrues only documented revenue, i.e. revenue which is guaranteed under the original contract, adjusted to account for any subsequent amendments to the original contract (annexes), or which constitutes any other revenue closely related to the project. Any changes of the contract revenue are taken into account if it is certain (i.e. a contract or annexes to a contract have been signed) or at least highly probable (i.e. annexes to a contract or preliminary contracts have been initialled) that the client will accept

the amendments and the revenue amounts provided for in the amendments, and such revenue can be reliably measured.
The stage of completion of a contract is determined by reference to the contract costs actually incurred in the reporting period and documented by appropriate accounting evidence, and the costs of trading partners not yet invoiced.

The revenue as at the end of the reporting period is determined based on the percentage of completion of the contract, net of any revenue which affected the financial result in previous reporting periods. Estimated contract revenue attributable to the given reporting period is recognised as revenue from sales of products for the period, and disclosed under assets in the statement of financial position as receivables under settlement of long-term contracts.

Any excess of advances received under a contract over the estimated revenue attributable to a given reporting period is recognised under liabilities as prepaid deliveries. Up to the amount of the estimated contract revenue, advances reduce the receivables under settlement of long-term contracts.

Any excess of invoiced revenue is recognised as deferred income.

*Derivative financial instruments*

Derivative financial instruments are remeasured at the end of each reporting period at their fair value as determined by the bank.

**Subjective judgement**

Where a given transaction does not fall within the scope of any standard or interpretation, the Management Board relies on its subjective judgement to determine and apply accounting policies which will ensure that the financial statements contain only relevant and reliable information and that they:

- give an accurate, clear and fair view of the Group's assets, its financial standing, results of operations and cash flows,
- reflect the economic substance of transactions,
- are objective,
- conform with the principles of prudent valuation,
- are complete in all material respects.

Subjective judgements as at December 31st 2013 were made with respect to contingent liabilities and provisions for claims.

**IX. Changes in accounting policies**

The accounting policies applied when preparing annual consolidated financial statements are consistent with the accounting policies used to draw up the annual consolidated financial statements for the year ended December 31st 2012, save for the following amendments to standards and interpretations effective for periods beginning on January 1st 2013.

*a)* Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
*b)* Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – *Government Loans*
*c)* Amendments to IFRS 7 Financial Instruments – Disclosures: *Offsetting Financial Assets and Financial Liabilities*
d) IFRS 13 Fair Value Measurement
*e)* Amendments to IAS 12 Income Taxes – *Deferred Tax: Recovery of Underlying Assets*
f) Amendments to IAS 19 Employee Benefits
g) Annual Improvements to IFRSs (2009−2011 Cycle) covering IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34
h) IFRIC 20 − Stripping Costs in the Production Phase of a Surface Mine.

In 2013, the Group adopted all the new and approved standards and interpretations issued by the International Accounting Standards Board and the Interpretations Committee and endorsed by the EU, which apply to the Company's business and are effective for reporting periods beginning on or after January 1st 2013.
With the exception of amendments to IAS 19, the application the above amendments to standards has not caused any changes in the accounting policies of the Company or in the presentation of data in its financial statements.

Changes in the consolidated financial statements for the year ended 31.12.2012 are as follows:

| Description of the items that have changed | 2012 was | 2012 is |
|---|---|---|
| General and administrative expenses | -54,866 | -54,085 |
| Income tax | -11,674,, | -11,948 |
| Net profit | 28,170 | 28,677 |
| Other comprehensive income | -9,294 | -9,801 |
| Retained earnings | 56,701 | 56,701 |

## X. New standards to be applied by the Group

The Group did not choose to apply early any standards and amendments to standards endorsed by the European Union, which are effective for reporting periods beginning on or after January 1st 2014:

| Standard | Nature of impending change in accounting policy | Effective for periods beginning on or after: |
|---|---|---|
| IFRS 10 Consolidated Financial Statements (May 12th 2011) | IFRS 10 Consolidated Financial Statements will replace IAS 27 Consolidated and Separate Financial Statements and supersede interpretation SIC 12 Consolidation – Special Purpose Entities. Under IFRS 10, an entity may be consolidated only if it is controlled, irrespective of the nature of the investee, which eliminates the risk and rewards method presented in SIC 12. According to IFRS 10, an investor controls an investee if and only if the investor has all of the following elements:<br>- power over the investee,<br>- exposure, or rights, to variable returns from involvement with the investee,<br>- the ability to use its power over the investee to affect the amount of the investor's returns.<br>An investor considers all relevant facts and circumstances when assessing whether it controls an investee. Such assessment is revised if there are any reasons to conclude that at least one of the above control conditions has changed. IFRS 10 stipulates detailed guidelines on determining control in various situations, including with respect to agency relations and potential voting rights. If facts or circumstances change, an investor must re-assess its ability to control an investee. IFRS 10 replaces the IAS 27 provisions concerning time and manner of preparation of consolidated financial statements by an investor and disapplies interpretation SIC 12 in full. | January 1st 2014 |
| IFRS 11 Joint Arrangements (May 12th 2011) | The standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 classifies joint arrangements as a joint operation (combination of the existing concepts of jointly controlled assets and jointly controlled operations) or as a joint venture (corresponding to the existing concept of jointly controlled entities). - A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. - A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires that a joint venturer account for its interest in a joint venture using the equity method, thus disapplying the proportional consolidation method. A party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations. Existence of a separate legal entity is no longer the basic condition of classification. | January 1st 2014 |
| IFRS 12 Disclosure of Interests in Other Entities | An entity should disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial statements. IFRS 12 determines the disclosure objectives and the minimum scope of disclosure required to satisfy those objectives. An entity should disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial statements. Disclosure requirements are extensive. | January 1st 2014 |
| IAS 27 Separate Financial Statements (May 12th 2011) | The requirements concerning accounting and disclosure of information on investments in subsidiaries, associates and joint venture are unchanged with respect to separate financial statements and are incorporated in the modified IAS 27. Other requirements contained in IAS 27 have been replaced with the requirements laid down in IFRS 10. | January 1st 2014 |

| Standard | Nature of impending change in accounting policy | Effective for periods beginning on or after: |
|---|---|---|
| IAS 28 Investments in Associates and Joint Ventures (May 12th 2012) | The standard has been modified so as to ensure consistency with IFRS 10 and IFRS 11. The rules for accounting for investments in associates using the equity method have not been changed. In line with IFRS 11, the guidelines for equity method accounting apply also to joint ventures (the proportional consolidation method has been disapplied). | January 1st 2014 |
| Offsetting Financial Assets and Financial Liabilities (amendment to IAS 32 of December 16th 2011) | The amendment clarifies the rules for offsetting financial assets and liabilities. IAS 32 prescribes rules for the offsetting of financial assets and financial liabilities. It specifies that a financial asset and a financial liability should be offset and the net amount reported when, and only when, an entity has a legally enforceable right to set off the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. | January 1st 2014 |

Standards and Interpretations adopted by the IASB, but not yet endorsed by the EU:

a) IFRS 9 Financial Instruments (of November 12th 2009, with subsequent amendments to IFRS 9 and IFRS 7 of December 16th 2011)

The new standard replaces the guidance contained in IAS 39 Financial Instruments: Recognition and Measurement, regarding classification and measurement of financial assets. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortised cost, or
- financial assets at fair value.

A financial asset that meets the following two conditions can be measured at amortised cost: the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except for an investment in an equity instrument which is not held for trading. IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). Such election is irrevocable. The election is available on an individual instrument-by-instrument basis. No amount recognised in OCI may be ever reclassified to profit or loss at a later date.

b) Amendments to IAS 19 Employee Benefits – Employee contributions, effective for reporting periods beginning on or after July 1st 2014.

The proposals provide that contributions from employees or third parties that are linked solely to the employee's service rendered in the same period in which they are paid, may be treated as a reduction in the service cost and accounted for in that same period.

Other employee contributions would be attributed to periods of service in the same way as the gross benefits under the scheme.

a) Annual Improvements to IFRSs (2010–2012 Cycle), effective for reporting periods beginning on or after July 1st 2014.

b) Annual Improvements to IFRSs (2011–2013 Cycle), effective for reporting periods beginning on or after July 1st 2014.

c) IFRIC 21: Levies (May 20th 2013), effective for reporting periods beginning on or after January 1st 2014.

The interpretation relates to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. One of the criteria for the recognition of a liability under IAS 37 is the requirement for a present obligation to have arisen as a result of a past event (obligating event).

The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy imposed by the government is an activity that triggers the payment of the levy in accordance with applicable legislation. The interpretation does not apply to fines and penalties imposed for breach of law and levies that are within the scope of other IFRS/IAS (e.g. IAS 12 Income Taxes).

The Management Board does not expect the above standards and interpretations to have any significant effect on the accounting policies applied by the Group, save for the need to make certain additional or new disclosures. The Management Board of the parent is in the process of analysing the consequences and effects of applying these new standards and interpretations on its financial statements.

# THE SECO/WARWICK GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED DECEMBER 31ST 2013

**Note 1. REVENUE**

As provided for under IAS 18, revenue from sales of finished goods, merchandise, materials and services, net of VAT, discounts and rebates, is recognised when the entity has transferred to the buyer the significant risks and rewards incidental to their ownership.

**Revenue from sales and total revenue and income of the Group:**

| Item | 2013 | 2012 |
|---|---|---|
| Sales of products | 469,360 | 484,683 |
| Sales of merchandise and materials | 18,614 | 12,509 |
| **TOTAL revenue from sales** | **487,974** | **497,192** |
| Other income | 4,302 | 2,982 |
| Finance income | 5,080 | 8,267 |
| **TOTAL revenue and income** | **497,356** | **508,441** |

**Note 2. OPERATING SEGMENTS**

IFRS 8 Operating Segments, which has superseded previously binding IAS 14 Segment Reporting, has been effective since January 1st 2009. The new standard introduces the “management approach” to segment disclosures and requires that segment information be presented based on those components of the entity that the management monitors in making decisions about operating matters. An operating segment is a component of an entity for which discrete financial information is available and whose results are reviewed regularly by the entity’s chief decision maker to make decisions about resources to be allocated to the segment and assess its performance. This change in accounting standards has had no impact on the Group’s segment reporting.

The SECO/WARWICK Group’s business comprises the following segments:

**Vacuum furnaces (Vacuum)**

Vacuum furnaces have multiple applications in a number of industries, including machine tool, aviation, power, electrical engineering, medical equipment, automotive and specialised industries. Vacuum furnaces may be used in a wide variety of processes, such as heat treatment of steel and alloys, brazing, sintering, and degassing. Use of vacuum furnaces brings economic benefits. They are also environmentally friendly.

**Aluminium heat exchanger brazing systems (CAB)**

The CAB systems are used primarily in the automotive industry for brazing heat exchangers mounted in passenger cars and trucks (charge air coolers, air conditioning evaporators and condensers, oil coolers, etc.). Outside the automotive industry, CAB processes are used in the manufacture of IC radiators, steam condensers for CHP plants, exhaust gas heat exchangers for power generators, etc.

**Atmosphere furnaces (Thermal)**

Atmosphere furnaces are widely used in the process of thermal and thermochemical treatment of steel and metals in protective atmospheres for improved hardness. Atmosphere furnaces designed for thermochemical treatment are employed in the gas carburising, gas nitriding and other processes. Such furnaces are used chiefly by the automotive and metal industries, including for the manufacturing of anti-friction bearings, as well as for use in commercial hardening plants and specialty industries.

**Aluminium heat treatment systems (Aluminium Process)**

The SECO/WARWICK Group specialises in a selected range of aluminium heat treatment processes, which generally offer a plethora of applications. The Aluminium Process solutions offered by the Group are used in the production of aluminium sheet for the automotive and aviation industries, as well as for the manufacturing of packaging foil for multiple applications. In addition, the Aluminium Process systems are used to heat treat aluminium castings.

**Melting furnaces**

The metallurgy applications of the vacuum melting furnaces include alloying, melting and purifying specialty metals, including reactive metals (e.g. titanium, zirconium) and heat-resistant metals (e.g. tantalum). Due to their physical properties, specialty metals may only be treated with the use of technologically advanced solutions under high vacuum conditions.

The different types of melting furnaces include melting and holding furnaces used for the manufacture of precision castings (such as components of jet engines, power turbines and medical implants).

Melting furnaces may also be used as an element of the globally-unique processes involving disposal of hazardous waste (such as nuclear by-products).

**Other**

Reportable geographical segments, delineated based on the geographical location of the respective sales markets, are as follows:

- the EU market,
- the Russian, Belarus, Ukraine,
- the US market,
- the Asian market,
- other countries.

Financial data for the segments includes only segment revenue, expenses and segment's profit or loss. It is impracticable for the Group to allocate assets to the particular segments as its plant and equipment (including buildings and structures) is shared by all the segments.

**OPERATING SEGMENTS – 2013**

| Item | Continuing operations | | | | | | Discontinued operations | Unallocated items | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *Vacuum Furnaces* | *CAB* | *Atmosphere Furnaces* | *Aluminium Process* | *Melting Furnaces* | *Total* | | | |
| **Total segment revenue** | **108,996** | **52,211** | **97,627** | **30,191** | **185,064** | **474,088** | **-** | **13,885** | **487,974** |
| **Total segment expenses** | **-75,537** | **-38,435** | **-82,132** | **-27,974** | **-141,533** | **-365,611** | **-** | **-8,463** | **-374,074** |
| Administrative expenses | - | - | - | - | - | - | - | -65,057 | **-65,057** |
| Distribution costs | - | - | - | - | - | - | - | -30,071 | **-30,071** |
| Operating income | - | - | - | - | - | - | - | 4,302 | **4,693** |
| Operating expenses | - | - | - | - | - | - | - | -6,254 | **-6,645** |
| **Segment profit/(loss) on operating activities** | - | - | - | - | - | - | - | - | **16,819** |
| Finance income | - | - | - | - | - | - | - | 5,080 | **5,549** |
| Net finance costs | - | - | - | - | - | - | - | -2,688 | **-3,156** |
| **Profit before tax** | - | - | - | - | - | - | - | - | **19,212** |
| Actual tax expense | - | - | - | - | - | - | - | -5,273 | **-5,273** |
| **Profit/(loss) from continuing operations** | - | - | - | - | - | - | - | - | **13,939** |
| Loss of control | - | - | - | - | - | - | - | - | - |
| Share in profit of associate | - | - | - | - | - | - | - | -567 | **-567** |
| Profit/(loss) attributable to non-controlling interests | - | - | - | - | - | - | - | 1,849 | **1,849** |
| **Net profit/(loss) for period** | - | - | - | - | - | - | - | - | **15,221** |

**OPERATING SEGMENTS – 2012**

| Item | Continuing operations | | | | | | Discontinued operations | Unallocated items | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *Vacuum Furnaces* | *CAB* | *Atmosphere Furnaces* | *Aluminium Process* | *Melting Furnaces* | *Total* | | | |
| **Total segment revenue** | **123,508** | **38,913** | **62,914** | **36,189** | **204,899** | **466,422** | **-** | **30,770** | **497,192** |
| **Total segment expenses** | **-91,922** | **-27,738** | **-49,209** | **-26,297** | **-157,637** | **-352,804** | **-** | **-25,338** | **-378,142** |
| Administrative expenses | - | - | - | - | - | - | - | -54,085 | **-54,085** |
| Distribution costs | - | - | - | - | - | - | - | -25,203 | **-25,203** |
| Operating income | - | - | - | - | - | - | - | 2,982 | **2,982** |
| Operating expenses | - | - | - | - | - | - | - | -3,275 | **-3,275** |
| **Segment profit/(loss) on operating activities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | - | **39,470** |
| Finance income | - | - | - | - | - | - | - | 8,267 | **8,267** |
| Net finance costs | - | - | - | - | - | - | - | -8,541 | **-8,541** |
| **Profit before tax** | - | - | - | - | - | - | - | - | **39,196** |
| Actual tax expense | - | - | - | - | - | - | - | -11,674 | **-11,674** |
| **Profit/(loss) from continuing operations** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **27,522** |
| Share in profit of associate | - | - | - | - | - | - | - | 1,122 | **1,122** |
| Profit/(loss) attributable to non-controlling interests | - | - | - | - | - | - | - | 307 | **307** |
| **Net profit/(loss) for period** | - | - | - | - | - | - | - | -, | **28,677** |

**GEOGRAPHICAL SEGMENTS – 2013**

| **Item** | *EU* | *Russia Belarus Ukraine* | *US* | *Asia* | Other | **Total** |
|---|---|---|---|---|---|---|
| **Total segment revenue** | **113,592** | **46,347** | **149,233** | **126,889** | **51,914** | **487,974** |
| Sales to external customers – continuing operations | 113,592 | 46,347 | 149,233 | 126,889 | 51,914 | 487,974 |
| Segment's non-current assets | 183,000 | 4 | 12,762 | 4,305 | - | 200,071 |
| Capital expenditure | 7,095 | - | 3,341 | 830 | - | 11,266 |

**GEOGRAPHICAL SEGMENTS – 2012**

| **Item** | *EU* | *Russia Belarus Ukraine* | *US* | *Asia* | Other | **Total** |
|---|---|---|---|---|---|---|
| **Total segment revenue** | **135,677** | **82,056** | **170,046** | **96,264** | **13,149** | **497,192** |
| Sales to external customers – continuing operations | 135,677 | 82,056 | 170,046 | 96,264 | 13,149 | 497,192 |
| Segment's non-current assets | 134,574 | 194 | 23,336 | 1,028 | - | 159,131 |
| Capital expenditure | 8,299 | 176 | 1,559 | 178 | - | 10,212 |

**Note 3. OPERATING EXPENSES**

| **COSTS BY NATURE OF EXPENSE** | **Jan 1–Dec 31 2013** | **Jan 1–Dec 31 2012** |
|---|---|---|
| Depreciation and amortisation | 7,926 | 7,291 |
| Raw materials and consumables used | 214,591 | 222,865 |
| Services | 50,872 | 45,411 |
| Taxes and charges | 15,193 | 1,140 |
| Salaries and wages | 102,033 | 91,432 |
| Social security and other benefits | 21,762 | 20,578 |
| Defined benefit plan | 248 | 640 |
| Management Options | 3,147 | - |
| Other costs | 40,406 | 58,443 |
| **Total costs by nature of expense, including:** | **456,178** | **447,800** |
| Distribution costs | -30,071 | -25,203 |
| Administrative expenses | -65,057 | -54,085 |
| Change in products | 576 | 1,780 |
| Work performed by entity and capitalised | - | -1,987 |
| **Cost of products sold and services rendered** | **361,626** | **368,306** |

| DEPRECIATION/AMORTISATION AND IMPAIRMENT LOSSES RECOGNISED IN PROFIT OR LOSS | Jan 1–Dec 31 2013 | Jan 1–Dec 31 2012 |
|---|---|---|
| **Items recognised in cost of sales:** | **4,419** | **4,435** |
| Depreciation of property, plant and equipment | 4,069 | 3,920 |
| Amortisation of intangible assets | 350 | 515 |
| Impairment of property, plant and equipment | - | - |
| **Items recognised in distribution costs** | **614** | **439** |
| Depreciation of property, plant and equipment | 585 | 356 |
| Amortisation of intangible assets | 29 | 83 |
| Operating lease expense | - | - |
| **Items recognised in administrative expenses**: | **2,893** | **2,403** |
| Depreciation of property, plant and equipment | 1,817 | 1,374 |
| Amortisation of intangible assets | 1,076 | 1,029 |
| Operating lease expense | - | - |
| **Items recognised in other expenses:** | **-** | **13** |
| Depreciation of investment property | - | 13 |

**EMPLOYEE BENEFIT EXPENSE**

| PERSONNEL COSTS | Jan 1–Dec 31 2013 | Jan 1–Dec 31 2012 |
|---|---|---|
| Salaries and wages | 102,033 | 91,432 |
| Social security and other benefits | 19,279 | 19,379 |
| Defined benefit plan | 896 | 640 |
| Retirement benefits | 294 | - |
| Other post-employment benefits | - | - |
| Share-based payment scheme | - | - |
| Other employee benefits | 1,293 | 1,199 |
| **Total employee benefit expense, including:** | **123,795** | **112,650** |
| Items recognised in cost of sales | 83,138 | 66,657 |
| Items recognised in distribution costs | 8,329 | 15,875 |
| Items recognised in administrative expenses: | 32,328 | 30,118 |

**Note 4. OTHER INCOME AND EXPENSES**

| OTHER INCOME | Jan 1–Dec 31 2013 | Jan 1–Dec 31 2012 |
|---|---|---|
| Reversal of impairment losses on receivables | 489 | - |
| Past due liabilities | - | 283 |
| Gain on disposal of property, plant and equipment | 15 | - |
| Impairment losses on property, plant and equipment | 224 | 39 |
| Awarded reimbursement of court fees | - | 3 |
| Penalties and compensation/damages received | 492 | 90 |
| Settlement of stocktaking surpluses | - | - |
| Income from re-invoicing | - | 38 |
| Licence fees | - | 569 |
| Income from lease of tangible assets and investment property | 1,456 | 1,285 |
| Gains associated with acts of God | - | 32 |
| Funding for development | 248 | |
| Other | 1,767 | 644 |
| **Total other income** | **4,302** | **2,982** |

| OTHER EXPENSES | Jan 1–Dec 31 2013 | Jan 1–Dec 31 2012 |
|---|---|---|
| Impairment losses on receivables | 320 | 215 |
| Revaluation of inventories | - | 722 |
| Loss on disposal of property, plant and equipment | - | 86 |
| Court expenses, compensation/damages, penalties | 1,619 | 697 |
| Revaluation of tangible asset | 772 | 224 |
| Cost of lease of tangible assets | - | 534 |
| Costs of legal representation | 559 | 98 |
| Services purchase cost for re-invoicing | 487 | - |
| Donations | 47 | 83 |
| Provision for costs/expenses | 1,488 | 100 |
| Costs associated with acts of God | - | 31 |
| Stocktaking shortage | 2 | - |
| Other | 961 | 486 |
| **Total other expenses** | **6,254** | **3,275** |

**Note 5. FINANCE INCOME AND COSTS**

| FINANCE INCOME | Jan 1–Dec 31 2013 | Jan 1–Dec 31 2012 |
|---|---|---|
| Interest income | 975 | 271 |
| Revaluation of investments | 3,542 | 7,972 |
| Net foreign exchange proffit | 206 | - |
| Other | 358 | 24 |
| **Total finance income** | **5,080** | **8,267** |

| FINANCE COSTS | Jan 1–Dec 31 2013 | Jan 1–Dec 31 2012 |
|---|---|---|
| Interest paid | 2,211 | 1,395 |
| Loss on derivative instruments at maturity | - | 258 |
| Revaluation of investments | - | 731 |
| Net foreign exchange losses | - | 6,025 |
| Other | 477 | 132 |
| **Total finance costs** | **2,688** | **8,541** |

**Note 6. INCOME TAX AND DEFERRED INCOME TAX**

The main items of the tax expense for the annual periods ended December 31st 2013 and December 31st 2012 were as follows:

| INCOME TAX DISCLOSED IN PROFIT OR LOSS | Jan 1–Dec 31 2013 | Jan 1–Dec 31 2012 |
|---|---|---|
| *Current income tax* | **14,801** | **9,694** |
| Current income tax expense | 14,801 | 9,694 |
| Adjustments to current income tax for previous years | | **-** |
| *Deferred income tax* | **-9,528** | **1,980** |
| Related to temporary differences and their reversal | -9,528 | 1,980 |
| Related to reduction of income tax rates | - | - |
| Income tax benefit arising from transactions involving items of equity | - | - |
| **Tax expense recognised in profit or loss** | **5,273** | **11,674** |

Deferred income tax disclosed in the income statement is equal to the difference between the balances of deferred tax liabilities and deferred tax assets as at the end and as at the beginning of the reporting periods, excluding items charged or credited to equity.

| DISCLOSURES RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME | Jan 1– Dec 31 2013 | Jan 1– Dec 31 2012 |
|---|---|---|
| Exchange differences on translating foreign operations | -316 | 3,114 |
| Valuation of cash flow hedging derivatives | -12,035 | -12,121 |
| Actuarial gains/(losses) on a defined benefit retirement plan | 1,812 | -311 |
| Income tax on other comprehensive income | -574 | -483 |
| **Other comprehensive income** | **-11,114** | **-9,801** |

| Item | Dec 31 2013 | | Dec 31 2012 | |
|---|---|---|---|---|
| | *carrying amount* | *amount recognised in profit or loss* | *carrying amount* | *amount recognis ed in profit or loss* |
| *Deferred tax liabilities* | | | | |
| Accelerated tax depreciation/amortisation | 9,227 | -781 | 10,008 | 2,127 |
| Finance leases | 175 | -81 | 256 | 50 |
| Other | 3,389 | 3,226 | 163 | 8 |
| Foreign exchange gains | 807 | 751 | 56 | -515 |
| Adjustments to long-term contracts | 6,987 | -528 | 7,515 | 2,006 |
| Valuation of financial assets | 241 | -7 | 248 | -1,081 |
| Forward transactions | 23 | -371 | 394 | 392 |
| **Deferred tax liabilities** | **20,850** | **2,210** | **18,640** | **2,986** |
| *Deferred tax assets* | | | | |
| Provision for disability severance payments and retirement bonuses | 1,226 | -,1,291 | 2,517 | 705 |
| Provision for length-of-service awards and bonuses | 751 | 382 | 369 | -9 |
| Provision for accrued holiday entitlements | 610 | 30 | 580 | -9 |
| Provision for losses on contracts | 168 | 168 | - | -36 |
| Provision for warranty repairs | 676 | 394 | 282 | -85 |
| Provision for other employee benefits | - | -608 | 608 | 608 |
| Other provisions | 3,088 | 2,125 | 963 | 610 |
| Losses deductible from future taxable income | 1,453 | 1,351 | 102 | -1,444 |
| Assets under long-term contracts | 3,235 | 1,456 | 1,779 | 522 |
| Foreign exchange losses | 297 | 145 | 152 | -238 |
| Settlement of grant | 634 | 3 | 631 | 631 |
| Other | 436 | -503 | 939 | 744 |
| Valuation of financial instruments | 1 | - | 1 | -1,128 |
| Salaries, wages and social security contributions payable in subsequent periods | 630 | 473 | 157 | -39 |
| Lease liabilities | 230 | 119 | 111 | 45 |
| Write-downs of inventories | 1,340 | 748 | 592 | 119 |
| Impairment losses on receivables | 569 | 292 | 277 | -220 |
| Impairment losses on investment | 505 | - | 505 | 232 |

| | | | | |
|---|---|---|---|---|
| **Deferred tax assets** | **15,851** | **5,286** | **10,565** | **1,007** |

| Item | Dec 31 2013 | | Dec 31 2012 | |
|---|---|---|---|---|
| | carrying amount | amount recognised in equity | carrying amount | amount recognised in equity |
| Valuation of financial instruments – equity component | 1 | 1 | - | - |
| **Deferred tax assets** | **1** | **1** | **-** | **-** |

| Item | Dec 31 2013 | | Dec 31 2012 | |
|---|---|---|---|---|
| | carrying amount | amount recognised in equity | carrying amount | amount recognised in equity |
| Valuation of financial instruments – equity component | 311 | 311 | 371 | 371 |
| **Deferred tax liabilities** | **311** | **311** | **371** | **371** |

## Note 7. ASSETS HELD FOR SALE

On October 8th 2010, the Board of Directors of SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. executed an agreement for sale to the Chinese shareholder Tianjin Kama Electric Thermal Equipment Manufacturing Co., Ltd. of a 25% equity interest in SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. held by SECO/WARWICK Corp. for USD 300 thousand and a 25% equity interest held by SECO/WARWICK S.A. also for USD 300 thousand. Initially, it was agreed that the transaction would be finalised by December 31st 2010. However, this arrangement had not been met by the Chinese partner. Therefore, a new payment schedule was agreed upon. An annex to the original agreement was also signed, providing for a potential dissolution of SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. if payments are not made as scheduled. The President of SECO/WARWICK (Tianjin) Industrial Furnace Co. completed the first stage of the transaction concerning change of the company's name.

As the Parent expects to encounter difficulties in collecting the cash owed, in keeping with the principle of prudence in accounting, an impairment loss was recognised on the cash received so far from the Chinese owner of KAMA Electric Thermal Equipment Manufacturing Co.

The shares in SECO/WARWICK Tianjin were accounted for in the statement of financial position as assets held for sale of PLN 722 thousand.

Held-for-sale assets are presented by the Group as a separate item of assets.

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Opening balance | **3,708** | **4,164** |
| Plant and equipment | - | 2,986 |
| Impairment loss | - | 224 |
| Reclassification | 2,986 | - |
| Financial assets | - | 722 |
| Impairment loss | - | 32 |
| **Assets held for sale** | **722** | **3,708** |

## Note 8. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for a given period attributable to holders of ordinary shares by the weighted average number of outstanding ordinary shares in that period.

Diluted earnings per share are calculated by dividing the net profit for a given period attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of outstanding ordinary shares in that period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Net profit on continuing operations attributable to shareholders | 15,221 | 28,677 |
| Loss on discontinued operations attributable to shareholders | - | - |
| Net profit attributable to owners of the parent | 15,221 | 28,677 |
| Interest on redeemable preference shares convertible into ordinary shares | - | -, |
| **Net profit attributable to holders of ordinary shares, used to calculate diluted earnings per share** | **15,221** | **28,677** |
| Weighted average number of outstanding ordinary shares, used to calculate basic earnings per share | 10,529,398 | 10,476,210 |
| **Earnings per share** | **1,45** | **2,74** |
| Dilutive effect: | | |
| Number of potential subscription warrants for 2010−2011 | 296,013 | 500,000 |
| Number of potential shares issued at market price | 2,205 | 3,289 |
| Adjusted weighted average number of ordinary shares, used to calculate diluted earnings per share | 10,823,206 | 10,972,921 |
| **Diluted earnings per share** | **1,41** | **2,61** |

Material events subsequent to the end of the reporting period have been reported in current reports, which can be found at www.secowarwick.com

## Note 9. DIVIDENDS PROPOSED OR APPROVED BY THE DATE OF APPROVAL OF THESE FINANCIAL STATEMENTS

On May 24th 2013, the Annual General Meeting of SECO/WARWICK S.A. passed Resolution No. 24 concerning allocation of profit for the period from January 1st to December 31st 2012. The entire net profit earned by the Company in the financial year 2012 of PLN 5,688,592.75 (five million, six hundred and eighty-eight thousand, five hundred and ninety-two złoty, 75/100) was transferred to statutory reserve funds.

## Note 10. PROPERTY, PLANT AND EQUIPMENT

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| tangible assets | 76,739 | 48,533 |
| non-current assets under construction | 3,476 | 1,235 |
| prepayments for non-current assets under construction | - | - |
| **Property, plant and equipment** | **80,215** | **49,769** |

| OWNERSHIP STRUCTURE – net value | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Owned | **79,275** | **49,161** |
| Used under lease, tenancy or similar contract | 940 | 608 |
| **Total** | **80,215** | **49,769** |

Changes in property, plant and equipment (by type) in the period Jan 1–Dec 31 2012

| Item | Land | Buildings and structures | Machinery and equipment | Vehicles | Other | Total |
|---|---|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2012** | **2,361** | **27,565** | **35,046** | **6,622** | **3,023** | **74,617** |
| **Increase, including:** | - | **1,494** | **2,018** | **1,962** | **537** | **6,011** |
| assets acquired | - | 884 | 1,782 | 846 | 408 | 3,920 |
| assets generated internally | - | 610 | - | - | - | 610 |
| concluded lease agreements | - | - | - | 666 | - | 666 |
| tangible assets of acquired companies | - | - | 236 | 451 | 128 | 815 |
| **Decrease, including:** | - | **668** | **1,428** | **1,151** | **115** | **3,361** |
| disposal | - | 6 | 606 | 1,132 | 54 | 1,798 |
| liquidation | - | 662 | 822 | 19 | 61 | 1,564 |
| loss of control | - | - | - | - | - | - |
| reclassification – assets for sale | - | - | - | - | - | - |
| **Gross carrying amount as at Dec 31 2012** | **2,361** | **28,390** | **35,636** | **7,434** | **3,445** | **77,266** |
| **Cumulative depreciation as at Jan 1 2012** | - | **5,733** | **14,901** | **3,426** | **1,635** | **25,696** |
| **Increase, including:** | - | **1,154** | **3,337** | **893** | **257** | **5,641** |
| depreciation | - | 1,154 | 3,337 | 893 | 257 | 5,641 |
| revaluation | - | - | - | - | - | - |
| tangible assets of acquired companies | - | - | - | - | - | - |
| other | - | - | - | - | - | - |
| **Decrease, including:** | - | **483** | **985** | **643** | **82** | **2,193** |
| sale | - | - | 374 | 624 | 42 | 1,040 |
| liquidation | - | 483 | 611 | 19 | 40 | 1,153 |
| loss of control | - | - | - | - | - | - |
| revaluation | - | - | - | - | - | - |
| **Cumulative depreciation as at Dec 31 2012** | - | **6,405** | **17,253** | **3,676** | **1,810** | **29,144** |
| **Impairment losses as at Jan 1 2012** | - | - | - | - | - | - |
| **Impairment losses as at Dec 31 2012** | - | - | - | - | - | - |
| Net exchange differences on translating financial statements into presentation currency | 35 | 181 | 161 | 76 | -42 | 411 |
| **Net carrying amount as at Dec 31 2012** | **2,396** | **22,166** | **18,544** | **3,834** | **1,594** | **48,533** |

Changes in property, plant and equipment (by type) in the period Jan 1–Dec 31 2013

| Item | Land | Buildings and structures | Machinery and equipment | Vehicles | Other | Total |
|---|---|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2013** | **2,361** | **28,390** | **35,636** | **7,434** | **3,445** | **77,266** |
| **Increase, including:** | **6,538** | **21,171** | **5,272** | **1,988** | **3,943** | **38,913** |
| assets acquired | - | 2,680 | 2,500 | 480 | 602 | 6,262 |
| assets generated internally | - | 57 | - | - | - | 57 |
| Reclassification | - | - | 966 | - | - | 966 |
| concluded lease agreements | - | - | - | 940 | - | 940 |
| tangible assets of acquired companies | 6,538 | 18,434 | 1,806 | 568 | 3,341 | 30,687 |
| **Decrease, including:** | **-** | **-** | **122** | **254** | **166** | **541** |
| disposal | - | - | 8 | 254 | 163 | 425 |
| liquidation | - | - | 113 | - | 3 | 116 |
| **Gross carrying amount as at Dec 31 2013** | **8,899** | **49,562** | **40,787** | **9,168** | **7,223** | **115,638** |
| **Cumulative depreciation as at Jan 1 2013** | **-** | **6,405** | **17,253** | **3,676** | **1,810** | **29,144** |
| **Increase, including:** | **-** | **2,681** | **4,135** | **1,382** | **1,829** | **10,028** |
| depreciation | - | 894 | 2,895 | 1,034 | 439 | 5,261 |
| tangible assets of acquired companies | - | 1,788 | 1,240 | 349 | 1,391 | 4,767 |
| other | - | - | - | - | - | - |
| **Decrease, including:** | **-** | **-** | **107** | **207** | **3** | **316** |
| sale | - | - | 22 | 207 | 0 | 228 |
| revaluation | - | - | 85 | - | 3 | 88 |
| **Cumulative depreciation as at Dec 31 2013** | **-** | **9,086** | **21,282** | **4,851** | **3,636** | **38,856** |
| **Impairment losses as at Jan 1 2013** | - | - | - | - | - | - |
| **Impairment losses as at Dec 31 2013** | - | - | -364 | 13 | 345 | -6 |
| Net exchange differences on translating financial statements into presentation currency | 19 | 32 | -327 | 67 | 159 | -49 |
| **Net carrying amount as at Dec 31 2013** | **8,918** | **40,508** | **19,542** | **4,370** | **3,401** | **76,739** |

No impairment losses on tangible assets were recognised in 2012 and 2013.

**Non-current assets under construction:**

| *Non-current assets under construction as at Jan 1 2012* | *Expenditure incurred in the financial year* | *Accounting for the expenditure* | | | | | *Dec 31 2012* |
|---|---|---|---|---|---|---|---|
| | | *Buildings, premises and civil* | *Machinery and equipment* | *Vehicles* | *Other* | *Intangible assets* | |

| | | engineering structures | | | | | |
|---|---|---|---|---|---|---|---|
| **1,552** | **4,863** | 1,246 | 2,376 | 1,205 | 85 | 267 | **1,235** |

| Non-current assets under construction as at Jan 1 2013 | Expenditure incurred in the financial year | Accounting for the expenditure | | | | | Dec 31 2013 |
|---|---|---|---|---|---|---|---|
| | | Buildings, premises and civil engineering structures | Machinery and equipment | Vehicles | Other | Intangible assets | |
| **1,235** | **9,524** | 2,688 | 1,693 | 1,131 | 82,013 | 1,690 | **3,476** |

| Non-current assets under construction | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Testing station for hydrogen atmosphere | 340 | 336 |
| VDRFC furnace | 255 | 239 |
| Renovation of office space | 174 | 335 |
| VPT furnace | 14 | - |
| E-Beam furnace | 1,843 | - |
| PAM furnace | 240 | - |
| Modernisation work at production facility | 199 | 28 |
| Other | 411 | 287 |
| **TOTAL** | **3,476** | **1,235** |

**Value and area of land held in perpetual usufruct as at Dec 31st 2012 (excluding foreign companies)**

| Address | Number of entry in the Land and Mortgage Register | Lot No. | Surface area [sq m] as at Dec 31 2012 | Value as at Dec 31 2012 |
|---|---|---|---|---|
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9507 | 951/1 | 712 | 40 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9507 | 951/2 | 2,162 | 123 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 1306 | 95/7 | 5,098 | 289 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9562 | 94/4 | 2,467 | 140 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9444 | 94/16 | 285 | 16 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9444 | 94/22 | 1,415 | 80 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 19319 | 94/19 | 214 | 12 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 39300 | 94/25 | 1,279 | 73 |
| ul. Świerczewskiego 76, Świebodzin, Poland | KW 40641 | 195/80 | 11,605 | 23 |
| ul. Świerczewskiego 76, Świebodzin, Poland | KW 41410 | 195/94 | 221 | 1 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9507 | 94/6 | 1,121 | 10 |
| ul. Świerczewskiego 76, Świebodzin, Poland | KW No. 10363 | 195/97 | 28,366 | 594 |
| ul. Świerczewskiego 76, Świebodzin, | KW No. 10363 | 195/96 | 7,940 | 166 |

| | | | |
|---|---|---|---|
| Poland | | | |
| | Total | 62,885 | 1,567 |

On December 21st 2010, SECO/WARWICK S.A. signed a USD 2,500 thousand investment credit agreement with BRE Bank Spółka Akcyjna. The facility was taken to finance 10% of the purchase cost of five shares in Retech Systems LLC.

The borrowing is secured with a blanket ordinary mortgage of USD 2,500 thousand and a blanket ceiling mortgage of up to USD 250 thousand created over a property owned by the State Treasury and comprising the following lots:

- Nos. 94/21, 94/8, 94/23, 94/6, with a total area of 0.3995ha, situated at ul. Sobieskiego 8, Świebodzin
- Nos. 94/16, 94/22, with a total area of 0.1700ha, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/19, with an area of 0.0214ha, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/4, with an area of 0.2467ha, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/7, with an area of 0.5098ha, situated at ul. Sobieskiego 8, Świebodzin
- No. 94/25, with an area of 0.1279ha, situated at ul. Sobieskiego 8, Świebodzin
- No. 195/80, with an area of 1.1605ha, situated at ul. Świerczewskiego 76, Świebodzin
- No. 195/94, with an area of 0.0221ha, situated at ul. Świerczewskiego 76, Świebodzin
- as well as buildings and structures situated on the above lots, owned by the borrower, and on undeveloped lot No. 94/14, owned by the borrower, with an area of 0.1030ha, situated at ul. Sobieskiego 8, Świebodzin.

In 2012, the lots originally marked with numbers 94/8, 94/21 and 94/23 were combined to become lot No 951. Then lot No. 951 with an area of 0.2874ha was divided into two lots: No. 951/1 with an area of 0.0712ha and No. 951/2 with an area of 0.2162ha.

On February 2nd 2013, the following lots of land held in perpetual usufruct were transferred to SECO/WARWICK EUROPE Sp. z o.o. as part of the disposal of the organised part of business:

| Address | Number of entry in the Land and Mortgage Register | Lot No. | Surface area [sq m] |
|---|---|---|---|
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9507 | 951/2 | 2,162 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 1306 | 95/7 | 5,098 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9562 | 94/4 | 2,467 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9444 | 94/16 | 285 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9444 | 94/22 | 1,415 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 19319 | 94/19 | 214 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 39300 | 94/25 | 1,279 |
| ul. Świerczewskiego 76, Świebodzin, Poland | KW 40641 | 195/80 | 11,605 |
| ul. Świerczewskiego 76, Świebodzin, Poland | KW 41410 | 195/94 | 221 |
| | | **Total** | **24,746** |

On May 22nd 2013, SECO/WARWICK S.A. executed a USD 3,000 thousand investment credit agreement with Bank Handlowy of Warsaw. The facility is to finance the acquisition of shares in Engefor Engenharia Industria e Comercio Ltda.
It is secured by a mortgage of up to USD 3,750 thousand created on the perpetual usufruct right to a property situated at ul. Świerczewskiego in Świebodzin and the related ownership title to a building, held by SECO/WARWICK EUROPE Sp.

z o.o., with its registered office at ul. Świerczewskiego 76, Świebodzin, Poland, and entered into the Land and Mortgage Register under No. ZG1S/00010363/4.

**Value and area of land held in perpetual usufruct as at Dec 31 2013**

| Address | Number of entry in the Land and Mortgage Register | Lot No. | Surface area [sq m] as at Dec 31 2012 | Value as at Dec 31 2012 |
|---|---|---|---|---|
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9507 | 951/1 | 712 | 40 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9507 | 951/2 | 2,162 | 123 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 1306 | 95/7 | 5,098 | 289 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9562 | 94/4 | 2,467 | 140 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9444 | 94/16 | 285 | 16 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9444 | 94/22 | 1,415 | 80 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 19319 | 94/19 | 214 | 12 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 39300 | 94/25 | 1,279 | 73 |
| ul. Świerczewskiego 76, Świebodzin, Poland | KW 40641 | 195/80 | 11,605 | 23 |
| ul. Świerczewskiego 76, Świebodzin, Poland | KW 41410 | 195/94 | 221 | 1 |
| ul. Sobieskiego 8, Świebodzin, Poland | KW 9507 | 94/6 | 1,121 | 10 |
| ul. Świerczewskiego 76, Świebodzin, Poland | KW No. 10363 | 195/97 | 28,366 | 594 |
| ul. Świerczewskiego 76, Świebodzin, Poland | KW No. 10363 | 195/96 | 7,940 | 166 |
| | | **Total** | **62,885** | **1,567** |

**Tangible assets under lease agreements**

| Tangible assets | Dec 31 2013 | | | Dec 31 2012 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Depreciation | Net amount | Gross amount | Depreciation | Net amount |
| Real property | - | - | - | - | - | - |
| Machinery and equipment | - | - | - | - | - | - |
| Vehicles | 1,798 | 402 | 1,396 | 1,163 | 216 | 947 |
| Other tangible assets | - | - | - | - | - | - |
| **Total** | **1,798** | **402** | **1,396** | **1,163** | **216** | **947** |

As at December 31st 2013 and December 31st 2012, the Group had no finance leases or lease agreements with a purchase option for machinery and equipment. The carrying amount of vehicles which were used as at December 31st 2013 under finance leases or lease agreements with a purchase option was PLN 1,396 thousand (December 31st 2012: PLN 947 thousand).

**Note 11. INTANGIBLE ASSETS**

| OWNERSHIP STRUCTURE – net value | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Owned | 19,589 | 14,575 |
| Used under lease, tenancy or similar contract | - | - |
| **Total** | **19,589** | **14,575** |

**Changes in intangible assets (by type) in the period January 1st–December 31st 2012**

| *Item* | *Patents and licences, software* | *Development expense* | *Other intangible assets* | *Total* |
|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2012** | **6,022** | **9,286** | **3,453** | **18,761** |
| **Increase, including:** | **576** | **2,847** | **656** | **4,079** |
| business combinations | - | - | - | - |
| acquisitions | 576 | 6 | 266 | 848 |
| under development | - | 2,265 | - | 2,265 |
| other | - | 576 | - | 576 |
| intangible assets of acquired entities | - | - | 390 | 390 |
| **Decrease, including:** | **96** | **-** | **-** | **96** |
| disposal of subsidiary | - | - | - | - |
| disposal | - | - | - | - |
| liquidation | 96 | - | - | 96 |
| revaluation | - | - | - | - |
| other | - | - | - | - |
| **Gross carrying amount as at Dec 31 2012** | **6,502** | **12,133** | **4,109** | **22,744** |
| **Cumulative amortisation as at Jan 1 2012** | **3,603** | **355** | **857** | **4,815** |
| **Increase, including:** | **865** | **573** | **166** | **1,605** |
| amortisation | 865 | 573 | 166 | **1,605** |
| revaluation | - | - | - | - |
| other | - | - | - | - |
| **Decrease, including:** | **79** | **-** | **-** | **79** |
| liquidation | 79 | - | - | 79 |
| sale | - | - | - | - |
| other | - | - | - | - |
| **Cumulative amortisation as at Dec 31 2012** | **4,390** | **928** | **1,023** | **6,342** |
| **Impairment losses as at Jan 1 2012** | - | - | - | - |
| Increase: | - | - | - | - |
| Decrease: | - | - | - | - |
| **Impairment losses as at Dec 31 2012** | - | - | - | - |
| Net exchange differences on translating financial statements into presentation currency | 60 | - | - | 60 |
| **Net carrying amount as at Dec 31 2012** | **2,171** | **11,205** | **3,086** | **16,462** |

**Changes in intangible assets (by type) in the period January 1st–December 31st 2013**

| *Item* | *Patents and licences, software* | *Development expense* | *Other intangible assets* | *Total* |
|---|---|---|---|---|
| **Gross carrying amount as at Jan 1 2013** | **6,502** | **12,133** | **4,109** | **22,744** |
| **Increase, including:** | **181** | **3,404** | **1,501** | **5,086** |
| business combinations | - | 624 | - | 624 |
| acquisitions | - | 564 | 1,501 | 2,065 |
| under development | - | | | |
| other | 181 | 2,216 | - | 2,397 |
| intangible assets of acquired entities | - | - | - | - |
| **Decrease, including:** | **-** | **-** | **-** | **-** |
| disposal of subsidiary | - | - | - | **-** |
| disposal | - | - | - | - |
| liquidation | - | - | - | - |
| revaluation | - | - | - | - |
| other | | | | |
| **Gross carrying amount as at Dec 31 2013** | **6,683** | **15,537** | **5,611** | **27,830** |
| **Cumulative amortisation as at Jan 1 2013** | **4,390** | **928** | **1,023** | **-** |
| **Increase, including:** | **677** | **669** | **481** | **1,827** |
| amortisation | 416 | 611 | 183 | **1,210** |
| revaluation | - | 58 | 298 | 356 |
| other | 261 | - | - | - |
| **Decrease, including:** | **-** | **-** | **-** | **-** |
| liquidation | - | - | - | - |
| sale | - | - | - | - |
| other | - | - | - | - |
| **Cumulative amortisation as at Dec 31 2013** | **5,067** | **1,597** | **1,504** | **8,169** |
| **Impairment losses as at Jan 1 2013** | - | - | - | - |
| Increase: | - | - | - | - |
| Decrease: | - | - | - | - |
| **Impairment losses as at Dec 31 2013** | - | - | - | - |
| Net exchange differences on translating financial statements into presentation currency | -72 | - | - | -72 |
| **Net carrying amount as at Dec 31 2013** | **1,543** | **12,940** | **4,106** | **19,589** |

Intangible assets are not pledged as security for liabilities.

As at December 31st 2013 and December 31st 2012, the Group carried no intangible assets held for sale.

In 2013 and 2012, no impairment losses were recognised.

**Note 12. INVESTMENT PROPERTY**

SECO/WARWICK S.A. used to own an investment property located at ul. Sobieskiego 8 in Świebodzin, Poland, which comprised a production hall leased out to VACMAX.

On February 2nd 2013, the investment property was transferred to SECO/WARWICK EUROPE Sp. z o.o. as part of the disposal of the organised part of business.

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Opening balance | **409** | **422** |
| **Increase (subsequent expenditure), including:** | **-** | **-** |
| modernisation | - | - |
| **Decrease, including:** | **10** | **13** |
| Depreciation | 10 | 13 |
| Sale | - | - |
| Closing balance | **399** | **409** |

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| **Gross carrying amount – opening balance** | **527** | **527** |
| **Increase, including:** | **-** | **-** |
| Acquisitions | **-** | **-** |
| **Decrease, including:** | **-** | **-** |
| Disposals | **-** | **-** |
| **Carrying amount – closing balance** | **527** | **527** |
| | | |
| **Cumulative depreciation – opening balance** | **118** | **105** |
| **Increase, including:** | **10** | **13** |
| Depreciation | **10** | **13** |
| **Decrease, including:** | **-** | **-** |
| Sale | **-** | **-** |
| **Cumulative depreciation – closing balance** | **128** | **118** |
| | | |
| **Impairment losses – opening balance** | **-** | **-** |
| Increase | **-** | **-** |
| Decrease | **-** | **-** |
| **Impairment losses – closing balance** | - | - |
| | | |
| **Net carrying amount – closing balance** | **399** | **409** |

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| **Lease income** | **54** | **54** |
| | | |
| **Cost of generating lease income** | **20** | **23** |
| Real property tax | 10 | 10 |
| Depreciation | 10 | 13 |

**Note 13. GOODWILL**

The table below presents increases/decreases in goodwill on full consolidation of subsidiaries SECO/WARWICK Corporation, Retech Systems LLC, SECO/WARWICK Service GmbH, SECO/WARWICK Allied oraz SECO/WARWICK Bresil.

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Consolidation goodwill at beginning of period | 60,720 | 65,116 |
| Increase in consolidation goodwill – acquisition of SECO/WARWICK Service GmbH | - | 1,667 |
| Increase in consolidation goodwill – acquisition of SECO/WARWICK Allied | 9,078 | - |
| Increase in consolidation goodwill – acquisition of SECO/WARWICK Brasil | 15,434 | - |
| Exchange differences on translation of goodwill | -6,371 | -6,063 |
| **Total goodwill at end of period** | **78,860** | **60,720** |

**Accounting for acquisition of a subsidiary**

**SECO/WARWICK Allied**

On March 26th 2013, SECO/WARWICK Allied of India joined the SECO/WARWICK Group.

The fair value of identifiable assets and liabilities of SECO/WARWICK Allied of India as at the acquisition date was as follows:

| Item | *Fair value at acquisition* |
|---|---|
| Property, plant and equipment | 27,104 |
| Intangible assets | 0 |
| Prepayments and accrued income | 10,458 |
| Deferred tax assets | 398 |
| Cash and cash equivalents | 10,151 |
| Trade receivables | 18,295 |
| Inventories | 3,612 |
| Other assets | 3,979 |
| Trade payables | 15,190 |
| Other liabilities | 13,717 |
| Borrowings and other financial liabilities | 14,935 |
| Deferred tax liabilities | 5,228 |
| **Net assets** | **24,928** |

Goodwill identified on accounting for the acquisition was measured as follows:

| Item | |
|---|---|
| Fair value of 50% | 20,402 |
| Purchase price of the controlling package | 3,211 |
| Share of net assets as at acquisition date | 14,537 |
| **Goodwill as at acquisition date** | **9,076** |

The goodwill includes unidentifiable intangible assets, including know-how, technologies and credentials. In the Management Board's opinion, any potential valuation of these assets, given their uniqueness, would be largely discretionary and, consequently, would involve a risk of error (no active market for the assets is available). Therefore, a decision was made that the intangible assets would not be measured and that they would be included in goodwill.

**SECO/WARWICK Brasil**

On May 24th 2013, SECO/WARWICK Brasil of Brasil joined the SECO/WARWICK Group.

The fair value of identifiable assets and liabilities of SECO/WARWICK Brasil of Brasil as at the acquisition date was as follows:

| **Item** | ***The carrying value immediately prior to the acquisition*** | ***Fair value at acquisition*** |
|---|---|---|
| Property, plant and equipment | 4,426 | 5,571 |
| Intangible assets | 7 | 7 |
| Prepayments and accrued income | - | - |
| Deferred tax assets | - | - |
| Cash and cash equivalents | 221 | 221 |
| Trade receivables | 937 | 937 |
| Inventories | 1,109 | 1,109 |
| Other assets | 730 | 730 |
| Trade payables | 1,471 | 1,471 |
| Other liabilities | 2,627 | 2,627 |
| Borrowings and other financial liabilities | 1,194 | 1,194 |
| Deferred tax liabilities | - | - |
| **Net assets** | **2,139** | **3,284** |

Goodwill identified on accounting for the acquisition was measured as follows:

| **Item** | |
|---|---|
| Purchase price | 18,718 |
| Share of net assets as at acquisition date | 3,284 |
| **Goodwill as at acquisition date** | **15,434** |

The goodwill includes unidentifiable intangible assets, including know-how, technologies and credentials. In the Management Board's opinion, any potential valuation of these assets, given their uniqueness, would be largely discretionary and, consequently, would involve a risk of error (no active market for the assets is available). Therefore, a decision was made that the intangible assets would not be measured and that they would be included in goodwill.

**Note 14. INVESTMENTS IN SUBORDINATED ENTITIES**

| Company | Carrying amount of shares as at Dec 31 2013 | Ownership interest (%) | % of the total vote | Method of consolidation | Assets | Liabilities | Revenue | Net profit/(loss) |
|---|---|---|---|---|---|---|---|---|
| SECO/WARWICK EUROPE | 70,414 | 100% | 100% | full | 214,787 | 96,634 | 224,213, | 22,199 |
| SECO/WARWICK Corporation | 21,806 | 100% | 100% | full | 54,189 | 47,185 | 94,213 | -3,552 |
| SECO/WARWICK Rus | 172 | 100% | 100% | full | 4,354 | 4,858 | 12,223 | -686 |
| RETECH Systems LLC | 50,863 | 100% | 100% | full | 73,896 | 20,488 | 160,299 | 12,510 |
| SECO/WARWICK ALLIED | 19,337 | 67% | 67% | full | 55,114 | 39,161 | 19,208 | -4,267 |
| SECO/WARWICK Retech | 3,370 | 90% | 90% | full | 9,238 | 7,988 | 11,611 | -4,340 |
| OOO SCT Russia | 4,228 | 50% | 50% | equity method | 7,555 | 747 | 0 | -1,080 |
| SECO/WARWICK GmbH | 0 | 100% | 100% | full | 3,950 | 3,634 | 981 | 798 |
| SECO/WARWICK Service GmbH | 0 | 100% | 100% | full | 6,561 | 7,208 | 8,824 | -1,497 |
| SECO/WARWICK do Brasil | 18,718 | 100% | 100% | full | 6,087 | 4,237 | 5,015 | -955 |

| Company | Carrying amount of shares as at Dec 31 2012 | Ownership interest (%) | % of the total vote | Method of consolidation | Assets | Liabilities | Revenue | Net profit/(loss) |
|---|---|---|---|---|---|---|---|---|
| SECO/WARWICK EUROPE | 7,657 | 100% | 100% | full | 70,086 | 35,213 | 75,925 | 5,015 |
| SECO/WARWICK Corporation | 21,806 | 100% | 100% | full | 73,943 | 63,496 | 98,390 | 3,769 |
| SECO/WARWICK Rus | 172 | 100% | 100% | full | 2,022 | 1,732 | 25,360 | -274 |
| RETECH Systems LLC | 50,863 | 100% | 100% | full | 84,633 | 41,905 | 186,424 | 13,485 |
| SECO/WARWICK ALLIED | 12,921 | 50% | 50% | equity method | 53,534 | 32,297 | 61,331 | 2,245 |
| SECO/WARWICK Retech | 3,370 | 100% | 100% | full | 12,056 | 6,616 | 16,579 | 190 |
| OOO SCT Russia | 643 | 50% | 50% | full | 1,317 | 97,021 | 0 | -0.5 |
| SECO/WARWICK GmbH | 0 | 100% | 100% | full | 3,412 | 3,862 | 3,461 | -826 |
| SECO/WARWICK Service GmbH | 0 | 100% | 100% | full | 4,423 | 3,601 | 672 | 30 |

## Note 15. INVESTMENTS IN EQUITY-ACCOUNTED ASSOCIATES

### OOO SCT

The Group holds 50% of ordinary shares in OOO SCT (a company operating under Russian law), representing 50% of the total vote at the company's general meeting. The remaining 50% of votes are held by Russian partner.

The shares in OOO SCT were established by the SECO/WARWICK of September 17th 2012.

| Item | Dec 31 2012 | Dec 31 2011 |
|---|---|---|
| Current assets | 974 | 1,146 |
| Non-current assets | 6,581 | 171 |
| Current liabilities | 747 | 97 |
| Non-current liabilities | - | - |
| Revenue | - | - |
| Net profit/(loss) | -1,080 | -59 |
| Share of profit of associate: | 50% | 50% |

The Parent does not control OOO SCT within the meaning of IFRS 3 as it has no power to govern its financial and operating policies. Messrs. Paweł Wyrzykowski (Member of the Parent's Management Board), Jarosław Talerzak (Member of the Parent's Management Board) serve on the four-member Board of Directors of OOO SCT and do not perform any current operational duties towards OOO SCT. Given the above, and considering the fact that SECO/WARWICK holds more than 20% and less than 50% of ordinary shares and a corresponding interest in the net assets of the acquired company, the Management Board of the Parent believes that SECO/WARWICK has 'significant influence' over the acquiree. Accordingly, the investment in OOO SCT. has been accounted for using the equity method in accordance with IAS 28.

| Item | *Sep 17 2012* |
|---|---|
| Purchase price | 642 |
| Share of net assets as at acquisition date | 642 |
| **Goodwill as at acquisition date** | **-** |

| Item | Dec 31 20131 |
|---|---|
| Share of net assets as at the end of the reporting period | 3,404 |
| **Investment in associate** | **3,404** |

| | |
|---|---|
| Purchase price | 642 |
| Share of profit of associate – 2012 | -30 |
| Share of profit of associate – 2013 | -540 |
| Payment for preference shares | 3,586 |
| Exchange differences on translation of foreign operation | -255 |
| **Investment in associate** | **3,403** |

As prescribed by IAS 12.44, the Group recognises deferred tax assets related to deductible temporary differences arising from investments in associates only to the extent it is probable that the temporary differences will reverse in the foreseeable future.

The Management Board of the Parent intends to hold the investment in OOO SCT as a long-term investment (currently there are no plans to sell the shares). In view of that and in accordance with IAS 12.44, no deferred tax assets were recognised in respect of the deductible temporary differences arising from investments in associates.

**Note 16. INVENTORIES**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Materials (at cost) | 21,244 | 20,511 |
| Semi-finished products and work in progress | 8,280 | 6,089 |
| Finished products | 3,124 | 1,061 |
| Merchandise | - | 688 |
| **Total inventories (carrying amount)** | **32,648** | **28,349** |
| Write-downs of inventories | 2,672 | 2,096 |
| **Gross inventories** | **35,320** | **30,445** |

**CHANGE IN INVENTORY WRITE-DOWNS**

| WRITE-DOWNS | Materials | Semi-finished products and work in progress | Finished products | Merchandise | Total |
|---|---|---|---|---|---|
| **Jan 1 2012** | **1,558** | **161** | **13** | **5** | **1,737** |
| **Increase, including:** | **-** | **901** | **-** | **-** | **901** |
| - write-downs recognised in correspondence with other expenses | - | 901 | - | - | 901 |
| Net exchange differences on translating financial statements into presentation currency | - | - | - | - | - |
| **Decrease, including:** | **191** | **351** | **-** | **-** | **542** |
| - write-downs reversed in correspondence with other income | 104 | 346 | - | - | 450 |
| Net exchange differences on translating financial statements into presentation currency | 87 | 5 | - | - | 92 |
| **Dec 31 2012** | **1,367** | **711** | **13** | **5** | **2,096** |
| **Increase, including:** | **75** | **623** | **-** | **-** | **698** |
| - write-downs recognised in correspondence with other expenses | 75 | 623 | - | - | 698 |
| Net exchange differences on translating financial statements into presentation currency | - | - | - | - | - |
| **Decrease, including:** | **10** | **102** | **-** | **-** | **112** |
| - write-downs reversed in correspondence with other income | - | 99 | - | - | 99 |
| Net exchange differences on translating financial statements into presentation currency | 10 | 13 | - | - | 23 |
| **Dec 31 2013** | **1,432** | **1,222** | **13** | **5** | **2,672** |

**Note 17. LONG-TERM CONTRACTS**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Aggregate amount of costs incurred on construction contracts and recognised profits (less recognised losses) | 635,180 | 591,343 |
| Advances received | -589,806 | -561,252 |
| Excess of advances received over recognised revenue estimated using the percentage of completion method | 53,279 | 53,271 |
| **Contract settlement, total** | **98,653** | **83,362** |

**Note 18. TRADE AND OTHER RECEIVABLES**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| **Trade receivables (net)** | **84,671** | **73,356** |
| **non-current** | **8,716** | **1,121** |
| - from related entities | - | - |
| - from other entities | 8,716 | 1,121 |
| **current** | **75,955** | **72,235** |
| - from related entities | - | 562 |
| - from other entities | 75,955 | 71,673 |
| **Impairment losses (positive value)** | **3,692** | **2,101** |
| **Trade receivables (gross)** | **88,363** | **75,457** |
| **Other receivables:** | | |
| **non-current** | **1,691** | **992** |
| **current** | **15,098** | **16,763** |
| taxes, customs duties and social security receivable | 7,467 | 4,595 |
| other | 7,631 | 12,168 |
| **Other receivables (gross)** | **16,789** | **17,755** |

The Group operates a policy of selling its products and services only to customers whose credibility has been verified. Management believes that thanks to this policy there is no additional credit risk beyond the level determined by the impairment losses recognised with respect to the Company's uncollectible trade receivables.

As at December 31st 2013, trade receivables of PLN 3,692 thousand (2012: PLN 2,101 thousand) were classified as unrecoverable and, accordingly, a relevant impairment loss was recognised.

The changes in impairment losses on receivables were as follows:

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| **As at beginning of the period** | **2,101** | **2,561** |
| Increase | 2,083 | 215 |
| Use (-) | -511 | -205 |
| Unused amounts written off (-) | - | -360 |
| Net exchange differences on translating financial statements into presentation currency | -17 | -110 |
| **As at end of the period** | **3,656** | **2,101** |

Maturity structure of trade receivables (gross) as from the end of the reporting period:

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| up to 1 month | 8,601 | 30,096 |
| more than 1 month, up to 6 months | 36,981 | 33,018 |
| more than 6 months, up to 1 year | 13,653 | 5,212 |
| more than 1 year | 22,510 | 2,360 |
| past due | 2,927 | 2,670 |
| Total trade receivables (net) | **84,671** | **73,356** |

| | | |
|---|---|---|
| Non-current receivables | 8,716 | 1,121 |
| Current receivables | 75,955 | 72,235 |
| Impairment losses on trade receivables | 3,656 | 2,101 |
| **Total trade receivables (gross)** | **88,363** | **75,457** |

Trade and other receivables by currency:

| Item | Dec 31 2013 | | Dec 31 2012 | |
|---|---|---|---|---|
| | in foreign currency | restated in PLN | in foreign currency | restated in PLN |
| PLN | - | 20,270 | - | 17,221 |
| EUR | 8,068 | 33,181 | 5,253 | 21,475 |
| USD | 7,559 | 22,905 | 15,542 | 49,559 |
| GBP | 27 | 133 | 1 | 6 |
| CHF | - | - | - | - |
| other | - | 22,905 | - | 5,586 |
| **Total** | | **103,461** | **-** | **93,846** |

Current receivables from related entities:

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| **Trade receivables** | **-** | **562** |
| From subsidiaries | - | - |
| From jointly-controlled entities | - | - |
| From associates | - | 562 |
| From other related entities not covered by these consolidated financial statements | - | - |
| **Other current receivables** | **-** | **437** |
| From subsidiaries | - | - |
| From jointly-controlled entities | - | - |
| From associates | - | 437 |
| From other related entities not covered by these consolidated financial statements | - | - |
| **Total** | **-** | **999** |

**Note 19. OTHER FINANCIAL ASSETS AND LIABILITIES**

**Loans advanced (including loans advanced to members of the Management Board) as at December 31st 2013**

| | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Increase in loans advanced, including: | 548 | 21 |
| - non-current | - | 13 |
| - current | 548 | 8 |

No loans were advanced to members of the Management Board or the Supervisory Board in 2013.

**Financial assets**

| | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Derivative financial instruments | 3,822 | 4,028 |
| **Financial assets at fair value through profit or loss** | 3,822 | 4,028 |
| - non-current | - | - |
| - current | 3,822 | 4,028 |

**Financial liabilities**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Borrowings | 34,119 | 20,720 |
| Other financial liabilities: | 8,643 | 1,134 |
| *- valuation of financial instruments* | 5 | 5 |
| *- lease liabilities* | 1,211 | 581 |
| *- liability associated with the redemption of the remaining 50% stake SW Brasil* | 7,383 | - |
| *- other financial liabilities* | 44 | 548 |
| **Total financial liabilities** | **42,763** | **21,854** |
| - non-current | 20,548 | 3,367 |
| - current | 22,215 | 18,487 |

| | Dec 31 2013 | | Dec 31 2012 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Derivative financial instruments | 3,822 | 5 | 4,028 | 5 |
| **Total financial assets and liabilities at fair value through profit or loss** | **3,822** | **5** | **4,028** | **5** |
| - non-current | - | - | - | - |
| - current | 3,822 | 5 | 4,028 | 5 |
| **Total financial assets and liabilities at fair value through equity** | **1,324** | - | **1,580** | - |
| - non-current | - | - | - | - |
| - current | **1,324** | - | **1,580** | - |

**Disclosures of derivative financial instruments which qualify for hedge accounting**

In 2013, SECO/WARWICK S.A. did not make any derivative transactions.

In 2013, SECO / WARWICK EUROPE Ltd. secured an average of close to 65 % of cash flows from exports denominated in EUR, up to 80 % of cash flows denominated in USD and up to 90 % of cash flows denominated in GBP currency forward contracts and zero - balanced by cost corridors consisting of a sold put option and the type of call options purchased. The aim of this strategy is to hedge the exchange rate financial contracts. Change the value of cash flows in EUR and USD are offset by changes in the fair value of the hedging instrument. If all criteria are met in accordance with § 88 of IAS 39, the Company applies hedge accounting. Negative balance-sheet valuation of derivatives is recognized directly in equity of the Company. At the time of the transaction, which was concluded for currency futures contract has an impact on the income statement - negative valuation previously recognized in equity is reclassified to the income statement. The fair value of foreign exchange forward transactions has been made by the Bank, which is a party to the transaction.

The table below presents total values of hedging relationships open as at December 31st 2013.

| Dec 31 2013 | Notional amount of contract (EUR'000) | Original notional amount of hedging instrument | Remaining notional amount of hedging instrument as at Dec 31 2013 | Fair value of the instrument (PLN '000) | Amount recognised in profit or loss (PLN '000) | Amount recognised in equity (PLN '000) | Date for final settlement of hedging instrument |
|---|---|---|---|---|---|---|---|
| TOTAL | 45,439 | 28,969 | 23,467 | 2,186 | 1,091 | 1,095 | Jan 31 2014−Jan 22 2015 |

| Dec 31 2013 | Notional amount of contract (USD '000) | Original notional amount of hedging instrument | Remaining notional amount of hedging instrument as at Dec 31 2013 | Fair value of the instrument (PLN '000) | Amount recognised in profit or loss (PLN '000) | Amount recognised in equity (PLN '000) | Date for final settlement of hedging instrument |
|---|---|---|---|---|---|---|---|
| TOTAL | 16,921 | 12,419 | 7,514 | 1,623 | 1,087 | 536 | Jan 21 2014−Dec 31 2014 |

| Dec 31 2013 | Notional amount of contract (CZK '000) | Original notional amount of hedging instrument | Remaining notional amount of hedging instrument as at Dec 31 2013 | Fair value of the instrument (PLN '000) | Amount recognised in profit or loss (PLN '000) | Amount recognised in equity (PLN '000) | Date for final settlement of hedging instrument |
|---|---|---|---|---|---|---|---|
| TOTAL | - | - | - | - | - | - | - |

| Dec 31 2013 | Notional amount of contract (GBP '000) | Original notional amount of hedging instrument | Remaining notional amount of hedging instrument as at Dec 31 2013 | Fair value of the instrument (PLN '000) | Amount recognised in profit or loss (PLN '000) | Amount recognised in equity (PLN '000) | Date for final settlement of hedging instrument |
|---|---|---|---|---|---|---|---|
| TOTAL | 351 | 315 | 220 | 8 | 4 | 4 | Feb 28 2014−Sep 30 2014 |

**Note 20. PREPAYMENTS AND ACCRUED INCOME**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Insurance policies | 1,297 | 909 |
| Subscriptions | 5 | 1 |
| VAT to be settled in the following period | 955 | 577 |
| Lease of software | 25 | 116 |
| Other | 1,310 | 1,237 |
| **Total current prepayments and accrued income** | **3,593** | **2,840** |

**Note 21. CASH AND CASH EQUIVALENTS**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Cash at banks and cash in hand | 44,268 | 55,556 |
| Short-term deposits | - | - |
| Other cash equivalents | - | - |
| **Total cash and cash equivalents** | **44,268** | **55,556** |

CASH AND CASH EQUIVALENTS (BY CURRENCY):

| Item | Dec 31 2013 | | Dec 31 2012 | |
|---|---|---|---|---|
| | in foreign currency | restated in PLN | in foreign currency | restated in PLN |
| PLN | - | 11,522 | - | 18,033 |
| EUR | 1,593 | 6,605 | 1,247 | 5,096 |
| USD | 6,237 | 18,786 | 9,531 | 29,543 |
| GBP | 3 | 16 | 189 | 947 |
| other | - | 7,339 | - | 1,938 |
| **Total** | | **44,268** | **-** | **55,556** |

**Note 22. SHARE CAPITAL AND STATUTORY RESERVE FUNDS/CAPITAL RESERVES**

**Share capital**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Number of shares | 10,680,197 | 10,476,210 |
| Par value of shares | 0.2 | 0.2 |
| **Share capital** | 2,136 | 2,095 |
| Share capital restated using hyperinflation index (IAS 19) | 1,557 | 1,557 |
| **Share capital at end of the period** | **3,693** | **3,652** |

Share capital structure:

| Shareholder | Type of preference attached to shares | Type of limitation on rights to shares | Number of shares |
|---|---|---|---|
| SW Poland Holding B.V. (Netherlands) | None | - | 3,387,139 |
| Spruce Holding Limited Liability Company (USA) | None | - | 1,419,294 |
| Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK | None | - | 904,794 |
| Funds represented by PKO BP BANKOWY PTE S.A. | None | - | 849,698 |
| Bleauhard Holdings LLC | None | - | 743,456 |
| ING NN OFE | None | - | 600,000 |
| AMPLICO | None | - | 577,470 |
| Other | None | - | 2,198,346 |
| **TOTAL** | | | **10,680,197** |

Changes in share capital:

| Item | Jan 1–Dec 31 2013 | Jan 1–Dec 31 2012 |
|---|---|---|
| **Share capital at beginning of the period** | 3,652 | 3,652 |
| **Share capital increases during the period** | | |
| Share capital increase | 41 | - |
| Share capital restated using hyperinflation index (IAS 19) | - | - |
| **Share capital reductions during the period** | **-** | **-** |
| **Share capital at end of the period** | **3,693** | **3,652** |

Other components of equity

| Item | Statutory reserve funds | Other components of equity |
|---|---|---|
| **Balance as at Jan 1 2012** | **161,361** | **-** |
| **Increase** | | |
| Profit distributions | 4,169 | - |
| Share capital increase – share premium | - | - |
| Valuation of management stock options | - | - |
| **Decrease** | | |
| Management stock options | - | - |
| **Balance as at Dec 31 2012** | **165,531** | **-** |
| **Increase** | | |
| Profit distributions | 5,689 | - |
| Share capital increase – share premium | - | - |
| Management stock options | - | 3,147 |
| **Decrease** | | |
| Management stock options | - | - |
| **Balance as at Dec 31 2013** | **171,219** | **3,147** |

**Note 23. RETAINED EARNINGS/(DEFICIT)**

Retained earnings/(deficit) do not include non-distributable amounts (amounts that are not available for distribution as dividends):

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| **Non-distributable amounts included in retained earnings** | **48,177** | **56,701** |
| Current net profit/(loss) | 15,221 | 28,677 |
| Exchange differences | -11,924 | 168 |
| Hedging reserve | 1,075 | 1,580 |
| Reserve of remeasurements of employee benefit plan | -1,467 | -3,152 |
| Retained reserves (retained earnings/(deficit), consolidation adjustments etc.) | 45,272 | 29,428 |

**Note 24. FINANCIAL LIABILITIES**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Borrowings | 34,119 | 20,720 |
| Other financial liabilities: | 8,643 | 1,134 |
| *- valuation of financial instruments* | 5 | 5 |
| *- lease liabilities* | 1,211 | 581 |
| *- liability associated with the redemption of the remaining 50% stake SW Brasil* | 7,383 | - |
| *- other financial liabilities* | 44 | 548 |
| **Total financial liabilities** | **42,763** | **21,854** |
| - non-current | 20,548 | 3,367 |
| - current | 22,215 | 18,487 |

**Non-current and current bank and other borrowings as at December 31st 2013**

| Name and registered office of lender | Outstanding amount PLN ('000) | Outstanding amount Currency ('000) | Repayment date | Security |
|---|---|---|---|---|
| | | **Current** | | |
| HSBC | 2,187 | 726 USD | - | guarantee |
| HSBC | 2,108 | 700 USD | 09.01.2014 | guarantee |
| HSBC | 123 | 248 RMB | 07.03.2014 | guarantee |
| HSBC | 131 | 262 RMB | 17.03.2014 | guarantee |
| HSBC | 240 | 483 RMB | 25.04.2014 | guarantee |
| HSBC | 401 | 806 RMB | 06.06.2014 | guarantee |
| CITI BANK | 160 | 322 RMB | 07.05.2014 | SBLC |
| CITI BANK | 195 | 392 RMB | 12.05.2014 | SBLC |
| CITI BANK | 342 | 688 RMB | 12.05.2014 | SBLC |
| CITI BANK | 258 | 86 USD | 12.05.2014 | SBLC |
| CITI BANK | 116 | 234 RMB | 21.05.2014 | SBLC |
| CITI BANK | 87 | 174 RMB | 11.06.2014 | SBLC |
| Bank Deutsche Kraftfahrzeuggewerbe | 23 | 5 EUR | 01.05.2017 | guarantee |
| Toyota Kreditbank | 232 | 56 EUR | 01.11.2018 | - |
| BNP Paribas | 68 | 16 EUR | 15.11.2017 | - |

| | | | | |
|---|---|---|---|---|
| Mercedes Benz | 40 | 10 EUR | 30.05.2017 | - |
| Commerzbank | 1,244 | 300 EUR | 31.15.2015 | assignment, guarantee |
| Commerzbank | 792 | 191 EUR | 31.15.2015 | assignment, guarantee |
| Martin van Rossum | 104 | 25 EUR | - | - |
| Heiner Kelputt | 104 | 25 EUR | - | - |
| Banco Itaú | 60 | 47 R$ | 01.04.2014 | - |
| Banco Itaú | 184 | 145 R$ | 05.11.2014 | - |
| Banco Itaú | 183 | 144 R$ | 25.07.2014 | - |
| Banco Itaú | 135 | 106 R$ | 22.06.2015 | - |
| Banco Brasil | 604 | 471 R$ | 15.02.2014 | - |
| Banco Brasil | 143 | 113 R$ | 10.06.2015 | - |
| HSBC Bank | 1,454 | 29,813 INR | 11.03.2014 | SBLC |
| Union Bank of India | 439 | 9,001 INR | - | - |
| Union Bank of India | 2,039 | 41,810 INR | 13.09.2021 | - |
| Union Bank of India | 3,031 | 62,162 INR | - | - |
| Union Bank of India | 65 | 1,334 INR | 31.01.2014 | - |
| Union Bank of India | 39 | 794 INR | 30.08.2020 | - |
| Union Bank of India | 34 | 691 INR | 30.08.2020 | - |
| Kotak Mahindra bank | 1,092 | 22,392 INR | 10.10.2018 | - |
| Citi bank | 1,102 | 22,603 INR | 31.05.2014 | SBLC |
| HSBC Bank | 494 | 10,113 INR | 26.03.2014 | SBLC |
| Indian partner* | 2,495 | 51,182 INR | - | - |
| | | **Non-current** | | |
| BRE BANK S.A. Zielona Góra Branch, investment facility | 3,012 | USD 1,000 | Dec 31 2015 | Ordinary mortgage for USD 2,500,000 Ceiling mortgage for USD 250,000 Submission to enforcement for up to USD 2,750,000 |
| Bank Handlowy | 8,560 | 2,842 USD | Apr 27 2018 | Ordinary mortgage for 3.750 tys. USD, civil and legal guarantee SECO/WARWICK EUROPE Sp. z o.o. |
| TOTAL | 34,119 | | | |

* preference shares classified by SECO / WARWICK Allied credit as a liability due to the fact that bear interest and will be returned to shareholders Hindu

**Non-current and current bank and other borrowings as at December 31st 2012**

| Name and registered office of lender | Outstanding amount | | Repayment date | Security |
|---|---|---|---|---|
| | PLN ('000) | Currency ('000) | | |
| | | **Current** | | |
| Bank Handlowy | 1,544 | | 29.08.2013 | Declaration on submission to enforcement for up to PLN 3,600,000.00 |
| BRE BANK | 3,007 | | Mar 28 2014 | Declaration on submission to enforcement for up to PLN 7,200,000.00 |

| | | | | |
|---|---|---|---|---|
| James Golz | 1,621* | USD 500 | Jan 31 2013 | Shareholder's guarantee |
| HSBC | 7,594 | USD 2,450 | - | Guarantee |
| Citi Bank | 464 | RMB 933 | Nov 13 2013 | Guarantee |
| Sparkasse Kleve | 205 | EUR 50 | - | - |
| Volksbank Kleverland | 409 | EUR 100 | - | - |
| Volksbank Kleverland | 409 | EUR 100 | Oct 30 2017 | - |
| Sparkasse Emmerich-Rees | 409 | EUR 100 | Mar 30 2013 | - |
| Sparkasse Kleve | 205 | EUR 50 | Aug 20 2013 | - |
| Martin van Rossum | 102 | EUR 25 | - | - |
| Heiner Kelputt | 102 | EUR 25 | - | - |
| | | **Non-current** | | |
| BRE BANK S.A. Zielona Góra Branch, investment facility | 4,649 | USD 1,500 | Dec 31 2015 | Ordinary mortgage for USD 2,500,000<br>Ceiling mortgage for USD 250,000<br>Submission to enforcement for up to USD 2,750,000 |

* Carrying amount of the borrowing is PLN 1,550 thousand, with the balance representing interest accrued.

Borrowings by maturity:

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Current bank and other borrowings | 18 050 | 17,620 |
| Non-current bank and other borrowings | 16 069 | 3,100 |
| - repayable in more than 1 year, up to 3 years | 16 069 | 3,100 |
| - repayable in more than 3 years, up to 5 years | | |
| **Total bank and other borrowings** | **34 119** | **20,720** |

Bank and other borrowings by currency:

| Item | Dec 31 2013 | | Dec 31 2012 | |
|---|---|---|---|---|
| | Value in foreign currency | Value in PLN | Value in foreign currency | Value in PLN |
| PLN | - | - | | 4,552 |
| EUR | 628 | 2,607 | 50 | 205 |
| USD | 5,354 | 16,125 | 4,450 | 13,864 |
| RMB | 3,609 | 1,795 | 933 | 464 |
| INR | 322,733 | 12,284 | - | - |
| BRL | 1,026 | 1,309 | - | - |
| **Total bank and other borrowings** | | **34,119** | | **20,720** |

## Note 25. LEASES

### Operating lease

Liabilities under operating leases – the Group as a lessee:

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| ***Lease payments made*** | **152** | **255** |
| Outstanding balance: | | |
| Up to 1 year | 152 | 167 |
| From 1 year to 5 years | 269 | 340 |
| Over 5 years | | |
| **Total** | **421** | **507** |

In 2013 and 2012, operating lease agreements included lease of office equipment and vehicles used by SECO/WARWICK Corporation.

### Finance leases

As at December 31st 2012 and December 31st 2011, liabilities under finance leases and lease agreements with a purchase option were as follows:

| Item | Dec 31 2013 | | Dec 31 2012 | |
|---|---|---|---|---|
| | Minimum lease payments | Present value of the lease payments | Minimum lease payments | Present value of the lease payments |
| Up to 1 year | 518 | 350 | 280 | 211 |
| From 1 year to 5 years | 1,065 | 861 | 440 | 366 |
| Over 5 years | | | | |
| **Total minimum lease payments** | **1,583** | **1,211** | **720** | **577** |
| Finance costs | 372 | | 143 | **x** |
| **Present value of minimum lease payments, including:** | **1,211** | **1,211** | **577** | **577** |
| current | 350 | 350 | 211 | 211 |
| non-current | 685 | 685 | 366 | 366 |

Finance lease agreements as at December 31st 2013

| Lessor | Agreement No. | Initial value | Currency | Agreement expiry date | Liabilities outstanding as at the end of reporting period |
|---|---|---|---|---|---|
| mLeasing | ELTERMA/PO/120581/2011 | 60 | PLN | 27-04-2014 | 6 |
| Millenium Leasing | K150078 | 88 | PLN | 05-11-2014 | 24 |
| mLeasing | ELTERMA/PO/ 138167/2012 | 108 | PLN | 30-06-2015 | 82 |
| mLeasing | ELTERMA/PO/ 142435/2012 | 69 | PLN | 30-10-2015 | 55 |
| mLeasing | ELTERMA/PO/ 142436/2012 | 69 | PLN | 30-10-2015 | 55 |
| mLeasing | ELTERMA/PO/ 145013/2012 | 57 | PLN | 30-10-2015 | 46 |
| mLeasing | ELTERMA/PO/147710/2012 | 99 | PLN | 15-01-2016 | 84 |
| mLeasing | ELTERMA/PO/153730/2013 | 59 | PLN | 30-06-2016 | 53 |

| | | | | | |
|---|---|---|---|---|---|
| mLeasing | ELTERMA/PO/153731/2013 | 59 | PLN | 30-06-2016 | 53 |
| mLeasing | ELTERMA/PO/153732/2013 | 69 | PLN | 30-07-2016 | 65 |
| mLeasing | ELTERMA/PO/154824/2013 | 147 | PLN | 30-07-2016 | 138 |
| mLeasing | SECOWAR/PO/148705/2012 | 79 | PLN | 25-01-2015 | 67 |
| mLeasing | SECOWAR/PO/148706/2012 | 79 | PLN | 25-01-2015 | 67 |
| mLeasing | SECOWAR/PO/148704/2012 | 79 | PLN | 25-01-2015 | 67 |
| mLeasing | SECOWAR/PO/148876/2012 | 92 | PLN | 25-01-2015 | 80 |
| mLeasing | SECOWAR/PO/148824/2012 | 87 | PLN | 25-01-2015 | 76 |
| mLeasing | SECOWAR/SZ/158113/2013 | 89 | PLN | 25-10-2015 | 88 |
| Volkswagen Leasing Sp. z o.o. | 6044242-1212-07457 | 363 | PLN | 30-06-2014 | 104 |
| mLeasing | ELTERMA/PO/120581/2011 | 60 | PLN | 27-04-2014 | 6 |
| **Total** | **x** | **1,752** | **x** | **x** | **1,210** |

Finance lease agreements as at December 31st 2012

| Lessor | Agreement No. | Initial value | Currency | Agreement expiry date | Liabilities outstanding as at the end of reporting period |
|---|---|---|---|---|---|
| BRE Leasing | ELTERMA/PO/105666/2010 | 69 | PLN | Dec 16 2012 | 1 |
| BRE Leasing | ELTERMA/PO107533/2010 | 104 | PLN | Feb 21 2013 | 7 |
| BRE Leasing | ELTERMA/PO/112021/2010 | 54 | PLN | Jul 30 2013 | 9 |
| BRE Leasing | ELTERMA/PO112022/2010 | 63 | PLN | Aug 20 2013 | 13 |
| BRE Leasing | ELTERMA/PO/112023/2010 | 58 | PLN | Jul 30 2013 | 10 |
| BRE Leasing | ELTERMA/PO/120581/2011 | 60 | PLN | Apr 27 2014 | 25 |
| Millenium Leasing | K150078 | 88 | PLN | Nov 5 2014 | 48 |
| BRE Leasing | ELTERMA/PO/ 138167/2012 | 108 | PLN | Jun 30 2015 | 99 |
| BRE Leasing | ELTERMA/PO/ 142435/2012 | 69 | PLN | Oct 30 2015 | 67 |
| BRE Leasing | ELTERMA/PO/ 142436/2012 | 69 | PLN | Oct 30 2015 | 67 |
| BRE Leasing | ELTERMA/PO/ 145013/2012 | 57 | PLN | Oct 30 2015 | 55 |
| Volkswagen Leasing Sp. z o.o. | 6044242-1212-07457 | 363 | PLN | Jun 30 2014 | 181 |
| **Total** | **x** | **1,162** | **x** | **x** | **582** |

**Note 26. TRADE PAYABLES AND OTHER LIABILITIES**

| **Item** | **Dec 31 2013** | **Dec 31 2012** |
|---|---|---|
| *current liabilities* | 71,622 | 44,674 |
| *non-current liabilities* | 4,616 | 26 |
| **Total** | **76,238** | **44,700** |

## TRADE PAYABLES AND OTHER CURRENT LIABILITIES

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| *Trade payables* | | |
| To related entities | - | - |
| To other entities | 56,473 | 32,459 |
| **Total** | **56,473** | **32,459** |
| Taxes, customs duties, social security and other charges payable | 5,340 | 1,550 |
| Salaries and wages payable | 6,407 | 1,757 |
| Income tax payable | 375 | 5,431 |
| Other liabilities | 3,025 | 3,477 |
| **Total other liabilities** | **15,148** | **12,215** |
| **Total trade payables and other liabilities** | **71,622** | **44,674** |

**Current liabilities by currency:**

| Item | Dec 31 2012 | | Dec 31 2011 | |
|---|---|---|---|---|
| | in foreign currency | restated in PLN | in foreign currency | restated in PLN |
| PLN | - | 9,666 | | 16,203 |
| EUR | 5,623 | 23,320 | 1,155 | 4,722 |
| USD | 11,200 | 33,733 | 5,919 | 18,349 |
| GBP | 386 | 1,925 | 51 | 257 |
| SEK | - | - | | |
| other | - | 2,978 | | 5,142 |
| **Total** | | **71,622** | | **44,674** |

Trade payables by delinquency period:

| Item | *Total* | *Not past due* | *Past due but recoverable* | | | | |
|---|---|---|---|---|---|---|---|
| | | | *< 30 days* | *30–60 days* | *60–90 days* | *90–180 days* | *>180 days* |
| **Dec 31 2012** | **32,459** | 32,459 | | | | | |
| **Dec 31 2013** | | | | | | | |

Other current liabilities by delinquency period:

| Item | *Total* | *Not past due* | *Past due but recoverable* | | | | |
|---|---|---|---|---|---|---|---|
| | | | *< 30 days* | *30–60 days* | *60–90 days* | *90–180 days* | *>180 days* |
| **Dec 31 2012** | **12,215** | 12,215 | | | | | |
| **Dec 31 2013** | **15,148** | 15,148 | - | - | - | - | - |

**Non-current liabilities**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| To related entities | - | 26 |
| To other entities | - | - |
| **TOTAL** | **-** | **26** |

**Contingent liabilities**

Contingent liabilities under guarantees and sureties for the end of 2013 amounted to 75,509 thousand. zł, while at the end of 2012 49,278 thousand. zł. The guarantees were granted the title:

APG → advance payment guarantee
BB → bid bond
CRG → credit repayment guarantee
PBG → performance bond guarantee
SBLC→ stand-by letter of credit
WAD→ bid bond guarantee
CRB → credit repayment bond

**Sureties advanced by SECO/WARWICK S.A.**

| Company | Bank | Surety in respect of | Currency | Dec 31 2013 | *AMOUNT (PLN)* |
|---|---|---|---|---|---|
| S/W ALLIED Pvt. Ltd. | Union Bank of India | Guarantee and credit facility | INR | 258,200 | 12,589 |
| RETECH Systems | HSBC BANK USA | Guarantee and credit facility | USD | 25,000* | 75,300 |
| RETECH Systems | HSBC BANK USA | Guarantee and credit facility | USD | 3,500* | 10,542 |
| S/W Corp. | HSBC BANK USA | Guarantee and credit facility | USD | 1,800 | 5,422 |
| **TOTAL** | | | | | **103,853** |

* The amount drawn by Retech Systems under the available credit facilities as at December 31st 2013 was USD 5,726 thousand.

On March 25th 2013, the Company's Supervisory Board approved increasing the amount of surety provided to SECO/WARWICK Allied Pvt. Ltd. (India) from INR 225,000 thousand to INR 258,200 thousand. The total value of the surety, translated at the INR/PLN mid-exchange rate quoted by the National Bank of Poland for the date of the resolution, was PLN 15,228 thousand.

| Company | Bank | Surety in respect of | Currency | Dec 31 2012 | *AMOUNT (PLN)* |
|---|---|---|---|---|---|
| S/W ALLIED Pvt. Ltd. | Union Bank of India | Guarantee and credit facility | INR | 225,000 | 12,753 |
| RETECH Systems | East West Bank | Credit guarantee | USD | 1,000 | 3,100 |
| RETECH Systems | HSBC BANK USA | Guarantee and credit facility | USD | 25,000* | 77,490 |
| RETECH Systems | HSBC BANK USA | Guarantee and credit facility | USD | 3,500* | 10,849 |
| S/W Corp. | HSBC BANK USA | Guarantee and credit facility | USD | 1,800 | 5,579 |
| S/W EUROPE S.A. | Bank Handlowy | Guarantee and credit facility | PLN | 6,000 | 6,000 |
| **TOTAL** | | | | | **115,771** |

* The amount drawn by Retech Systems under the available credit facilities as at December 31st 2012 was USD 2,450 thousand.

**Social assets and liabilities of the Company Social Benefits Fund (Polish companies)**

The Act on Company Social Benefits Fund of March 4th 1994 (as amended) stipulates that an employer should set up a Company Social Benefits Fund if it has more than 20 full-time employees. The Company has set up such a Fund and makes periodic contributions to the Fund in the amount of the basic contribution / contribution agreed upon with the trade unions. Additionally, the Fund holds property, plant and equipment. The Fund is used to subsidise the Company's social activity, loans advanced to the employees and other social expenses.

The Group set off the Fund's assets against its liabilities towards the Fund, as the Fund's assets do not represent a separate asset category.

The table below presents analytic data on the Fund's assets, liabilities and expenses, as well as the net balance of the Fund.

| **Item** | **Dec 31 2013** | **Dec 31 2012** |
|---|---|---|
| Total tangible assets contributed to the Fund | | |
| Loans advanced to employees | 102 | 153 |
| Cash | 132 | 72 |
| Liabilities to the Fund | 232 | 48 |
| Net balance | -26 | 132 |
| Contributions to the Fund during financial period | 545 | 574 |

**Investment commitments**

As at December 31st 2013, the Group has an outstanding commitment to invest PLN 177 thousand in property, plant and equipment (2012: PLN 334 thousand). These amounts will be used to purchase new machinery and equipment.

## Note 27. PROVISIONS

### EMPLOYEE BENEFITS

**Retirement benefits and other post-employment benefits**

Retiring employees of the Polish companies of the Group received retirement bonuses in amounts established pursuant to the Polish Labour Code. Therefore, based on a valuation prepared by a qualified actuary, the Group recognises a provision for the present value of the retirement bonus obligations. The amount of the provision and reconciliation of changes in the provision during the year are presented in the table below.

**Provision for retirement bonuses and similar benefits**

| **NON-CURRENT PROVISION FOR RETIREMENT BONUSES AND BENEFITS** | **Jan 1– Dec 31 2013** | **Jan 1– Dec 31 2012** |
|---|---|---|
| as at beginning of the period | **2,865** | **317** |
| increase | 466 | 2,713 |
| - provisions of acquired entities | 241 | - |
| - provision recognised | 225 | 2,713 |
| use | - | - |
| reversal | - | -165 |
| **as at end of the period** | **3,331** | **2,865** |

Main assumptions adopted by the actuary as at the end of the reporting period to calculate the amount of the obligations were as follows:

| **Item** | **Dec 31 2013** | **Dec 31 2012** |
|---|---|---|
| Discount rate (%) | 4,2 | 4.2 |
| Expected inflation rate (%) | 2,5 | 2.5 |
| Expected rate of growth of salaries and wages (%) | 5,0 | 5.0 |

| CHANGE IN CURRENT PROVISION FOR RETIREMENT AND SIMILAR BENEFITS (BY CATEGORY) | Jan 1– Dec 31 2013 | Jan 1– Dec 31 2012 |
|---|---|---|
| **1. Provision for accrued holiday entitlements** | | |
| a) as at beginning of the period | 1,493 | 1,710 |
| b) increase | 1,507 | 1,507 |
| - provisions of acquired entities | 64 | - |
| - provision recognised | 1,429 | 1,507 |
| c) use | 367 | - |
| d) reversal | 1,140 | 1,710 |
| e) translation differences | - | - |
| **f) as at end of the period** | **1,493** | **1,507** |
| **2. Provision for bonuses** | | |
| a) as at beginning of the period | 4,489 | 3,419 |
| b) increase | 5,993 | 5,620 |
| - provisions of acquired entities | - | - |
| - provision recognised | 4,574 | 5,620 |
| c) use | 1,770 | 2,583 |
| d) reversal | 2,719 | 1,967 |
| e) translation differences | - | - |
| **f) as at end of the period** | **5,993** | **4,489** |
| **3. Provision for retirement bonuses** | | |
| a) as at beginning of the period | 450 | 104 |
| b) increase | 843 | 445 |
| - provisions of acquired entities | - | - |
| - provision recognised | 843 | 445 |
| c) use | 44 | 3 |
| d) reversal | 445 | 96 |
| e) translation differences | - | - |
| **f) as at end of the period** | **804** | **450** |

**RETIREMENT BENEFIT PLANS (SECO/WARWICK CORP.)**

| Item | 2013 | 2012 |
|---|---|---|
| **Change in plan liability** | | |
| Liability at beginning of the period | 12,295 | 12,253 |
| Administration costs | - | - |
| Interest expense | 467 | 505 |
| Actuarial gain/(loss) | -488 | 549 |
| Contributions paid | -684 | -654 |
| Liability at end of the period | 11,590 | 12,653 |
| **Change in plan assets** | | |
| Fair value of plan assets at beginning of the period | 8,849 | 8,099 |
| Actual return on plan assets | 1,319 | 911 |
| Contributions paid in | 723 | 750 |

| | | |
|---|---|---|
| Contributions paid out | -684 | -654 |
| Fair value of plan assets at end of the period | 10,208 | 9,107 |
| **Net liability recognised in statement of financial position** | | |
| Liability at end of the period | 11,590 | 12,653 |
| Fair value of plan assets at end of the period | 10,208 | 9,107 |
| Liability at end of the period | -1,383 | -3,543 |
| Unrecognised actuarial gains/(losses) | -3,651 | 5,589 |
| Unrecognised past service cost | -18 | 43 |
| **Expense recognised in profit or loss** | | |
| Administration costs | - | - |
| Interest expense | 467 | 527 |
| Expected return on plan assets | -702 | -669 |
| Actuarial gain/(loss) on plan assets | 675 | 756 |
| Recognised past service costs | 24 | 26 |
| Expense recognised in profit or loss | 464 | 640 |
| | | |
| **Provision recognised in non-current provisions** | | **3,544** |

**OTHER PROVISIONS**

| Item | *Provision for warranty repairs and returns* | *Provision for penalty* | *Other provisions* | *Other provisions – contingent liability* | *Total* |
|---|---|---|---|---|---|
| **As at Dec 31 2011** | **2,106** | **250** | **2,135** | **-** | **4,491** |
| Acquisition of subsidiary | - | - | - | - | - |
| Provisions recognised during the financial year | 305 | - | 7,352 | - | 7,657 |
| Provisions used | - | - | -312 | - | -312 |
| Provisions reversed | -363 | -250 | -5,654 | - | -6,267 |
| Exchange differences | - | - | - | - | - |
| Discount rate adjustment | - | - | - | - | - |
| **As at Dec 31 2012** | **2,048** | **-** | **3,521** | **-** | **5,569** |
| Acquisition of subsidiary | 289 | - | - | - | 289 |
| Provisions recognised during the financial year | 2,410 | - | 9,426 | - | 11,836 |
| Provisions used | - | - | - | - | - |
| Provisions reversed | - | - | -1,402 | - | -1,402 |
| Exchange differences | - | - | - | - | - |
| Discount rate adjustment | - | - | - | - | - |
| **As at Dec 31 2013** | **4,747** | **-** | **11,545** | **-** | **16,292** |

**Note 28. DEFERRED INCOME**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| - grant for partial financing of tangible assets | - | - |
| - grant from the Polish Ministry of Science and Higher Education | 4,143 | 4,515 |
| - long-term contracts | 55,340 | 67,443 |
| - other | 2,267 | 26 |
| **Total deferred income, including:** | **61,750** | **71,985** |
| non-current | 4,143 | 4,515 |
| current | 57,608 | 67,469 |

**Note 29. EXPLANATORY INFORMATION TO THE STATEMENT OF CASH FLOWS**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| **Cash in the statement of financial position** | **44,268** | **55,557** |
| exchange differences on balance-sheet valuation | 2 | 29 |
| monetary assets classified as cash equivalents for the purposes of the statement of cash flows | - | - |
| **Total cash and cash equivalents disclosed in the statement of cash flows** | **44,270** | **55,586** |

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| **Depreciation and amortisation** | **7,927** | **7,290** |
| amortisation of intangible assets | 1,403 | 1,626 |
| depreciation of property, plant and equipment | 6,523 | 5,651 |
| depreciation of investment property | - | 13 |
| **Change in provisions (excluding elimination of income tax liabilities) results from the following items:** | **8,063** | **5,012** |
| net change in provisions | 8,519 | 6,542 |
| elimination of change in deferred tax liabilities | -595 | -2,419 |
| exchange differences | 139 | 889 |
| **Change in inventories results from the following items:** | **1,208** | **-1,067** |
| net change in inventories | 1,405 | -892 |
| exchange differences | -197 | -815 |
| **Change in receivables (excluding elimination of income tax receivable) results from the following items:** | **9,141** | **24,307** |
| balance-sheet change in current receivables | 9,646 | 30,648 |
| elimination of income tax receivable | - | -676 |
| exchange differences | -505 | -5,665 |
| **Change in current liabilities (excluding financial liabilities and elimination of income tax liabilities) results from the following items:** | **11,202** | **6,953** |
| balance-sheet change in current liabilities | 31,171 | -882 |
| adjustment for change in liabilities related to acquisition of property, plant and equipment | - | - |
| elimination of change in lease liabilities | -369 | -187 |
| liability towards SECO/WARWICK EUROPE | - | -461 |
| exchange differences | -1,398 | -10,366 |
| borrowings | -9,202 | 14,708 |
| valuation of derivative instruments | - | 4,141 |

| | | |
|---|---|---|
| liability associated with the redemption of 50% of the SW Brasil | -9,000 | - |
| **Change in prepayments and accrued income (excluding elimination of income tax assets) results from the following items:** | **-23,176** | **-12,830** |
| net change in accruals and deferrals | -21,309 | -15,277 |
| elimination of change in deferred tax assets | 508 | 887 |
| exchange differences | -2,375 | 1,559 |

**Note 30. RELATED PARTIES**

| *Related party* | *Year* | *Sales to related parties* | *Purchases from related parties* | *Receivables from related parties* | *Liabilities towards related parties* |
|---|---|---|---|---|---|
| **SECO/WARWICK EUROPE** | | | | | |
| | *2013* | | | | |
| | *2012* | 7,559 | 6,624 | 916 | 3,216 |
| **SECO/WARWICK Corporation** | | | | | |
| | *2013* | | | | |
| | *2012* | 438 | 2,276 | 117 | 3,331 |
| **SECO/WARWICK GmbH** | | | | | |
| | *2013* | | | | |
| | *2012* | 107 | 2,516 | 46 | 524 |
| **SECO/WARWICK Rus** | | | | | |
| | *2013* | | | | |
| | *2012* | 965 | 19,838 | 85 | 40 |
| **RETECH** | | | | | |
| | *2013* | | | | |
| | *2012* | 1,445 | 7,783 | 3,780 | 1,611 |
| **SECO/WARWICK RETECH** | | | | | |
| | *2013* | | | | |
| | *2012* | 421 | 1,568 | 400 | 4,607 |
| **SECO/WARWICK Allied** | | | | | |
| | *2013* | | | | |
| | *2012* | - | 30 | - | 562 |
| **SECO/WARWICK Service GmbH** | | | | | |
| | *2013* | - | - | - | - |
| | *2012* | - | - | - | - |
| **OOO SCT** | | | | | |
| | *2013* | - | - | - | - |
| | *2012* | - | - | - | - |

***Other related parties***

*Employment contract between SECO/WARWICK S.A. and Piotr Zawistowski*

Under the contract of February 1st 2007, Piotr Zawistowski was obliged to provide work to the Company as a junior maintenance engineer. The contract was first concluded for a probationary period of three months. On March 1st 2007, the parties signed an annex to the contract, transforming it into an employment contract for an indefinite term. The contract contains standard provisions, which comply with the Polish Labour Code. On May 5th 2008, Piotr Zawistowski assumed the position of Chief Manager of the Melting Furnaces Maintenance Division, on February 1st 2010 he was appointed Deputy Head of the Vacuum Division in charge of LPC technology and on May 4th 2010 − Head of the VOC Division. On December 31, 2012. Agreement was signed changing employment contract. According to the Agreement Piotr Zawistowski was appointed Sales Representative dimension fifth time in the town of Meadville (USA). Piotr Zawistowski is a close family member, as defined in IAS 24, of Andrzej Zawistowski, member of the Management Board of SECO/WARWICK S.A.

*Employment Agreement between SECO / WARWICK EUROPE Ltd. and Anna Klinowska*
Under the contract of 1 January 2013, is a commitment Anna Klinowska to work for the Company as a Specialist for Personnel and Payroll in full-time work. Anna Klinowska is a close family member as defined in IAS 24 Witold Klinowski, who is a member of the Supervisory Board of SECO / WARWICK SA and is a close family member as defined in IAS 24 Bartosz Klinowski who is the President of SECO / WARWICK Europe *Ltd.*.

*Employment Agreement between SECO / WARWICK EUROPE Ltd. and Bartosz Klinowski*
Under the contract of January 3, 2011, is a commitment by Bartosz Klinowski to work for the Company as a managing director on a full-time job. Bartosz Klinowski is a close family member as defined in IAS 24 Witold Klinowski, who is a member of the Supervisory Board of SECO / WARWICK SA.

*Employment Agreement between SECO / WARWICK EUROPE Ltd. and Ewa Zawistowska*
Under the contract of 1 January 2013, is a commitment Ewa Zawistowska to work for the Company as a Management Office Administrator at ¾ of full-time employment. Ewa Zawistowska is a close family member as defined in IAS 24 Andrzej Zawistowski, who is the Chairman of the Supervisory Board of SECO / WARWICK SA.

*Employment Agreement between SECO / WARWICK EUROPE Ltd. and Katarzyna Zawistowska*
Under the contract of 1 January 2013, is Katarzyna Zawistowska commitment to work for the Company as a Clerk in the spare parts department at half of full-time work. Katarzyna Zawistowska is a close family member as defined in IAS 24 Andrzej Zawistowski, who is the Chairman of the Supervisory Board of SECO / WARWICK SA.

*Employment Agreement between SECO / WARWICK EUROPE Ltd. and Anna Barbara Talerzak*
Under the contract of 1 January 2013, is a commitment by Barbara Talerzak to work for the Company as a Specialist transport of full-time work. Barbara Talerzak is a close family member as defined in IAS 24 Talerzak Jaroslaw, who is Vice President of SECO / WARWICK SA.

**Note 31. KEY PERSONNEL REMUNERATION**

Senior management of the SECO\WARWICK GROUP comprises members of the Management and Supervisory Boards.

**MANAGEMENT BOARD remuneration:**

| Name and surname | Total remuneration for the period | |
|---|---|---|
| | **Dec 31 2013** | **Dec 31 2012** |
| ***MANAGEMENT BOARD OF SECO/WARWICK S.A.*** | | |
| Paweł Wyrzykowski | 1,570 | 1,578 |
| Andrzej Zawistowski | - | 80 |
| Witold Klinowski | - | 755 |
| Józef Olejnik | - | 483 |
| Wojciech Modrzyk | 535 | 685 |
| Jarosław Talerzak | 461 | - |
| **Total** | **2,566** | **3,581** |

**SUPERVISORY BOARD remuneration:**

| Name and surname | Total remuneration | |
|---|---|---|
| | **Dec 31 2013** | **Dec 31 2012** |
| ***SUPERVISORY BOARD OF SECO/WARWICK S.A.*** | | |
| Andrzej Zawistowski, including: | 268 | 206 |
| *- for his work as Chairman of the Supervisory Board* | 120 | 76 |
| *- under agreement for advisory services** | 148 | 130* |
| Jeffrey Boswell | - | - |
| James A. Goltz | - | - |
| Zbigniew Rogóż | 42 | 4 |
| Gutmann Habig | 46 | - |
| Piotr Kowalewski | - | 33 |
| Piotr Kula | - | 21 |
| Henryk Pilarski | 54 | 47 |
| Artur Rusiecki | - | 10 |
| Mariusz Czaplicki | - | 31 |
| Witold Klinowski, including: | 120 | - |
| *- for his work as Member of the Supervisory Board* | 42 | - |
| *- under agreement for advisory services*** | 78 | - |
| **Total** | **530** | **352** |
| ***SUPERVISORY BOARD OF SECO/WARWICK EUROPE Sp. z o.o.*** | | |
| Henryk Pilarski | | 46 |
| **Total** | | **46** |

* Under a service agreement between SECO/WARWICK S.A. and Mr Andrzej Zawistowski, who conducts business activities under the name USŁUGI DORADCZE Andrzej Zawistowski. The agreement of July 2nd 2012 is for the provision of technical and product development advisory services.

** Under a employment contract concluded on Jan. 7, 2013, and the agreement concluded on Oct. 3, 2013, on the technical advisory and consultancy services in the field of product development between SECO / WARWICK EUROPE Sp. z o.o. and Mr. Witold Klinowski.

**Note 32. FINANCIAL ASSETS**

| Item | Category (IAS 39) | *Carrying amount* | | *Fair value* | | *Maximum credit risk exposure in 2013* |
|---|---|---|---|---|---|---|
| | | **Dec 31 2013** | **Dec 31 2012** | **Dec 31 2013** | **Dec 31 2012** | |
| ***Financial assets*** | | | | | | |
| Investments in related entities | AFS | 3,404 | 19,077 | 3,404 | 19,077 | 3404 |
| Financial assets available for sale (non-current) | AFS | 3 | 3 | 3 | 3 | 3 |
| Loans advanced (current) | L&R | 548 | 8 | 548 | 8 | 548 |
| Loans advanced (non-current) | L&R | - | 13 | - | 13 | - |
| Trade and other receivables | L&R | 99,769 | 90,753 | 99,769 | 90,753 | 99,769 |
| Derivative financial instruments | M at FV through P/L | 3,822 | 4,028 | 3,822 | 4,028 | 3,822 |
| *- Currency forwards* | M at FV through P/L | 3,822 | 4,028 | 3,822 | 4,028 | 3,822 |
| Cash and cash equivalents | L&R | 44,268 | 55,556 | 44,268 | 55,556 | 44,268 |
| Guarantees granted | | 103,853 | 115,771 | 103,853 | 115,771 | 103,853 |
| ***Financial liabilities*** | | | | | | |
| **current** | | | | | | |
| Interest-bearing bank and other borrowings, including: | OFL at AC | | | | | |
| *- Overdraft facility* | OFL at AC | 16,640 | 16,070 | 16,640 | 16,070 | |
| *- current borrowings* | OFL at AC | 3,410 | 1,550 | 3,410 | 1,550 | |
| *- Finance lease liabilities (current)* | Other financial liabilities at amortised cost | 525 | 314 | 525 | 314 | |
| Trade payables and other liabilities | OFL at AC | 71,622 | 44,674 | 71,622 | 44,674 | |
| Currency forwards | M at FV through P/L | 5 | 5 | 5 | 5 | |
| **non-current** | | | | | | |
| Non-current borrowings bearing interest at variable rates | OFL at AC | 16,069 | 3,100 | 16,069 | 3,100 | |
| Other liabilities (non-current), including: | OFL at AC | 9,095 | 267 | 9,095 | 267 | |
| *- Finance lease liabilities* | OFL at AC | 686 | 267 | 686 | 267 | |

The table presents the fair value hierarchy reflecting the significance of the inputs used in making fair value measurements.

| Financial assets and liabilities at fair value | Dec 31 2013 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Financial assets at fair value through profit or loss | | X | |
| Financial assets available for sale | | - | |
| Financial liabilities at fair value through profit or loss | | X | |
| Hedging instruments – assets | | X | |
| Hedging instruments – liabilities | | X | |

| Financial assets and liabilities at fair value | Dec 31 2012 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Financial assets at fair value through profit or loss | | X | |
| Financial assets available for sale | | - | |
| Financial liabilities at fair value through profit or loss | | X | |
| Hedging instruments – assets | | X | |
| Hedging instruments – liabilities | | X | |

For the purpose of measurement of derivative financial instruments the Group uses information provided by banks without reviewing their respective valuation models in detail. Therefore, the Group decided to classify the measurement of derivative instruments as Level 3 measurement.

**Note 33. WORKFORCE STRUCTURE**

| Item | Dec 31 2013 | Dec 31 2012 |
|---|---|---|
| Blue-collar employees | 490 | 360 |
| White-collar employees | 590 | 434 |
| Employees on parental leaves | 1 | 2 |
| **Total** | **1,081** | **796** |

**Note 34. CAPITAL MANAGEMENT**

The primary objective behind the Group's capital management is to maintain good credit rating and safe capital ratios, in order to support the Group's operations and enhance its shareholder value.

The Group manages its capital structure and modifies it in response to changes in the economic environment. To maintain or adjust its capital structure, the Company may make changes regarding dividend distributions, return capital to the shareholders or issue new shares. During the year ended December 31st 2013, there were no changes regarding the capital structure management objectives, policies and processes.

In monitoring its capital, the Group uses the leverage ratio calculated as net debt divided by total equity plus net debt. The Group's net debt includes interest-bearing borrowings and other debt instruments, trade payables and other liabilities, less cash and cash equivalents. Equity includes convertible preference shares and equity attributable to equity holders of the parent, less capital reserve from unrealised net gains.

## Note 35. TEST FOR IMPAIRMENT OF GOODWILL

### Test for impairment of goodwill

Goodwill identified following the acquisition of control of Seco/Warwick Allied Pvt. Ltd., Seco/Warwick do Brasil Ind. de Fornos Ltda., Seco/Warwick Corp., Retech Systems LLC was tested for impairment. No impairment loss was recognised as a result of the tests. The recoverable amounts attributable to individual cash-generating units were determined based on their calculated value in use.

### Cash-generating unit

In each case the value in use was calculated based on cash flow projections derived from the financial budgets covering a period of five years. The projections reflect the management's business experience and an analysis of third-party information. The table below presents the key assumptions concerning the discount rate and the estimated growth rate after the period of detailed projections:

| **Item** | | | | |
|---|---|---|---|---|
| Projection period | *Seco/Warwick Allied Pvt. Ltd.* | *Seco/Warwick do Brasil Ind. de Fornos Ltda.* | *Seco/Warwick Corp. (USA)* | *Retech Systems LLC (USA)* |
| Discount rate | 13,88% | 15,00% | 10,75% | 9,50% |
| Growth rate | 39,00% | 49,20% | 5,30% | 9,20% |
| *Decline in value* | NO | NO | NO | NO |

### Other important assumptions for the calculation of the value in use are as follows:

Estimates of the value in use of a cash-generating unit are sensitive to changes of the following variables:

• free cash flows;

• discount rates;

• market share in the projection period.

Free cash flows are estimated based on historical data concerning individual cash-generating units and forecast operating profit, depreciation and amortisation, capital expenditure, changes in non-cash current assets and non-financial liabilities.

The discount rate reflects the management's assessment of the risk inherent in the company's operations. It is used by the management to assess the operating efficiency (performance) and future investment proposals. The discount rate was determined taking into account the risk-free interest rate determined for each period covered by the projection as the arithmetic mean of the following: median of the forecast risk-free interest rates calculated by stock-exchange analysts and estimated future risk-free interest rates.

Growth rates after the budget period are estimated based on the published findings of industry research.

Assumptions regarding the market are material because – in addition to using industry data to determine the growth rate – the management assesses how the assets and financial standing of individual cash-generating units may change over the budget period relative to their peers. The management expects the market share to remain stable over the projection period.

### Sensitivity to changes of assumptions

With respect to the estimation of the value in use of individual cash-generating units, the management believes that no reasonably possible change of any of the key assumptions referred to above could cause the carrying amount of a given cash-generating unit to exceed its recoverable amount. As the carrying amounts are lower than the respective value in use (recoverable amounts), no impairment losses were recognised on the shares held.

**Note 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY**

In the course of its operating and financing activities, the SECO/WARWICK Group is exposed to risks arising mainly in connection with the financial instruments held. Those risks may be broadly defined as market risk, comprising currency risk, interest rate risk, liquidity risk and credit risk. The objective behind the Group's financial risk management is to mitigate any adverse movements in foreign exchange and interest rates, stabilise cash flows and ensure an adequate level of liquidity and financial flexibility. The rules of financial risk management within the Group are determined by the Parent's Management Board. As part of the risk management process, an expert management accounting system has been developed and implemented. The key risk parameters at the level of operating and financing activities are monitored through monthly reports for the Group companies.

**36.1 Currency risk**

The Group is exposed to currency risk, arising in connection with sales, trade receivables, financial liabilities and bank loans denominated in EUR and USD. In the consolidated financial statements, the risk of margin on translation of the Group foreign operations also appears. Entities exposed to that risk are primarily SECO/WARWICK Corporation and Retech Systems LLC.

Analysis of the Group's sensitivity to fluctuations in PLN/USD and PLN/EUR exchange rates

Assuming a 10% depreciation of the US dollar against the złoty as at December 31st 2013 (all other things being equal), both the Group's net profit for the financial year 2012 and the Group's equity would have been lower by PLN -3,982 thousand (for 2012, the respective figure would have been PLN -4,250 thousand). Conversely, assuming a 10% appreciation of the US dollar against the złoty as at December 31st 2013 (all other things being equal), both the Group's net profit for the financial year 2013 and the Group's equity would have been higher by PLN +4,420 thousand (for 2012, the respective figure would have been PLN +4,250 thousand).

Assuming a 10% depreciation of the euro against the złoty as at December 31st 2013 (all other things being equal), both the Group's net profit for the financial year 2013 and the Group's equity would have been lower by PLN -7,142 thousand (for 2012, the respective figure would have been PLN -7,709 thousand). Conversely, assuming a 10% appreciation of the euro against the złoty as at December 31st 2013 (all other things being equal), both the Group's net profit for the financial year 2013 and the Group's equity would have been higher by PLN +7,142 thousand (for 2012, the respective figure would have been PLN +7,709 thousand).

Given that a significant portion of revenue is denominated in the Russian rouble, the Group additionally tested its sensitivity to appreciation and depreciation of the currency. Assuming a 10% depreciation of the Russian rouble against the złoty as at December 31st 2013 (all other things being equal), both the Group's net profit for the financial year 2013 and the Group's equity would have been lower by PLN -1,001 thousand. Conversely, assuming a 10% appreciation of the Russian rouble against the złoty as at December 31st 2013 (all other things being equal), both the Group's net profit for the financial year 2013 and the Group's equity would have been higher by PLN +1,001 thousand.

Assumptions adopted for 2013:

- average USD/PLN exchange rate used to translate items of the income statement: 3.0120
- average EUR/PLN exchange rate used to translate items of the income statement: 4.1472
- USD/PLN exchange rate as at the end of the period used to translate items of the statement of financial position: 3.1653
- EUR/PLN exchange rate as at the end of the period used to translate items of the statement of financial position: 4.2110
- average RUB/PLN exchange rate used to translate items of the income statement: 0.0914
- RUB/PLN exchange rate as at the end of the period used to translate items of the statement of financial position: 0.1005

Assumptions adopted for 2012:

- average USD/PLN exchange rate used to translate items of the income statement: 3.2312
- average EUR/PLN exchange rate used to translate items of the income statement: 4.1736
- USD/PLN exchange rate as at the end of the period used to translate items of the statement of financial position: 3.0996
- EUR/PLN exchange rate as at the end of the period used to translate items of the statement of financial position: 4.0882

- average RUB/PLN exchange rate used to translate items of the income statement: 0.1043
- RUB/PLN exchange rate as at the end of the period used to translate items of the statement of financial position: 0.1017

The Group recognises that its sales may potentially lead to a concentration of currency risk. In the financial year under analysis, 22% of revenue was generated in EUR, 58% – in USD, 9% – in PLN, and 2% – in RUB.

**36.2 Interest rate risk**

The Group's exposure to interest rate risk is not material. In the financial year 2013, the total amount of interest on the Group's liabilities under borrowings was PLN 2,287 thousand.

**36.3 Risk related to product prices**

The bulk of the Group's revenue is generated under long-term contracts for the supply of equipment. At the proposal preparation stage, each piece of equipment is priced using the current prices of materials and labour. Fixed costs and the assumed margin are also taken into account. As a result, in the opinion of the Parent's Management Board, the price risk is minimised.

Nevertheless, the achievement of the SECO/WARWICK Group's strategic objectives concerning product prices may be hindered by competition. If competitive pressures intensify, especially in Asian markets, they may adversely affect the Group's ability to meet its planned financial results. The Parent's Management Board believes that the SECO/WARWICK Group is now engaged in numerous activities to strengthen its market position and increase its competitive edge by offering high quality services and comprehensive solutions, ensuring that its product mix is flexible, enhancing its existing and building new competences, using state-of-the-art technologies and developing new technological solutions.

**36.4 Capital management**

The Group's capital management relies on a sustainable financial policy, designed to secure financial resources sufficient to finance the Group's business development, while ensuring that its financing structure and liquidity levels are adequate. The Group's capital is defined as the sum of equity and net debt.

The Group's capital management policy takes into account two key elements:

- operating performance in the context of investment and development plans,
- dividend policy and the external debt repayment schedule.

In order to combine these factors, the Group periodically defines its financing structure framework. The current targets under the capital management policy are as follows:

- current ratio – in the range from 1.5 to 2.5,
- quick ratio – over 1.

The capital management policy adopted by the Group requires it to maintain financial discipline, while giving it enough flexibility to support profitable development.
Capital management is also centred around the goal of maintaining a predetermined level of financial liquidity which allows the Group both to repay its external debt as its falls due and to finance the expenditures connected with the Group's business risk. That goal is pursued for instance by maintaining available credit facilities that may be drawn when the need arises.

**36.5 Liquidity risk**

Liquidity risk is the risk that the Company may face problems with meeting its financial liabilities. Liquidity risk is managed by projecting future cash flows, analysing the relation of liquid assets to cash flows, monitoring liquidity ratios based on items of the statement of financial position and ensuring constant access to various sources of financing at the level of individual Group companies.

The Group also manages its liquidity risk by maintaining available unused credit facilities which serve as a liquidity reserve securing solvency and financial flexibility. The Group considers its bank borrowings as financial instruments that may potentially lead to a concentration of liquidity risk as the Company enters into cooperation with selected financial institutions only (see Note 24). As at December 31st 2013, current bank borrowings represented 20% of total current liabilities (December 31st 2012: 25%).

The maturity structure of liabilities is presented in Note 27.

### 36.6 Credit risk

The Group operates a policy of selling its products and services only to customers whose credibility has been verified. Management believes that thanks to this policy there is no additional credit risk beyond the level defined by the impairment losses recognised with respect to uncollectible trade receivables. The Group discloses no past due receivables which would not have been deemed uncollectible.

The Group defines its exposure to credit risk as the total amount of outstanding receivables and monitors the balances owed by each customer on a regular basis. As at December 31st 2013, the share of receivables from one of the customers was in the range 10%–15% of total net trade receivables.
The maturity structure of receivables is presented in Note 19.

## Note 37. MANAGEMENT STOCK OPTIONS

With a view to providing additional incentives to the Company's management staff to continue work on the development and consolidation of the SECO/WARWICK Group, and to further increase the value of SECO/WARWICK shares, on May 28th 2012 the Annual General Meeting approved the key objectives of the 2012–2016 Incentive Scheme for members of the SECO/WARWICK Group's management staff (the "2012–2016 Incentive Scheme").

Key terms of the 2012–2016 Incentive Scheme:

1. The person serving as President of the Management Board as at the date of the Resolution (**"President of the Management Board"**) and the key company employees indicated by the President of the Management Board in consultation with the Supervisory Board (jointly with the President of the Management Board - the **"Eligible Persons"**) will be eligible for participation in the 2012–2016 Incentive Scheme. With respect to each Eligible Person other than the President of the Management Board, an $a_i$ ratio, referred to in Par. 2.11 below, will be determined along with the indication of the person. A list of Eligible Persons will be prepared by the Supervisory Board in consultation with the President of the Management Board within three months from the date of the Resolution.

2. The 2012–2016 Incentive Scheme will include up to 500,000 (five hundred thousand) of Company Series E shares (**"Series E Shares"**). The President of the Management Board will be entitled to acquire up to 250,000 (two hundred and fifty thousand) Series E Shares, and the other Eligible Persons will have the right to acquire the maximum of the remaining 250,000 (two hundred and fifty thousand) Series E Shares.

3. Under the 2012–2016 Incentive Scheme, Eligible Persons will be entitled to acquire Series B subscription warrants (**"Series B Warrants"**) free of charge. Series B Warrants will confer the right to acquire Series E Shares at their par value of PLN 0.20 (twenty grosz) per share.

4. One Series B Warrant will confer the right to acquire one Series E Share.

5. The 2012–2016 Incentive Scheme will be implemented by way of resolutions adopted by the General Meeting on conditional share capital increase by up to PLN 100,000 (one hundred thousand złoty), through an issue of up to 500,000 (five hundred thousand) Series E Shares and an issue of up to 500,000 (five hundred thousand) Series B Warrants, with full waiver of the existing shareholders' pre-emptive rights to all Series E Shares and Series B Warrants.

6. The 2012–2016 Incentive Scheme is planned to cover a period of four years starting from the date of its approval by the General Meeting. The duration of the 2012–2016 Incentive Scheme may be extended by the Supervisory Board making relevant changes in the Rules of the Incentive Scheme.

7. The number of Series B Warrants issued to Eligible Persons will depend on:

(i) the price of the Company shares on the Warsaw Stock Exchange ("**WSE**"), or

(ii) the selling price of shares, whether sold in one or more transactions (including as part of a tender offer), conferring the rights to at least 33% (thirty-three per cent) of the total votes at the General Meeting, by a shareholder or shareholders acting jointly under a memorandum of understanding, agreement, arrangement, or as part of any other relationship in fact or in law, holding in aggregate, directly or indirectly, Company shares conferring the right to at least 33% (thirty-three per cent) of the total votes at the General Meeting (“**Major Shareholder“**; the term may refer to one or more shareholders acting jointly), to a third party (other than a Major Shareholder or a related party of any of the Major Shareholders). If the shares are sold by a Major Shareholder in more than one transaction, then the number of Series B Warrants to be issued to Eligible Persons will be calculated on the basis of the arithmetic mean of the selling prices in all the transactions, weighted by the number of the Company shares sold in a given transaction.

8. An Eligible Person will be entitled to acquire Series B Warrants a number of times during the term of the Incentive Scheme, however, not more frequently than twice in a calendar year. The limited frequency with which the right to acquire Series B Warrants may be exercised does not apply when the exercise of the right by an Eligible Person is based on the sale of the Company shares by a Major Shareholder.

9. An Eligible Person will be entitled to acquire Series B Warrants if:

(i) the average price of the Company shares from the 6 (six) months immediately preceding the date of acquiring Series B Warrants by the Eligible Person is at least PLN 35 (thirty-five złoty) per share, or

(ii) a Major Shareholder decides to sell at least 33% (thirty-three per cent) of all Company shares to an entity other than a Major Shareholder or a related party of a Major Shareholder, at a price of at least PLN 35 (thirty-five złoty) per share. An Eligible Person may acquire Series B Warrants no sooner than 3 (three) months from the date of notifying the Company of his or her intention to acquire Series B Warrants. The Company will procure that Series B Warrants are issued to Eligible Persons no later than within 4 (four) months following the receipt of the notification. Series B Warrants may be issued through an investment firm, acting as a custodian.

10. The maximum number of Series B Warrants which may be acquired by the President of the Management Board will be calculated based on the following formula:

$$\mathrm{Q} = 6{,}666\,\mathrm{P} - 183{,}310$$

provided that:

$$for\ P < 35PLN \rightarrow Q = 0$$

$$for\ P \geq 65PLN \rightarrow Q = 250{,}000$$

where:

*Q* stands for the number of Series B Warrants;

*P* stands for, as the case may be (i) the average price of the Company shares in the 6 (six) months immediately preceding the date of acquiring Series B Warrants by the President of the Management Board, or (ii) the price of one Company share sold in a transaction between a Major Shareholder and a buyer.

If the number of Series B Warrants which may be acquired by the President of the Management Board as determined based on the above formula is not an integer, such number will be rounded down to the nearest integer.

Each time the President of the Management Board exercises his or her right to acquire Series B Warrants, the number of Series B Warrants to which he or she is entitled will be reduced, in accordance with the above formula, by the number of Series B Warrants previously issued to the President of the Management Board under the 2012–2016 Incentive Scheme.

11. The maximum number of Series B Warrants which may be acquired by an Eligible Person other than the President of the Management Board will be calculated based on the following formula:

$$Q = a_i \times (6{,}666\,P - 183{,}310)$$

provided that:

$$for\ P < 35PLN \rightarrow Q = 0$$

$$for\ P \geq 65PLN \rightarrow Q = a_i \times 250{,}000$$

where:

*Q* stands for the number of Series B Warrants;

*P* stands for, as the case may be (i) the average price of the Company shares in the 6 (six) months immediately preceding the date of acquiring Series B Warrants by the given Eligible Person, or (ii) the price of one Company share sold in a transaction between a Major Shareholder and a buyer.

$a_i$ is a ratio determined individually for each Eligible Person, provided that:

$$a_i \in (0.1) \; and \; \sum_{i=1}^{n} a_i \leq 1$$

If the number of Series B Warrants which may be acquired by an Eligible Person as determined based on the above formula is not an integer, such number will be rounded down to the nearest integer.

Each time an Eligible Person exercises his or her right to acquire Series B Warrants, the number of Series B Warrants to which he or she is entitled will be reduced, in accordance with the above formula, by the number of Series B Warrants previously issued to the Eligible Person under the 2012–2016 Incentive Scheme.

12. The number of Series B Warrants acquired by each Eligible Person will in no event be higher than: (i) 250,000 (two hundred and fifty thousand) in the case of Series B Warrants acquired by the President of the Management Board; and (ii) $a_i$ × 250,000 (two hundred and fifty thousand) in the case of an Eligible Person other than the President of the Management Board.

13. The Eligible Person who has acquired Series B Warrants under the 2012–2016 Incentive Scheme will be entitled to acquire Series E Shares at any time, however, no later than by December 31st 2016.

As of December 31st 2013, 203.987 Series E Company shares had been acquired under the 2012–2016 Incentive Scheme for the management personnel of the SECO/WARWICK Group, approved by virtue of Resolution No. 21 of the Annual General Meeting held on May 28th 2012, whereof:
- Paweł Wyrzykowski President of the Board received 84 796 Series E Shares of the fair value of 1,445 thous. zł;
- Wojciech Modrzyk Vice President received 25 558 Series E Shares of the fair value of 435 thous. zł;
- Jarosław Talerzak Vice President received 25 558 Series E Shares of the fair value of 435 thous. zł.

**Note 38. CAPITALISED BORROWING COSTS**
In the presented reporting periods, the Group companies did not capitalise any borrowing costs.

**Note 39. REVENUE GENERATED SEASONALLY, CYCLICALLY OR OCCASIONALLY**
In the presented reporting periods, there were no material items of seasonal, cyclical or occasional revenue at the Group.

**Note 40. COURT PROCEEDINGS**
There are no proceedings pending before central or local government administration bodies, court proceedings or arbitration proceedings which could have a material effect on the financial standing or profitability (exceeding 10% of equity) of the Group.

**Note 41. TAX SETTLEMENTS**
Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent administration authorities, which are authorised to impose high penalties and sanctions. Lack of reference to well-established legal regulation in Poland has resulted in ambiguity and inconsistency of the applicable laws and regulations. Frequent differences of opinion on the legal interpretation of tax laws, both between different governmental authorities and between governmental authorities and companies, create areas of uncertainty and conflicts. Therefore, the tax risk in Poland is significantly higher than is usually the case in countries with more developed tax systems.

Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Group.
In the Management Board's opinion, as at December 31st 2012, there was no need to recognise provisions for any recognised and measurable tax risks. The Company pays its tax liabilities when due.
From January 1st 2004 to March 31st 2010, SECO/WARWICK EUROPE Sp. z o.o. and SECO/WARWICK S.A., the Parent, formed a tax group. From January 1st 2012 to March 31st 2013, the two companies were again consolidated for tax purposes.

**Note 42. WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT**

In the reporting periods presented, the Group recorded no events that would have to be disclosed in Note 43.

**Note 43. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD**

On January 20th 2014, in Current Report No. 02/2014, the Management Board of SECO/WARWICK S.A. reported the acquisition of 57,640 (fifty-seven thousand, six hundred and forty) Series E ordinary bearer shares in the Company.

On January 20th 2014, in Current Report No. 03/2014, the Management Board of SECO/WARWICK S.A. reported that it had received a notification under Art. 160 of the Act on Trading in Financial Instruments from a Management Board Member. According to the notification, on January 20th 2014 the Management Board Member acquired – under the 2012–2016 Incentive Scheme adopted by virtue of Resolution No. 21 of the Annual General Meeting of May 28th 2012 – a total of 47,529 Series E shares in the Company, with a par value of PLN 0.20 per share, at the issue price of PLN 0.20 per share.

On January 23rd 2014, in Current Report No. 04/2014, the Management Board of SECO/WARWICK S.A. reported that it had received a notification under Art. 160 of the Act on Trading in Financial Instruments from a Supervisory Board Member. According to the notification, on July 3rd 2013 the Supervisory Board Member sold 90 shares in the Company at a price of PLN 48.60 per share.

On February 4th 2014, in Current Report No. 05/2014, the Management Board of SECO/WARWICK S.A. reported that it had received a decision by the District Court in Zielona Góra, 8th Commercial Division of the National Court Register, dated January 28th 2014, case No.: ZG.VIII NS-REJ.KRS/000223/14/060, concerning registration of a change in the Company's share capital. Pursuant to the decision, the Court registered a share capital increase by 27,518 Series E shares acquired under the Company's incentive scheme (see Current Report No. 43/2013 of December 3rd 2013).

On February 10th 2014, in Current Report No. 06/2014, the Management Board of SECO/WARWICK S.A. reported that on that day it was notified that on February 7th 2014 the Management Board of the Warsaw Stock Exchange (WSE) adopted Resolution No. 140/2014 on admission and introduction of the Company's Series E ordinary bearer shares to trading on the WSE Main Market. Pursuant to Sections 19.1 and 19.2 of the WSE Rules, the WSE Management Board decided to admit 57,640 (fifty-seven thousand, six hundred and forty) Series E ordinary bearer shares of the Company, with a par value of PLN 0.20 (twenty grosz) per share, to trading on the WSE main market.

On February 11th 2014, in Current Report No. 07/2014, the Management Board of SECO/WARWICK S.A. reported that on that day it was notified of an Announcement of the Operations Department of Krajowy Depozyt Papierów Wartościowych S.A. (Polish NDS) of February 10th 2014, issued pursuant to Resolution No. 661/13 of the Polish NDS Management Board of August 28th 2013, stating that on February 12th 2013 a total of 57,640 (fifty-seven thousand, six hundred and forty) Series E ordinary bearer shares in the Company, with a par value of PLN 0.20 per share, assigned code PLWRWCK00013, would be registered with the Polish NDS.

On February 17th 2014, in Current Report No. 08/2014, the Management Board of SECO/WARWICK S.A. announced that between August 19th 2013 and February 17th 2014 SECO/WARWICK EUROPE Sp. z o.o. executed with mBank S.A. of Warsaw fourteen forward contracts to sell a total of EUR 3,417,500 (PLN 14,393,410), and five forward contracts to sell a total of USD 1,800,000 (PLN 5,523,240). The value of the forward contracts totals PLN 19,916,650.

On February 17th 2014, in Current Report No. 09/2014, the Management Board of SECO/WARWICK S.A. announced that on that day it was notified of a contract concluded between Retech Systems LLC of Ukiah, SECO/WARWICK S.A.'s US subsidiary, and Carpenter Technology Corporation of the United States, for the construction and delivery of equipment for the production of metal powder. The contract was executed on February 14th 2014, its term runs until March 25th 2015, and its value is USD 11,500,000 (PLN 34,787,500).

On March 14th 2014, in Current Report No. 10/2014, the Management Board of SECO/WARWICK S.A. announced that it had received a decision by the District Court in Zielona Góra, 8th Commercial Division of the National Court Register, dated March 7th 2014, case No.: ZG.VIII NS-REJ.KRS/002677/14/815, concerning registration of a change in the Company's share capital. Pursuant to the decision, the Court registered a share capital increase by 57,640 Series E shares acquired as part of the Company's incentive scheme (see Current Report No. 2/2014 of January 20th 2014).

For details on events subsequent to the end of the reporting period, see current reports available on the corporate website at www.secowarwick.com

**Note 44. FINANCIAL STATEMENTS ADJUSTED FOR INFLATION**

In the presented reporting periods, the Group companies did not revalue its share capital and other capitals to account for hyperinflation.

Date: April 29th 2014

| Paweł Wyrzykowski | Wojciech Modrzyk | Jarosław Talerzak |
|---|---|---|
| *President of the Management Board* | *Vice-President of the Management Board* | *Vice-President of the Management Board* |