



**SECO/WARWICK S.A.**

DIRECTORS' REPORT  
ON THE COMPANY'S OPERATIONS  
IN THE YEAR ENDED  
DECEMBER 31ST 2013



## SECO/WARWICK S.A.

Directors' Report on the Company operations  
in the year ended December 31st 2013

The Management Board of SECO/WARWICK S.A. presents the Directors' Report on the Company's operations in the period January 1st–December 31st 2013, prepared in accordance with Par. 91.1.4 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2009 No. 33, item 259, as amended).

The financial statements of SECO/WARWICK S.A. were prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the EU, and their scope is compliant with the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities, dated February 19th 2009 (Dz. U. No. 33, item 259, as amended). The financial statements cover the period January 1st–December 31st 2013 and the comparative period January 1st–December 31st 2012.

The presented financial statements are compliant with all the requirements of the International Financial Reporting Standards endorsed by the European Union and give a fair view of the Company's financial position and assets as at December 31st 2013 and December 31st 2012, as well as of its results and cash flows in the years ended December 31st 2013 and December 31st 2012.

### 1. Introduction

SECO/WARWICK S.A. (the "Company" or the "Parent") was entered in the Register of Entrepreneurs of the National Court Register on January 2nd 2007, by virtue of a decision issued by the District Court of Zielona Góra, 8th Commercial Division of the National Court Register, under No. KRS 0000271014.

The Group's core business consists in manufacture of four key groups of products: vacuum furnaces, aluminium heat exchanger brazing systems, aluminium heat treatment systems and metallurgy equipment used for melting and vacuum casting of metals and specialty alloys. The SECO/WARWICK's operations are divided into five business segments corresponding to the product groups, i.e. vacuum furnaces (Vacuum), aluminium heat exchanger brazing systems (Controlled Atmosphere Brazing), aluminium heat treatment systems (Aluminium Process), metallurgy equipment used for melting and vacuum casting of metals and speciality alloys (Melting Furnaces), and other.

The table below presents the Company's revenue.

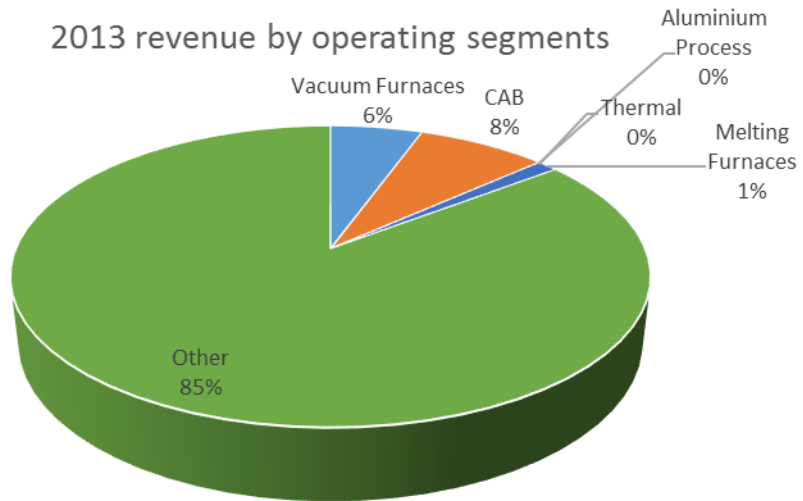
**Table: Revenue (PLN '000)**

Item	Continuing operations						Total
	Vacuum Furnaces	CAB	Aluminium Process	Thermal	Melting Furnaces	Other	
<b>Jan 1–Dec 31 2013</b>	807	1,141	-	-	183	12,422*	<b>14,553</b>
Volume of products sold	3	1	-	-	1		<b>5</b>
<b>Jan 1–Dec 31 2012</b>	78,651	28,422	-	-	43,785	5,134**	<b>155,992</b>
Volume of products sold	37	9	-	-	5	3	<b>54</b>

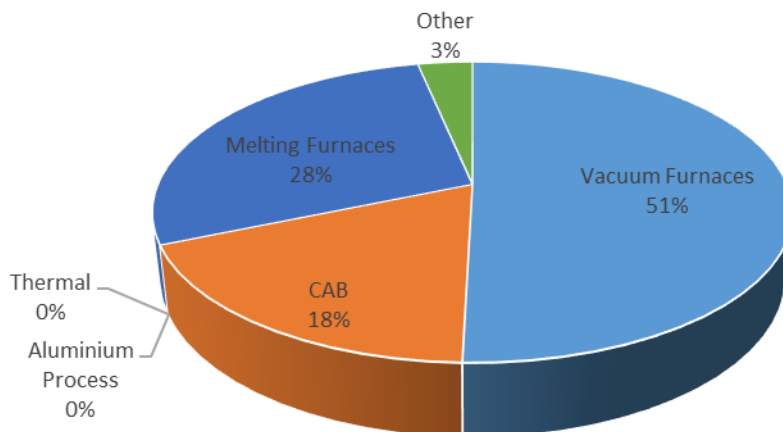
\* In 2013, the item 'Other' included revenue from the Group's holding activities

\*\* In 2012, the item 'Other' included revenue contributed by the Aluminium Process Unit, which has been transferred to SECO/WARWICK EUROPE Sp. z o.o.

2013 revenue by operating segments



2012 revenue by operating segments





**2. Organisational and equity links between SECO/WARWICK S.A. and other entities; information on the Company's key domestic and foreign equity investments, including equity investments outside of its group of related entities; financing of the investments**

**Table: As at December 31st 2013, the structure of the SECO/WARWICK Group was as follows:**

<b>Company</b>	<b>Registered office</b>	<b>Business profile</b>	<b>Method of consolidation / accounting for equity interest</b>	<b>Group's ownership interest</b>
<b>Parent</b>				
SECO/WARWICK S.A.	Świebodzin	Manufacture of vacuum furnaces, aluminium heat exchanger brazing systems and aluminium heat treatment systems	N.A.	N.A.
<b>Direct and indirect subsidiaries</b>				
SECO/WARWICK EUROPE Sp. z o.o. (1)	Świebodzin	Manufacture of metal heat treatment equipment	Full	100%
SECO/WARWICK Corp.	Meadville (USA)	Manufacture of metal heat treatment equipment	Full	100%
SECO/WARWICK of Delaware, Inc	Wilmington (USA)	A holding company; registration of trademarks and patents, and granting licences for use of the trademarks and patents by SECO/WARWICK Corp.	Full	100%
SECO/WARWICK Rus	Moscow (Russia)	Distribution of the SECO/WARWICK Group's products	Full	100%
Retech Systems LLC	Ukiah (USA)	Trade and services; manufacture of metallurgy equipment used for melting and vacuum casting of metals and specialty alloys	Full	100%
SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.	Tianjin (China)	Manufacture of metal heat treatment equipment	Full	90%
Retech Tianjin Holdings LLC	(USA)	Activities of a holding company.	Full	80%
SECO/WARWICK Allied Pvt., Ltd. (2)	Mumbai (India)	Manufacture of metal heat treatment equipment	Full	66.7%
SECO/WARWICK GmbH	Bedburg-Hau (Germany)	Intermediation in the sale of furnaces manufactured by SECO/WARWICK S.A. and SECO/WARWICK EUROPE Sp. z o.o., and provision of technical support to customers in Germany,	Full	100%



Austria, the Netherlands, Switzerland,  
Liechtenstein and Slovenia

OOO SCT (3)	Solnechnogorsk (Russia)	Provision of metal heat treatment services in Russia	Equity method	50%
SECO/WARWICK Service GmbH	Bedburg-Hau (Germany)	Provision of metal heat treatment services in Germany	Full	100%
SECO/WARWICK do Brasil Ltda. (Engefor Engenharia Indústria e Comércio Ltda) (4)	Jundiaí (Brazil)	Manufacture of metal heat treatment equipment	Full	100%

(1) On September 27th 2013, resolutions approving the transformation of SECO/WARWICK EUROPE S.A. (joint-stock company) into a limited liability company (spółka z ograniczoną odpowiedzialnością) on the terms and conditions provided for in the transformation plan approved by the Company Management Board on August 12th 2013, were passed. Following registration of the change, as of October 24th 2013 the former SECO/WARWICK EUROPE S.A. has been operating as SECO/WARWICK EUROPE spółka z ograniczoną odpowiedzialnością.

(2) On March 25th 2013, conditions precedent for the purchase of 9,090 Sale Shares were fulfilled. Following the acquisition, the Company held 63,765 shares, representing 58.3% of the company's share capital. On May 22nd 2013, conditions precedent for the purchase of 9,127 Sale Shares were fulfilled. Following the acquisition, the Company holds 72,892 shares, representing 66.7% of the company's share capital.

(3) The share capital of OOO SCT was increased on November 30th 2013. SECO/WARWICK S.A. made a non-cash contribution in the form of a furnace worth PLN 3,081,242.87.

(4) A conditional agreement to purchase all shares in Engefor Engenharia Indústria e Comércio Ltda (a limited liability company of Jundiaí, established and existing under Brazilian law), conferring the right to 100% of votes at the company's general meeting, was executed on April 23rd 2013. On May 24th 2013, all conditions precedent for the purchase of 860,000 Sale Shares and payment of the first instalment of the Selling Price, in the amount of BRL 6,000,000 (PLN 9,506,400 at the mid exchange rate quoted by the National Bank of Poland on May 24th 2013), were fulfilled.

#### **Changes in the composition of the SECO/WARWICK Group in the analysed period**

On March 22nd 2013, in Current Report No. 04/2013, the Management Board of SECO/WARWICK S.A. reported that the Company and shareholders (hereinafter jointly referred to as the "Selling Shareholders") of Seco/Warwick Allied Private Limited of Maharashtra, India ("SWAPL"), in which the Company holds a 50% interest, representing 50% of SWAPL's equity and carrying the right to 50% of the total vote at the General Meeting of SWAPL, entered into a conditional agreement on purchase by the Company of [27,339] SWAPL shares, representing 25% of SWAPL's equity and carrying the right to 25% of the total vote at its General Meeting (the "Sale Shares") (the "Agreement"). Pursuant to the Agreement, the acquisition of Sale Shares by the Company is contingent on fulfilment – to the Company's satisfaction – of certain conditions precedent, listed in the Current Report. Under the Agreement, the total selling price for the Sale Shares is INR 161,000,000 (PLN 9,590,609, translated at the mid exchange rate quoted by the National Bank of Poland for March 22nd 2013) (the "Selling Price"), with the total Selling Price to be paid by the Company in three instalments, upon fulfilment of conditions precedent to each payment.

On March 25th 2013, in Current Report No. 05/2013, the Management Board of Seco/Warwick S.A. with registered office in Świebodzin, at ul. Sobieskiego 8, (the "Company"), announced that on March 25th 2013 the conditions precedent were fulfilled for purchase of 9,090 Sale Shares and payment of the first instalment of the Selling Price of INR 53,529,280 (PLN [3,156,996], translated at the mid exchange rate quoted by the National Bank of Poland for March 25th 2013), as defined in the agreement for purchase of shares in Seco/Warwick Allied Private Limited of Maharashtra, India ("SWAPL"), made between the Company and SWAPL shareholders. Following acquisition of the 9,090 Sale Shares, the Company will hold



## SECO/WARWICK S.A.

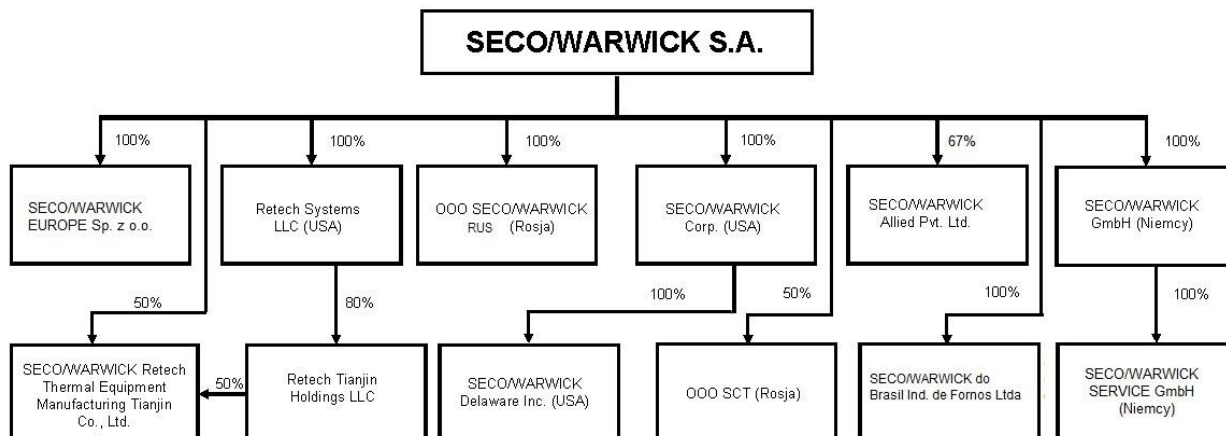
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in the year ended December 31st 2013

63,765 shares, representing 58.3% of SWAPL's equity and carrying the right to 58.3% of the total votes at its General Meeting.

A conditional agreement to purchase all shares in Engefor Engenharia Indústria e Comércio Ltda (a limited liability company of Jundiaí, established and existing under Brazilian law), conferring the right to 100% of votes at the company's General Meeting, was executed on April 23rd 2013. On May 24th 2013, all conditions precedent for the purchase of 860,000 Sale Shares and payment of the first instalment of the Selling Price, in the amount of BRL 6,000,000 (PLN 9,506,400 at the mid exchange rate quoted by the National Bank of Poland on May 24th 2013), were fulfilled.

On May 22nd 2013, conditions precedent for the purchase of 9,127 Sale Shares were fulfilled. Following the purchase, the Company holds 72,892 shares, representing 66.7% of the company's share capital.

The share capital of OOO SCT was increased on November 30th 2013. SECO/WARWICK S.A. made a non-cash contribution in the form of a furnace worth PLN 3,081,242.87.

**SECO/WARWICK Group's structure as at December 31st 2013:**

**Composition of the SECO/WARWICK Group as at the date of release of this Report**

After December 31st 2013 and until the release of this Report, there were no changes in the composition of the SECO/WARWICK Group.

In Q1 2014, the share capital of SECO/WARWICK Retech was increased by PLN 612 thousand.

For information on key domestic and foreign investments (financial instruments, intangible assets and real estate), see Notes to the annual separate financial statements of SECO/WARWICK S.A. No equity investments were made outside the group of related entities.

**3. Changes in significant management policies at SECO/WARWICK S.A. and its Group**

On January 2nd 2013, an agreement was executed for the disposal of organised part of business of SECO/WARWICK S.A., comprising tangible and intangible assets used in manufacturing and distribution activities, liabilities related to the manufacturing and distribution activities, and the Company's employees involved in the manufacturing and distribution activities, which was to be effected through contribution of the organised part of business to a SECO/WARWICK Group subsidiary, SECO/WARWICK EUROPE ("Subsidiary") of Świebodzin, in exchange for shares in the increased share capital of the Subsidiary.

The transfer of the organised part of business was a part of the Group's New Growth Strategy presented in Current Report No. 28/2012. The disposal allowed the Group to consolidate its Polish operations within a single entity, SECO/WARWICK EUROPE.

The Parent (SECO/WARWICK S.A.) focused on the strategic and financial management of the SECO/WARWICK Group. SECO/WARWICK S.A., acting as the holding company, exercised corporate governance and provided strategic management services to the subsidiaries of the SECO/WARWICK Group.

**4. Amount of remuneration, bonuses and benefits, benefits under share-based incentive and bonus schemes, including schemes based on bonds with pre-emptive rights, convertible bonds or subscription warrants, paid, payable or potentially payable**
**MANAGEMENT BOARD**

Members of the Management Board receive remuneration based on their respective employment contracts. Any severance or compensation payments are governed by the Labour Code. The amount of remuneration payable to the Management Board members was defined in resolutions passed by the Company's Supervisory Board on February 1st 2007, April 28th 2008, January 12th 2012, and December 5th 2013.

**Table: Remuneration to members of the Management Board of SECO/WARWICK S.A. for 2013 (PLN '000)**
**MANAGEMENT BOARD**

Name and surname	Remuneration for the period	Other benefits	Total remuneration for the period
<b>Dec 31 2013</b>			
Paweł Wyrzykowski	1,529	41	1,570
Wojciech Modrzyk	510	25	535
Jarosław Talerzak	443	18	461
<b>Total</b>	<b>2,482</b>	<b>84</b>	<b>2,566</b>

**SUPERVISORY BOARD**

The Supervisory Board members are entitled to monthly remuneration in the amount specified by the General Meeting, payable on or before the 15th day of the month following the month for which the remuneration is due. The remuneration covers all expenses related to the performance of duties of a Supervisory Board member. Supervisory Board members are not entitled to severance payments.

**Table: Remuneration to members of the Supervisory Board of SECO/WARWICK S.A. for 2013 (PLN '000)**

Name and surname	Remuneration
Andrzej Zawistowski – Chairman of the Supervisory Board	268
- for his work as Chairman of the Supervisory Board	120
- under agreement for advisory services	148
Henryk Pilarski – Deputy Chairman of the Supervisory Board	54
Zbigniew Rogóż – Member of the Supervisory Board	42
Gutmann Habig – Member of the Supervisory Board	46
Witold Klinowski – Member of the Supervisory Board (since January 1st 2013)	120
- for his work as Chairman of the Supervisory Board	42
- under agreement for advisory services	78
Jeffrey Boswell <sup>(1)</sup> – Member of the Supervisory Board	-
James A.Goltz <sup>(2)</sup> – Member of the Supervisory Board	-
<b>Total</b>	<b>484</b>

\* 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.

<sup>(1)</sup> No remuneration is paid by the Company to Jeffrey Boswell, but the Company covers all costs related to his stay in Poland while performing the duties of a member of the Supervisory Board, including costs of hotel accommodation (board and lodging), as well as costs of travel in the territory of Poland. These are the only financial benefits received by Mr Boswell from the Company in respect of his duties. In 2013, the costs amounted to PLN 600.

<sup>(2)</sup> No remuneration is paid by the Company to James A. Goltz, but the Company covers all costs related to his stay in Poland while performing the duties of a member of the Supervisory Board, including costs of hotel accommodation (board and lodging), as well as costs of travel in the territory of Poland. These are the only



financial benefits received by Mr Goltz from the Company for in respect of his duties. In 2013, the costs amounted to PLN 2.5 thousand.

**5. Agreements between SECO/WARWICK S.A. and its management staff, providing for compensation in the event of resignation or removal from office without a good reason or following acquisition of SECO/WARWICK S.A. by another company**

Employment contracts between the Company and its management staff do not provide for any compensation in the event of resignation or removal from office. Any severance or compensation payments are governed by the Labour Code, and the employment contracts do not contain any other specific provisions in this respect. Similarly, the contracts do not provide for severance payments in the event of removal from office or termination of contract caused by acquisition of SECO/WARWICK S.A. by another company.

**6. Par value and number of SECO/WARWICK shares and shares in related entities held by the management and supervisory staff**

	Jan 1 2013			Decrease/incr ease	Dec 31 2013			Total par value of shares (PLN)
	Number of SECO/WAR WICK shares held	Ownership interest (%)	% of total vote		Number of SECO/WAR WICK shares held	Ownership interest (%)	% of total vote	
<b>Management Board</b>								
Paweł Wyrzykowski	13,541	0.13%	0.13%	84,796	98,337	0.92%	0.92%	19,667
Wojciech Modrzyk	400	0.004%	0.004%	25,558	25,958	0.24%	0.24%	5,192
Jarosław Talerzak	-	-	-	25,558	25,558	0.24%	0.24%	5,192
<b>Supervisory Board</b>								
Andrzej Zawistowski	-	-	-	-	-	-	-	-
Jeffrey Boswell	9,776	0.09%	0.09%	-	9,776	0.09%	0.09%	1,955
Henryk Piłarski	100	0.001%	0.001%	-	100	0.0009%	0.0009%	20
Witold Klinowski	-	-	-	-	-	-	-	-
James A. Goltz	-	-	-	-	-	-	-	-
Zbigniew Rogóż	-	-	-	-	-	-	-	-
Dr Gutmann Habig	-	-	-	-	-	-	-	-
<b>Commercial proxies</b>								
Piotr Walasek	-	-	-	15,335	15,335	0.14%	0.14%	3,067
Katarzyna Kowalska	-	-	-	-	-	-	-	-
<b>Total</b>	<b>23,817</b>	<b>0.23%</b>	<b>0.23%</b>	<b>151,247</b>	<b>175,464</b>	<b>1.63%</b>	<b>1.63%</b>	<b>35,093</b>

Item	Jan 1 2013	Item	Dec 31 2013
Number of shares	10,476,210	Number of shares	10,680,197
Par value per share	0.20	Par value per share	0.20
<b>Share capital</b>	<b>2,095,242.00</b>	<b>Share capital</b>	<b>2,136,039.40</b>

Members of the Management Board and Supervisory Board of SECO/WARWICK S.A. do not hold any shares in related entities.

The Management Board of SECO/WARWICK S.A. announced that on July 17th 2013 it received notifications under Art. 160 of the Act on Trading in Financial Instruments ("Notifications") from three Management Board Members and a Commercial Proxy.

According to the Notifications delivered to the Company, on July 17th 2013 the three Management Board Members and the Commercial Proxy acquired – under the 2012–2016 Incentive Scheme approved by virtue of Resolution No. 21 of the Annual General Meeting of May 28th 2012 – a total of 128,889 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.

Details of the transactions:

1. Acquisition by a Management Board Member of 84,796 shares at the issue price of PLN 0.20 per share on July 17th 2013;
2. Acquisition by a Management Board Member of 16,959 shares at the issue price of PLN 0.20 per share on July 17th 2013;
3. Acquisition by a Management Board Member of 16,959 shares at the issue price of PLN 0.20 per share on July 17th 2013;
4. Acquisition by a Commercial Proxy of 10,175 shares at the issue price of PLN 0.20 per share on July 17th 2013.

The Management Board of SECO/WARWICK S.A. reported that on December 3rd 2013 it received notifications under Art. 160 of the Act on Trading in Financial Instruments ("Notifications") from two Management Board Members and a Commercial Proxy.

According to the Notifications delivered to the Company, on December 3rd 2013 the two Management Board Members and the Commercial Proxy acquired – under the 2012–2016 Incentive Scheme approved by virtue of Resolution No. 21 of the Annual General Meeting of May 28th 2012 – a total of 22,358 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.

Details of the transactions:

1. Acquisition by a Management Board Member of 8,599 shares at the issue price of PLN 0.20 per share on December 3rd 2013;
2. Acquisition by a Management Board Member of 8,599 shares at the issue price of PLN 0.20 per share on December 3rd 2013;
3. Acquisition by a Commercial Proxy of 5,160 shares at the issue price of PLN 0.20 per share on December 3rd 2013.

**7. Agreements (including agreements executed after the end of the reporting period) known to SECO/WARWICK S.A., which may result in changes in the proportions of shares held by the current shareholders and bondholders.**

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 passed by the General Meeting on conditional share capital increase by up to PLN 100,000 (one hundred thousand zloty), 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 zloty) 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 zloty) 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:

$$Q = 6,666 P - 183,310$$

provided that:

$$\text{for } P < 35\text{PLN} \rightarrow Q = 0$$

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

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:

$$\text{for } P < 35\text{PLN} \rightarrow Q = 0$$

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

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:

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

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)  $a_i \times 250,000$  (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

## 8. Control systems for employee stock option plans

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"). For a detailed description of the key objectives of the Incentive Scheme see Section 7.



The scheme is supervised by the Supervisory Board and the Management Board of SECO/WARWICK S.A. The Rules of the Incentive Scheme were approved by the Supervisory Board on January 12th 2012.

#### **9. Share buy-backs**

In 2013, the Company did not acquire its own shares.

#### **10. Discussion of key financial and economic data contained in the annual financial statements and of factors and events, including non-recurring ones, with a material effect on the Company's operations and profits earned or losses incurred in the financial year; discussion of development prospects in a period covering at least the next financial year.**

##### **STATEMENT OF COMPREHENSIVE INCOME**

2013 was the first year of SECO/WARWICK S.A. operating as a holding company. As the structure and volume of its sales changed, the 2013 figures are not comparable with data for the previous years. Currently, the Company's primary source of revenue is from the provision of services to the Group subsidiaries covered by a CSA agreement (the Management Services Agreement). In addition to that, the Company reported revenue from the sale of equipment it retained after the transfer of organised part of business to SECO/WARWICK Europe (with customers' consent, invoicing and performance of most of the contracts performed by SWSA in 2012 which were in progress as at the transfer date was taken over by SWE; however, some customers did not consent to such an arrangement). In 2013, revenue earned from sales to members of the Group totalled PLN 12.4m, with a margin of 7.1%. SWSA's other sales, of PLN 2.1m, were generated under its other contracts.

In 2013, the main contribution to the Company's net profit of PLN 14.9m was dividends received from its subsidiaries, totalling PLN 22.0m.

In 2013, the ROE ratio was 8%.

##### **STATEMENT OF FINANCIAL POSITION**

Due to organizational changes is not advisable to compare indicators of the Company of the year 2012, therefore, discussed indicators will be important for the interpretation of the effectiveness of the company in its new form, for the year 2013.

Asset structure of the Company expressed as a ratio of current assets to current assets stood at 8.1 at the end of 2013, which with the company's business profile is indicative of a normal. Non-current assets are in fact shares in other companies of the Group and the company's cash needs are met from product sales and dividends received to date.

Index structure of liabilities was 5.6, which means almost total independence from the Company's external financing. In addition, 96% of fixed assets was covered by the equity of the Company.

Liquidity ratios I and II are at the level of 1.6 (due to the current profile of the company as it has virtually no inventory), while the liquidity ratio of the third degree (so called "fast ratio") is 0.6, which is very good.

Debt ratios tested in the Company are also satisfactory. Debt ratio is 15% and long-term debt – 10%.

Selected performance indicators of the Company are as follows:

- Receivables turnover ratio was 265 days, which is a temporary situation resulting from the method of invoicing subsidiaries at the end of each quarter;
- Payables turnover ratio was 325 days, which is due to an increase in current liabilities (item contains part of the liability arising from the purchase of shares in Brazilian).

In case of those two indicators, the Management Board is of the opinion that this is a temporary situation resulting from organizational changes in the Company and it does not indicate an increased risk.

Turnover of assets and current assets amounted to 0.2 and 0.7 – the level of results from the specific holding company as it is recognized as valid.

#### **11. Assessment of factors and non-recurring events with a bearing on the Group's results for the financial year; the extent to which such factors or non-recurring events affected the results**

In 2013, there were no non-recurring events with a bearing on SECO/WARWICK S.A.'s results for the financial year. For an analysis of factors driving the Company's results, see Section 10 of this Report.

**12. Information on the Company's markets, broken down into domestic and foreign markets, on the Company's supply sources for production materials, goods and services, including information on dependence, if any, on any single customer or supplier, or a group of customers or suppliers, and where the share of a single customer or supplier in total revenue equals or exceeds 10% – the company name of such customer or supplier, its share in total sales or purchases, and its formal links with SECO/WARWICK S.A.**

Geographical segments based on the Company's markets The Company has identified the following segments:

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

With such a broad supplier base and access to numerous markets, SECO/WARWICK S.A. does not depend on any single supplier (there is no single supplier whose share in total revenue exceeds 10%).

Following the organisational changes of January 2nd 2013, the key customers of SECO/WARWICK S.A.'s management services are the Company's subsidiaries.

**13. Agreements significant to the Company's business, including shareholder agreements known to the Company, insurance, partnership or cooperation agreements**

In 2013, SECO/WARWICK S.A. and other SECO/WARWICK Group companies signed the following significant agreements:

**Disposal of an organised part of SECO/WARWICK S.A.'s business**

In Current Report No. 01/2013 of January 3rd 2013, the SECO/WARWICK Management Board reported on the acquisition of shares in a subsidiary. On December 18th 2012, the Extraordinary General Meeting of SECO/WARWICK EUROPE of Świebodzin, a wholly-owned subsidiary of SECO/WARWICK S.A., passed Resolution No. 1/2012 on share capital increase at SECO/WARWICK EUROPE through the issue of new Series B ordinary registered shares, which were offered to SECO/WARWICK S.A. in a private placement in exchange for a non-cash contribution (the "Contribution"). Pursuant to the Resolution, the share capital of SECO/WARWICK EUROPE was increased. On January 2nd 2013, SECO/WARWICK EUROPE submitted to SECO/WARWICK S.A. an invitation to acquire the New Shares. The Company accepted the invitation and executed with SECO/WARWICK EUROPE a share purchase agreement concerning the New Shares. Under the Share Purchase Agreement, SECO/WARWICK S.A. acquired the New Shares for a total issue price of PLN 82,218,000 in exchange for the Contribution.

On January 3rd 2013, in Current Report No. 02/2013 the Management Board of SECO/WARWICK S.A. reported the disposal of an organised part of the Company's business to a subsidiary as a contribution to cover the subsidiary's new issue shares. An agreement was executed for the disposal of SECO/WARWICK S.A.'s organised part of business comprising tangible and intangible assets used in manufacturing and distribution activities, liabilities related to the manufacturing and distribution activities, and the Company's employees involved in the manufacturing and distribution activities, which was to be effected through contribution of the organised part of business to a SECO/WARWICK Group subsidiary, SECO/WARWICK EUROPE ("Subsidiary") of Świebodzin, in exchange for shares in the increased share capital of the Subsidiary. The transfer of the organised part of business was a part of the Group's New Growth Strategy presented in Current Report No. 28/2012. The disposal will allow the Group to consolidate its Polish operations within a single entity, SECO/WARWICK EUROPE. The Parent (SECO/WARWICK S.A.) will focus on the strategic and financial management of the SECO/WARWICK Group. SECO/WARWICK S.A., acting as the holding company, will exercise ownership and provide strategic management services to the subsidiaries of the SECO/WARWICK Group.

**Indian market – increased equity interest in SECO/WARWICK Allied**

In Current Report No. 04/2013 of March 22nd 2013, the Management Board of SECO/WARWICK S.A. reported that the Company and shareholders (the "Selling Shareholders") of Seco/Warwick Allied Private Limited of Maharashtra, India ("SWAPL"), in which the Company holds a 50% interest, representing 50% of SWAPL's equity and carrying the right to 50% of the total votes at the General Meeting of SWAPL, entered into a conditional agreement for the purchase by the Company of 27,339 SWAPL shares, representing 25% of SWAPL's equity and carrying the right to 25% of the total votes at its General Meeting (the "Sale Shares") (the "Agreement"). Pursuant to the Agreement, the acquisition of Sale Shares by the Company is contingent on fulfilment – to the Company's satisfaction – of certain conditions precedent, listed in the Current Report. Under the Agreement, the total selling price for the Sale Shares is INR 161,000,000 (PLN 9,590,609, translated at the mid



exchange rate quoted by the National Bank of Poland for March 22nd 2013) (the "Selling Price"), with the total Selling Price to be paid by the Company in three instalments, upon fulfilment of conditions precedent to each payment.

In Current Report No. 05/2013 of March 25th 2013, the Management Board of SECO/WARWICK S.A. reported that on March 25th 2013 the conditions precedent had been fulfilled for the purchase of 9,090 Sale Shares and for payment of the first instalment of the Selling Price of INR 53,529,280 (PLN 3,156,996, translated at the mid exchange rate quoted by the National Bank of Poland for March 25th 2013), as defined in the agreement for purchase of shares in Seco/Warwick Allied Private Limited of Maharashtra, India ("SWAPL"), made between the Company and SWAPL's shareholders. Following acquisition of the 9,090 Sale Shares, the Company will hold 63,765 shares, representing 58.3% of SWAPL's equity and carrying the right to 58.3% of the total votes at its General Meeting.

In Current Report No. 16/2013, which made reference to Current Report No. 4/2013 of March 22nd 2013, the SECO/WARWICK Management Board reported that on May 22nd 2013 the conditions precedent had been fulfilled for the purchase of 9,127 Sale Shares and for payment of the second instalment of the Selling Price of INR 53,748,240 (PLN 3,130,620, translated at the mid exchange rate quoted by the National Bank of Poland for May 22nd 2013), as defined in the agreement for purchase of shares in SECO/WARWICK Allied Private Limited of Maharashtra, India ("SWAPL"), made between the Company and SWAPL's shareholders.

Following the acquisition of 9,127 Sale Shares, the Company will hold 72,892 shares, representing 66.7% of the SWAPL's share capital and carrying the right to 66.7% of the total votes at the General Meeting of SWAPL.

#### **Brazilian market – acquisition of a 100% equity interest in SECO/WARWICK do Brasil Ind. de Fornos Ltda.**

In Current Report No. 08/2013, the SECO WARWICK Management Board reported that on April 23rd 2013 it executed a conditional agreement (the "Agreement") to purchase 860,000 shares with a par value of BRL 1 per share (PLN 1.5739), held by Brazilian citizens Aparicio Vilademir de Freitas and Yassuhiro Sassaqui (the "Sellers"), representing 100% of the share capital of Engefor Engenharia Indústria e Comércio Ltda, a limited liability company of Jundiaí, established and existing under Brazilian law, and conferring the right to 100% of the total votes at the company's general meeting (the "Purchase Shares"). The Agreement was also executed by the Company and the spouses of the Sellers.

In Current Report No. 17/2013, which made reference to Current Report No. 8/2013 of April 24th 2013, the SECO/WARWICK Management Board reported that on May 24th 2013 all conditions precedent had been fulfilled for the purchase of 860,000 Sale Shares and for payment of the first instalment of the Selling Price of BRL 6,000,000 (PLN 9,506,400, translated at the mid exchange rate quoted by the National Bank of Poland for May 24th 2013), as defined in the agreement for purchase of shares in Engefor Engenharia Indústria e Comércio Ltda of Jundiaí, Brazil, made between SECO/WARWICK S.A. and the company's shareholders.

#### **Other significant agreements:**

In Current Report No. 14/2013, the Management Board of SECO/WARWICK S.A. reported that on May 15th 2013 it was notified that its subsidiary SECO/WARWICK EUROPE of Świebodzin had signed fourteen contracts with BISON-BIAL S.A. of Białystok for the manufacture and delivery of heat treatment equipment. The total value of the contracts is PLN 19,643,050.

In Current Report No. 15/2013, the Management Board of SECO/WARWICK S.A. reported that between November 22nd 2012 and May 16th 2013 SECO/WARWICK EUROPE executed with BRE Bank S.A. of Warsaw ten forward contracts to sell a total of EUR 3,115,000 (PLN 12,966,379) and twelve forward contracts to sell a total of USD 4,930,000 (PLN 15,650,168). The total value of the contracts is PLN 28,616,547. The forward contract to sell a total of EUR 900,000 (PLN 3,758,580) concluded between the Company's subsidiary SECO/WARWICK EUROPE and BRE Bank S.A. of Warsaw on January 21st 2013 was the contract with the highest value.

In Current Report No. 21/2013, the Management Board of SECO/WARWICK S.A. reported that between August 31st 2012 and June 12th 2013 SECO/WARWICK S.A. and its subsidiary, SECO/WARWICK EUROPE, executed with Bank Zachodni WBK S.A. of Wrocław 13 forward contracts to sell a total of EUR 3,700,000 (PLN 15,418,655) and six forward contracts to sell a total of USD 880,000 (PLN 2,871,776). The total value of the contracts is PLN 18,290,431. The forward contract to sell EUR 800,000 (PLN 3,298,480), concluded between the Company's subsidiary SECO/WARWICK EUROPE and Bank Zachodni WBK S.A. of Wrocław on January 14th 2013, was the contract of the highest value.

In Current Report No. 25/2013, the Management Board of SECO/WARWICK S.A. reported that between October 10th 2012 and July 18th 2013 the Company and its subsidiary, SECO/WARWICK EUROPE, executed with HSBC Bank Polska S.A. of Warsaw 16 forward contracts to sell a total of EUR 5,611,000 (PLN 23,519,852) and five forward contracts to sell a total of USD 1,020,000 (PLN 3,294,100). The total value of the contracts is PLN 26,813,952. The forward contract to sell a total of EUR 900,000 (PLN 3,670,920), concluded between the Company and HSBC Bank Polska S.A. of Warsaw on October 10th 2012, was of the highest value.



In Current Report No. 27/2013, the Management Board of SECO/WARWICK S.A. reported that between June 14th 2013 and August 14th 2013 eleven forward contracts to sell a total of EUR 4,500,000 (PLN 19,090,763), four forward contracts to sell a total of USD 469,000 (PLN 1,520,029), and three forward contracts to sell a total of GBP 315,000 (PLN 1,570,307) were entered into by the Company's subsidiary SECO/WARWICK EUROPE with BRE Bank S.A. of Warsaw. The value of the forward contracts totals PLN 22,181,098. The forward contract to sell a total of EUR 1,800,000 (PLN 7,642,260) concluded between the Company's subsidiary SECO/WARWICK EUROPE and BRE Bank S.A. of Warsaw on July 19th 2013 was the contract with the highest value.

In Current Report No. 36/2013, the Management Board of SECO/WARWICK S.A. reported that between January 21st 2013 and September 30th 2013 SECO/WARWICK EUROPE executed with Bank Handlowy w Warszawie S.A. seventeen forward contracts to sell a total of EUR 4,302,000 (PLN 18,148,896) and four forward contracts to sell a total of USD 600,000 (PLN 1,946,000). The value of the forward contracts totals PLN 20,094,896. The forward contract to sell a total of EUR 1,450,000 (PLN 6,055,490) concluded between the Company's subsidiary SECO/WARWICK EUROPE and Bank Handlowy w Warszawie S.A. of Warsaw on January 21st 2013 was the contract with the highest value.

In Current Report No. 41/2013, the Management Board of SECO/WARWICK S.A. reported that between July 30th 2013 and November 5th 2013 SECO/WARWICK EUROPE, the Company's subsidiary, executed with HSBC Bank Polska S.A. of Warsaw eighteen forward contracts to sell a total of EUR 4,510,000 (PLN 19,040,837). The forward contract to sell a total of EUR 900,000 (PLN 3,798,180), concluded between the Company's subsidiary SECO/WARWICK EUROPE and HSBC Bank Polska S.A. of Warsaw on July 30th 2013, was the contract of the highest value.

In 2013, SECO/WARWICK S.A. did not enter into any significant insurance, partnership or cooperation agreements. Likewise, the Company has no knowledge of any significant shareholder agreements.

**14. Related-party transactions concluded by SECO/WARWICK S.A. or its subsidiaries other than arm's length transactions**

In 2013, SECO/WARWICK S.A. and its subsidiaries did not enter into any transactions with related entities other than transactions executed on an arms' length basis.

**15. Information on agreements on borrowings and other debt instruments executed or terminated in the financial year, including at least information on the types, amounts and interest rates, as well as currencies and repayment dates**

Lender	Borrowing/instrument amount		Repayment date	Security	Interest rate	Type
	PLN '000	Foreign currency (USD) ('000)				
BRE BANK S.A. Zielona Góra Branch	3,012	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	1M LIBOR + 1.55%	Investment overdraft facility
Bank Handlowy	8,560	2,842	Apr 27 2018	mortgage of up to USD 3,750 thousand, SECO/WARWICK EUROPE Sp. z o.o.'s surety under civil law	USD 3M LIBOR + 1.80%	Investment overdraft facility
<b>Total:</b>	<b>11,572</b>	<b>3,842</b>	<b>x</b>			

For more detailed information on SECO/WARWICK S.A.'s liabilities under bank borrowings see Note 22 to the Separate Financial Statements of SECO/WARWICK S.A. As at the end of 2013, SECO/WARWICK S.A. had no liabilities under other debt instruments. In 2013, no agreement concerning bank borrowings or other debt instruments was terminated.



**16. Sureties and guarantees issued and received in the financial year, including in particular sureties and guaranties issued to related entities**
**Table: Contingent liabilities under guarantees and sureties:**

<b>Dec 31 2013</b>	<b>Bank</b>	<b>Surety in respect of</b>	<b>Currency</b>	<b>Currency</b>	<b>AMOUNT (PLN)*</b>
Guarantee 1	BRE	PBG	EUR	58	239
Guarantee 2	BH	SBLC	USD	500	1,506
Guarantee 3	BH	SBLC	USD	506	1,524
Guarantee 4	HSBC	SBLC	USD	2,200	6,626
Guarantee 5	BRE	PBG	EUR	184	764
Guarantee 6	BRE	SBLC	EUR	500	2,074
Guarantee 7	HSBC	PBG	USD	343	1,035
Guarantee 8	HSBC	PBG	USD	174	524
Guarantee 9	HSBC	SBLC	USD	188	565
Guarantee 10	HSBC	SBLC	USD	563	1,694
Guarantee 11	BH	SBLC	USD	600	1,807
<b>TOTAL</b>					<b>18,358</b>

\* The guarantees were translated at the mid exchange rates quoted by the National Bank of Poland for December 31st 2013.

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

<b>Company</b>	<b>Bank</b>	<b>Surety in respect of</b>	<b>Currency</b>	<b>Dec 31 2013</b>	<b>AMOUNT (PLN)</b>
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
<b>TOTAL</b>					<b>103,853</b>

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

**17. Information on loans advanced in the financial year, in particular loans to related entities, including at least information on the types, amounts and interest rates, as well as the currencies and repayment dates**

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

On December 17th 2012, SECO/WARWICK S.A. advanced a EUR 600 thousand loan to its subsidiary, SECO/WARWICK GmbH (PLN 2,455 thousand).

On February 1st 2013, SECO/WARWICK S.A. advanced a EUR 150 thousand loan to its subsidiary, SECO/WARWICK Service GmbH (PLN 626 thousand).

On March 27th 2013, SECO/WARWICK S.A. advanced a EUR 100 thousand loan to its subsidiary, SECO/WARWICK Service GmbH (PLN 418 thousand).

On November 21st 2013, SECO/WARWICK S.A. advanced a RUB 6,000 thousand loan to its subsidiary, OOO SCT (PLN 567 thousand).

In 2012, impairment losses on loans advanced totalled PLN 821 thousand at SECO/WARWICK S.A., and remained unchanged as at December 31st 2013.



In 2013, SECO/WARWICK S.A. did not advance loans to any non-related parties.

**18. Assessment (and grounds for the assessment) of financial resources management, including in particular an assessment of the Company's ability to repay its liabilities, as well as an identification of threats, if any, and measures used or intended to be used by the Company to mitigate such threats; feasibility of planned investments, including equity investments, in view of the funds available to the Group; possible changes in the financing of the investments**

In 2013, the Company advanced loans to two related entities, of RUB 6,000 thousand and EUR 250 thousand.

In 2013, the Company repaid its liabilities under the credit facilities contracted to finance investing activities in a timely manner.

As at December 31st 2013, the outstanding debt under investment facilities was PLN 11,572 thousand. As at the same date, the Company had no debt outstanding under overdraft facility. As at December 31st 2012, the outstanding debt under the investment facility was PLN 4,649 thousand. As at the same date, the Company had no debt outstanding under overdraft facility.

Current and quick ratios were at 1.6 (with its current business profile, the Company holds virtually no inventories), while quick ratio (cash to current liabilities) was 0.6, which is a good result.

The funds and credit facilities available to the Company were sufficient to finance investments and capital expenditure planned for and executed in 2013 (for more information, see Section 10 of this Report).

In the Management Board's opinion, as at the end of the reporting period there was no threat of the Company's failure to meet its liabilities.

The table below presents the liquidity ratios of SECO/WARWICK S.A.

<b>LIQUIDITY RATIOS</b>	<b>Dec 31 2013</b>	<b>Dec 31 2012</b>
Current ratio	1.6	2.3
Quick ratio	1.6	2.0
Cash ratio	0.6	0.57

**19. Issue of securities and use of issue proceeds by SECO/WARWICK S.A.**

On July 17th 2013, 149,239 (one hundred and forty-nine thousand, two hundred and thirty-nine) Series E ordinary bearer shares in the Company ("Series E Shares") were acquired, as reported by the Company in Current Reports No. 23/2013, 30/2013, 31/2013 and 39/2013.

On September 19th 2013, 27,230 (twenty-seven thousand, two hundred and thirty) Series E ordinary bearer shares in the Company were acquired, as reported by the Company in Current Reports No. 32/2013, 37/2013, 38/2013 and 42/2013.

On December 3rd 2013, 27,518 (twenty-seven thousand, five hundred and eighteen) Series E ordinary bearer shares in the Company were acquired, as reported by the Company in Current Reports No. 43/2013, 45/2013 and 46/2013.

The Series E Shares were acquired under the Incentive Scheme for the management staff of the SECO/WARWICK Group for the years 2012–2016, approved by virtue of Resolution No. 21 of the Annual General Meeting of May 28th 2012 ("2012–2016 Incentive Scheme"), on the basis of which the Company issued Series B subscription warrants ("Series B Warrants") entitling its holders to acquire Series E Shares.

**20. Explanation of discrepancies between the financial results disclosed in the annual report and the previously released forecasts for the year, if any**

The SECO/WARWICK Management Board did not publish any forecasts for 2013 concerning the Company's or the Group's financial performance.

**21. Description of material risk factors and threats, including information on the degree of the Company's exposure to such risks or threats**

The Company is exposed to market risk, comprising currency risk, interest rate risk, liquidity risk and credit risk. The objective behind the Company'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 at the Company are determined by the Management Board. As part of the risk management process, an expert management accounting system has been developed and implemented at the Company. Key risk parameters at the level of operating and financing activities are monitored based on monthly reports. The Company's Finance Department, as the organisational unit responsible for implementation of the Group's financial risk policy, identifies, measures, manages and monitors the risks on an ongoing basis. The Management Board receives regular update reports on the type and degree of exposure to a given risk. For a detailed description of Company's exposure to risks, see Note 32 to the financial statements of SECO/WARWICK S.A.

**22. Statement of compliance with corporate governance rules by SECO/WARWICK S.A. in 2013****a. Identification of the set of corporate governance rules followed by the Parent of the SECO/WARWICK Group and place where the text of the rules is publicly available**

In 2013, SECO/WARWICK S.A. complied with the Code of Best Practice for WSE-Listed Companies.

The Code of Best Practice for WSE-Listed Companies is available at: [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl) and at: [www.secowarwick.com](http://www.secowarwick.com)

The Company did not observe any corporate governance rules going beyond the requirements stipulated by Polish law.

**b. Scope of non-compliance with the set of corporate governance rules referred to above, specification of the rules not complied with, and explanation of why they were not complied with and how the Company intends to eliminate the effects (if any) of non-compliance with a given rule or measures it intends to take to reduce the risk of non-compliance with a given rule in the future**

SECO/WARWICK S.A. applied all corporate governance principles set forth in the Code of Best Practice for WSE-Listed Companies, except for the principle defined in Section IV.10, which recommends that listed companies enable shareholders to participate in General Meetings via electronic means of communication. The reason for the non-compliance is technical constraints and high potential cost of adapting the existing system to fit the purpose.

**c. Main characteristics of SECO/WARWICK S.A.'s systems of internal control and risk management with respect to preparation of financial statements and consolidated financial statements**

The Management Board of the Parent is responsible for the Group's internal control system and its effectiveness in the process of preparation of periodic reports and financial statements prepared and published in accordance with the Regulation on current and periodic information to be published by issuers of securities of February 19th 2009.

The main objective of the Group's internal control system applied to financial reporting is to ensure adequacy, reliability, and accuracy of financial information presented in periodic reports and financial statements. The Group's effective internal control and risk management system applied to financial reporting was developed based on:

- Clear division of responsibilities and organisation of work in the financial reporting process – subsection 1;
- Precise definition of the scope of the Group's financial reporting – subsection 2;
- Regular reviews of the Group's performance, based on the financial reporting system used by the Group – subsection 3;
- Requirement to submit financial statements for approval prior to their publication – subsection 4;
- Audit/review of financial statements by an external auditor – subsection 5;

**1. Clear division of responsibilities and organisation of work in the financial reporting process**

Responsibility for the preparation of the Group's financial statements, current management reports, and periodic financial reports lies with the Parent's Financial Department, headed by the Chief Financial Officer.

Financial statements of the SECO/WARWICK Group are prepared by the staff of the Parent's Financial Department, based on financial data contained in the financial and accounting system, as approved by the Chief Financial Officer, and on other additional data provided by designated employees from other departments in the Group. Prior to being handed over to an external auditor, complete financial statements are reviewed by the Head of the Accounting Department and then by the Chief Financial Officer.



Periodic reports of the Group are prepared by the staff of the Financial Department, based on financial data contained in the financial and accounting system, as approved by the Chief Financial Officer, and on other additional data provided by designated employees from other departments. Prior to being handed over to an external auditor, complete periodic reports are reviewed by the Head of the Accounting Department and then by the Chief Financial Officer.

## **2. Precise definition of the scope of the Group's financial reporting**

The Group reviews its strategy and business plans annually, in cooperation with its senior and middle management. Based on the outcome of the review, the Group carries out a budgeting process covering all areas of its operations. During the year, the Parent's Management Board analyses current financial performance and compares it against the adopted budget in accordance with the management reporting system adopted by the Group and based on the Group's accounting policies (International Financial Reporting Standards), taking into account the format and level of detail of the financial data presented in periodic financial statements of the SECO/WARWICK Group.

The accounting policies applied to statutory reporting are included in the budgeting process and in the Group's management reporting system.

The Group makes every effort to ensure that the financial statements, periodic reports, and other reports presented to investors are based on consistently applied accounting policies.

## **3. Regular reviews of the Group's performance, based on the financial reporting system used by the Group**

Financial data used to prepare financial statements and periodic reports is sourced from the financial and operational reports prepared by the SECO/WARWICK Group. After the closing of each calendar month, employees of the Financial Department, acting under the direction of the Chief Financial Officer, analyse the Group's financial results by business segments in the context of previously adopted assumptions.

Any errors revealed during the analysis are corrected immediately in accordance with the adopted accounting policies.

The work on financial statements and periodic reports starts only after the results recorded in a closed month (reporting period) have been approved by the Chief Financial Officer.

## **4. Requirement to submit financial statements for approval prior to their publication**

Periodic reports and financial statements, once reviewed or audited by the auditor, are submitted to the members of the Parent's Supervisory Board.

All members of the Supervisory Board are offered an opportunity to get acquainted with the financial statements or auditor's report. All queries can be discussed with Chief Financial Officer, who is available for this purpose to the members of the Supervisory Board.

## **5. Audit/review of financial statements by an external auditor**

In accordance with the applicable legal regulations, the SECO/WARWICK Group submits its financial statements for a review or audit, as appropriate, by a qualified external auditor.

### **d. Shareholders holding, directly or indirectly, major holdings of shares**

**Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total vote at the General Meeting as at December 31st 2013:**

<b>Shareholder</b>	<b>Number of shares</b>	<b>Ownership interest (%)</b>	<b>Number of votes</b>	<b>% of total vote at General Meeting</b>
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%



## SECO/WARWICK S.A.

Directors' Report on the Company operations  
in the year ended December 31st 2013

AMPLICO	577,470	5.41%	577,470	5.41%
- share capital	2,136,039.40			
- number of shares	10,680,197			
- par value per share	0.20			

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

**Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total vote at the General Meeting as at the date of release of this Report:**

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of total vote at General Meeting
SW Poland Holding B.V. (Netherlands)	3,387,139	31.54%	3 387 139	31.54%
Spruce Holding Limited Liability Company (USA)	1,419,294	13.22%	1 419 294	13.22%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	904,794	8.43%	904,794	8.43%
Funds represented by PKO BP BANKOWY PTE S.A.	849,698	7.91%	849,698	7.91%
Bleauhard Holdings LLC	743,456	6.92%	743,456	6.92%
ING NN OFE	600,000	5.59%	600,000	5.59%
AMPLICO	577,470	5.38%	577,470	5.38%
- share capital	2,147,567.40			
- number of shares	10,737,837			
- par value per share	0.20			

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

### e. Holders of any securities that confer special control powers, and description of such powers

SECO/WARWICK S.A. (Parent) has not issued any securities conferring special control powers with respect to SECO/WARWICK S.A.

### f. Restrictions on the exercise of voting rights such as restrictions on the exercise of voting rights by holders of a certain portion or number of votes, time limits for exercising voting rights, and provisions under which, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of the securities

There are no restrictions at the Parent on the exercise of voting rights such as restrictions on the exercise of voting rights by holders of a certain portion or number of votes, time limits for exercising voting rights, or provisions under which, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of the securities.

### g. Restrictions on transferability of the Company securities

Further to Current Report No. 32 published in 2008 and Current Report No. 27 published in 2010, the Management Board of SECO/WARWICK S.A. reported that on September 2nd 2013 it was notified of execution by the following significant shareholders of the Company:

- SW Poland Holding B.V.,
- Spruce Holding Limited Liability Company, and

- Bleauhard Holdings LLC,

of a significant shareholders agreement (the Significant Shareholders Agreement), whose key element is the shareholders' undertaking not to sell a portion of their holdings of Company shares until December 31st 2016.

Under the agreement, the original number of shares in lock-up was reduced by 1,200,000 (one million, two hundred thousand) shares, to 5,549,889 (five million, five hundred and forty-nine thousand, eight hundred and eighty-nine) shares. Concurrently, the expiry date of the lock-up period was extended from December 31st 2014 to December 31st 2016.

**h. Description of the rules governing the appointment and removal from office of the management staff, and of their powers, including in particular the power to decide on an issue or buy-back of shares**

The Parent's Management Board consists of two to seven members and is appointed and removed from office by the Supervisory Board, which has the power to appoint any number of Vice-Presidents. Members of the Management Board are appointed for a joint three-year term of office. The Management Board comprises the President of the Management Board, Vice-Presidents and members. When appointing the members of the Management Board, the Supervisory Board decides who will be appointed to the positions of the President and Vice-Presidents of the Management Board. The mandate of a member of the Management Board expires on the date of the General Meeting approving the report on the Management Board's operations, the statement of financial position and the statement of comprehensive income for the last full financial year in which the member held the office. Members of the Management Board may be re-appointed for another term of office. The Management Board may appoint one or more commercial proxies

The Management Board has all powers to manage the Company's affairs other than those which fall within the exclusive scope of competence of the other governing bodies of the Company. The Management Board defines the overall organisation structure of the Company and the principles of its operation. For this purpose it may issue relevant rules and other internal regulations. Every member of the Management Board may, without a prior resolution of the Management Board, manage any affairs of the Company falling within the scope of the day-to-day management, except where, before the matter is settled, at least one member objects to it. Each Management Board member may individually incur a liability or dispose of a right for an amount of up to PLN 200,000.00 (two hundred thousand). Incurring a liability or disposal of a right in excess of PLN 200,000.00 (two hundred thousand) requires two Management Board members acting jointly or a Management Board member acting jointly with a commercial proxy. Any issues which fall beyond the scope of the day-to-day management of the Company's affairs require a resolution of the Management Board.

The Company shares may be cancelled upon the shareholder's consent through the acquisition of the shares by the Company ("voluntary cancellation") or without the shareholder's consent ("compulsory cancellation"), in compliance with the provisions of the Commercial Companies Code. Shares may be cancelled without the shareholder's consent on the basis of a resolution of the General Meeting if: the shareholder is declared bankrupt; an enforcement procedure has been instituted with respect to the shares; a court of general jurisdiction has declared in civil proceedings that the shareholder acted to the detriment of the Company; a final ruling has been issued convicting the shareholder of a crime connected with acting to the detriment of the Company.

Compulsory cancellation is effected against compensation, which may not be lower than the value of net assets attributable to the shares, as disclosed in the financial statements for the previous financial year, less the amount allocated for distribution among the shareholders. The General Meeting may cancel all or part of a shareholder's shares at the shareholder's written request. In such a case, the value of the cancelled shares is determined by a resolution of the Company's General Meeting, with a proviso that the resolution is valid only if the shareholder requesting the cancellation of the shares votes in favour of the resolution. The Company may acquire its own shares for cancellation or for other purposes set forth in Art. 362.1 of the Commercial Companies Code. The General Meeting may authorise the Management Board to acquire the Company shares from the shareholders for cancellation.

**i. Rules governing amendments to the Parent's Articles of Association**

In accordance with Art. 430.1 of the Commercial Companies Code, any amendment to SECO/WARWICK S.A.'s Articles of Association requires a resolution by the General Meeting and must be entered in the relevant court register. Any amendments to the Articles of Associations are submitted to the registry court by SECO/WARWICK S.A. Management Board. The General Meeting may authorise the Supervisory Board to prepare the consolidated text of the amended Articles of Association or to make other wording amendments, as specified in a resolution of the General Meeting.

**j. Manner of operation of the General Meeting, its basic powers and description of the shareholder rights, along with the procedure for their exercise, including in particular rules provided for in the Rules of Procedure for the General Meeting, if any, unless such information follows directly from the provisions of law**

The General Meeting operates according to the Rules of Procedure for the General Meeting of SECO/WARWICK S.A., adopted by virtue of Resolution No.26 of the SECO/WARWICK S.A. General Meeting of May 28th 2012. The General



Meeting may be attended only by the persons who are the Company shareholders sixteen days prior to the General Meeting date. The record date for participation in the General Meeting is the same for the holders of rights under bearer and under registered shares. (Art. 406 [1] of the Commercial Companies Code) Holders of rights under registered shares and provisional certificates, as well as pledgees and usufructuaries holding voting rights, are entitled to participate in the General Meeting of a public company only if they are entered in the share register as at the record date (Art. 406 [2] of the Commercial Companies Code) The General Meeting may be attended by persons whose presence is considered indispensable by the Supervisory Board or Management Board (Par. 4 of the Rules of Procedure for the General Meeting).

After presentation of each item on the agenda, the Chairman of the General Meeting opens the discussion and gives floor in the order in which the participants requested to speak. While taking the floor, the shareholder may speak only on the matters included in the agenda and discussed at a given moment. During the discussion of each item on the agenda, each shareholder is entitled to one speech and one reply.(Par. 14 of the Rules of Procedure for the General Meeting).

Depending on their subject matter, resolutions of the General Meeting are adopted by the majority of votes required by the Company's Articles of Association, the Commercial Companies Code, or other generally applicable laws (Par. 19 of the Rules of Procedure for the General Meeting).

Resolutions of the General Meeting are adopted in an open ballot, subject to the provisions of Par. 17.2 on voting by secret ballot in the following cases: elections; proposals to remove a member of the Company's governing body or its liquidator; proposals to bring a member of the Company's governing body or its liquidator to account; proposals concerning personnel matters, at the request of at least one shareholder present or represented at the General Meeting; in any other cases provided for in generally applicable laws (Par. 17 of the Rules of Procedure for the General Meeting).

The Chairman of the General Meeting presents the agenda of the Meeting and submits it for approval by the General Meeting. If no objections are raised, the agenda is deemed approved by the General Meeting (Par. 8 of the Rules of Procedure for the General Meeting). After the Chairman of the General Meeting closes the list of speakers, no speakers may be added to the list, and after the discussion is declared closed, no speakers may take the floor and no proposals referred to in Par. 15 of Rules and Procedure for the General Meeting may be submitted (Par. 16 of the Rules of Procedure for the General Meeting).

In 2013, the formally convened SECO/WARWICK S.A. General Meeting was held on May 24th 2013. The General Meeting was convened at the request of the Management Board. In 2013, the Company shareholders did not request convening of the General Meeting.

The General Meeting was held pursuant to the regulations of the Commercial Companies Code, in accordance with the Rules of Procedure for the General Meeting of SECO/WARWICK S.A., and in compliance with the Code of Best Practice for WSE-Listed Companies. The shareholders had an opportunity to get acquainted with the draft resolutions which had been published on the Company's website and in Current Report No. 12/2013, dated April 26th 2013, at least 26 days prior to the General Meeting. The Company approved the documents submitted by the shareholders and their proxies, and recognised the validity of the powers of proxy, right to represent and participate in the General Meeting.

Within its powers, the General Meeting adopted resolutions essential to proper operation of the Company, including a resolution on the approval of the Directors' Report on the Company's operations and the financial statements, allocation of profit for the financial year 2012, approval of the Directors' Report on the Group's operations and the consolidated financial statements of the SECO/WARWICK Group for the financial year 2012, and granting discharge in respect of performance of duties to members of the Company's governing bodies.

The Chairman of the General Meeting ensured procedural efficiency and respect for the rights and interests of all shareholders. The General Meeting was not adjourned or interrupted. Members of the Management Board and Supervisory Board were available to the shareholders and proxies, ready to provide explanations to the extent permitted by their knowledge and required by the provisions of law. None of the resolutions adopted at the General Meeting was challenged in court proceedings.

All resolutions adopted in 2013 by the General Meeting were aimed at serving the interest of the Company, with due consideration given to other stakeholders' rights. Resolutions adopted by the General Meeting were published on the Company's website at: [www.secowarwick.com](http://www.secowarwick.com)

**k. Composition and changes in the composition of the Company's management, supervisory and administrative bodies and their committees, which took place in the last financial year; description of their activities**

**Management Board**

**Composition of the Management Board**

In 2013 and on the date of release of this Report, the composition of the Company's 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

### **Operation of the Management Board**

The Management Board operated under the regulations of the Commercial Companies Code, the Rules of Procedure for the Management Board, approved by the resolution of the Supervisory Board and available to the public, and in accordance with the Code of Best Practice for WSE-Listed Companies. The Rules of Procedure for the Management Board stipulate the division of responsibilities, tasks and authority among the members.

The Management Board is the executive body of the Company, managing its current operations and representing it in relations with third parties. The powers of the Management Board include all matters which do not fall within the exclusive scope of competence of the General Meeting or the Supervisory Board. A decision to acquire or dispose of real estate, perpetual usufruct right to or an interest in real estate, rests exclusively with the Management Board and requires approval by the General Meeting.

The Management Board is composed of 2 (two) to 7 (seven) members appointed by the Supervisory Board, including President, Vice-President and members of the Management Board. The Supervisory Board may appoint any number of Vice-Presidents. The Management Board members are appointed by the Supervisory Board for a joint three-year term of office. Each Management Board member may individually incur a liability or dispose of a right for up to the equivalent of PLN 200,000.00 (two hundred thousand). Incurring a liability or disposal of a right in excess of the equivalent of PLN 200,000.00 (two hundred thousand) requires two Management Board members acting jointly or a Management Board member acting jointly with a commercial proxy. The Management Board acts in accordance with its Rules of Procedure, approved by the Supervisory Board at the request of the Management Board.

When formulating strategic objectives and setting current tasks, the Management Board was primarily guided by the Company's best interest and the provisions of law, while also protecting the interests of shareholders, employees and creditors.

In order to ensure the clarity and efficiency of the management system, the Management Board observed the rules of professional conduct within the limits of reasonable economic risk, using a wide range of information, opinions and analyses available.

The Supervisory Board decides on the remuneration of the members of the Management Board based on clearly defined procedures. The remuneration for serving as members of the Management Board was granted taking into account the economic results achieved on the basis of competence and responsibility of the individual members of the Board. The amount of remuneration payable to the Management Board members was defined in resolutions adopted by the Company's Supervisory Board on February 1st 2007, April 28th 2008 and January 12th 2012. Remuneration paid to the members of the Management Board did not vary from the level of remuneration paid to members of management boards at electromechanical industry companies of comparable size.

### **Supervisory Board**

#### **Composition of the Supervisory Board**

The Supervisory Board is composed of five to seven members.

In 2013 and on the date of release of this Report, the composition of the Supervisory Board was as follows:

Andrzej Zawistowski – Chairman of the Supervisory Board  
Henryk Pilarski – Deputy Chairman of the Supervisory Board  
Witold Klinowski – member 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

#### **Operation of the Supervisory Board**

The Supervisory Board of SECO/WARWICK S.A. operates under the regulations of the Commercial Companies Code, the Rules of Procedure for the Supervisory Board, approved by the General Meeting and available to the public, and in accordance with the Code of Best Practice for WSE-Listed Companies. The Rules of Procedure for the Supervisory Board stipulate the division of responsibilities, tasks and authority among the members.



The Supervisory Board of SECO/WARWICK S.A. adopts resolutions and issues opinions on the matters falling within its exclusive scope of competence under the provisions of the Articles of Association, and in a manner provided for in the Articles of Association and applicable laws.

The Supervisory Board complied with the requirement of having at least two independent members, meeting the independence criteria specified in the Company's Articles of Association.

In 2013, the Supervisory Board meetings were held on a regular basis, and were attended by members of the Management Board, who provided the Supervisory Board with reliable and complete information on material issues relating to the operation of the Company. The Supervisory Board held six meetings, at which resolutions were adopted with respect to the matters included in the meeting agendas. The resolutions were sent to the members of the Supervisory Board in the notices of the meetings. In order to ensure an efficient performance of its functions, if required the Supervisory Board, acting at the request of the Management Board, adopted resolutions by circulation, without holding a meeting.

Provision of any benefits by the Company or related parties to members of the Management Board was approved by virtue of a resolution adopted by a majority of members of the Supervisory Board.

The General Meeting decides on the remuneration of the members of the Supervisory Board based on clearly defined procedures. The remuneration for serving as members of the Supervisory Board was granted taking into account the economic results achieved on the basis of competence and responsibility of the individual members of the Supervisory Board. Remuneration paid to the members of the Supervisory Board did not vary from the level of remuneration paid to members of supervisory boards at electromechanical industry companies of comparable size. Throughout 2013, members of the Supervisory Board informed the Company's Management Board of their acquisition or disposal of SECO/WARWICK S.A. shares.

In 2013, in its work the Supervisory Board focused primarily on the matters material to the Company's operations.

Within its powers to define the development strategy for the Company, the Supervisory Board made a number of analyses of the directions for long-term growth of the SECO/WARWICK S.A. Group in the context of the changes taking place in the market of manufacturers of heat treatment furnaces, including technological changes and growing competition.

The Supervisory Board, within its powers to supervise the Company's and the Group's operations, conducted an analysis and carried out periodic reviews of the financial statements of SECO/WARWICK S.A. and the Group. The reports on the Company's operations were also analysed and evaluated.

The Supervisory Board will provide the Annual General Meeting with an assessment of the Company's situation, including an assessment of the system for internal control and management of risk material to the Company, as well as evaluation of the operation of the Supervisory Board, prepared in accordance with the Code of Best Practice for WSE-Listed companies.

### **Committees of the Supervisory Board**

In 2013, an Audit Committee operated within the Supervisory Board. In the reporting period the Audit Committee operated through meetings convened by the Chairman of the Committee and by using means of remote communication (electronic mail). The Audit Committee also took part in regular meetings of the Supervisory Board prior to the publication of quarterly financial statements. In 2013, as part of its activities the Audit Committee became familiar with the preliminary results of SECO/WARWICK S.A. and the SECO/WARWICK Group for December 2013. Members of the Committee were in ongoing contact with the persons responsible at the Company for preparation of financial statements. The Committee paid particular attention to compliance of the financial statements with the applicable accountancy regulations. On 30.10.2013, the Audit Committee asked the Management Board to present information relating to the identification and management of individual risks in the company and the group, including market risk, liquidity risk, credit risk, investment, competitive, legal and regulatory. Committee asked to provide information on key management system risks. In response, the Management Board presented to the Supervisory Board meeting on 05.12.2013, the full information on the risk management methods of the company includes monitoring of key risks. Risk management is tailored to the needs of the group. The primary objective of risk management is its reduction to acceptable levels. The new organizational structure provides dual control group for the majority of business affairs thus reducing key risks. Implemented is also the risk assessment process units, identifying and setting priorities for the company. The risk assessment covers the entire organization and takes into account such attributes as the impact and likelihood. The Board also discussed in detail the financial risk, operational risk and legal and regulatory.

In 2013, the Audit Committee consisted of:

1. Henryk Pilarski
2. Zbigniew Rogóż
3. Witold Klinowski

**23. Court, arbitration and administrative proceedings**

In 2013, the value of liabilities or receivables of SECO/WARWICK S.A. or the Group companies disputed in any single or all pending court, arbitration or administrative proceedings did not exceed 10% of SECO/WARWICK S.A.'s equity.

**24. External and internal factors relevant to the growth of the Company's business; description of development prospects for the Company's operations in the period at least until the end of the financial year immediately following the financial year for which the financial statements contained in the annual report were prepared, including elements of the Company's market strategy**

External factors:

- The Company's financial performance will be driven to a large extent on the macroeconomic conditions prevailing on the markets where the Company operates or which it plans to enter. The rate of the Company's growth will depend on the key economic indicators as recorded on the markets where it is present, such as: the demand for capital goods, GDP growth rate, inflation rate, unemployment rate or capital expenditure.

Internal factors:

- The achievement of the financial targets set by SECO/WARWICK S.A. depends on its ability to retain highly-skilled professionals in managerial and specialist positions. In the sector where the Company operates, as in many other sectors of the Polish economy, remuneration of highly qualified staff is lower compared with other EU countries, which may encourage employees to seek employment abroad. The Company is actively trying to mitigate this risk by implementing such measures as a share-based incentive scheme or a financial assistance programme designed to help finance the costs of university and specialist courses. Retention of the highly-qualified staff in the mid- and long-term perspective may result in an increase in employment costs, which in turn may reduce the profitability of the Company's business.

Key objectives of the Group's new development strategy until 2016

**1. Mission**

SECO/WARWICK is a global provider of industrial equipment and advanced metal heat treatment technologies. Thanks to their innovativeness and conformity with modern industrial processes, our products offer customers competitive advantage in the production process.

**2. Group value growth**

A three-fold growth in SECO/WARWICK's business, from revenue of ca. PLN 370m in 2011 to ca. PLN 1bn in 2016, and an increase in net margin to ca. 7%.

**3. Changes in organisational structure**

Implementation of organisational changes whereby SECO/WARWICK is to become a global industrial group with its management centre in Świebodzin, Poland. The function of the holding company with a staff of between ten to twenty employees will be, apart from its natural governance function, to manage the gradual implementation of the best technologies and the transfer of best practices between the regional companies. In order to streamline the organisational structure, as of January 1st 2013 the operating activities in Poland were consolidated in one company SECO/WARWICK Europe, which is an operating centre for the European region and, at the same time, a model enterprise for other companies. Savings generated as a result of the spinning off of operating activities from SECO/WARWICK S.A. to SECO/WARWICK Europe S.A. are estimated at ca. PLN 5.25m from 2013, with an additional PLN 4.5m from 2014.

**4. Investment**

The Group's organic growth will be supported by growth through acquisitions. The Management Board plans to incur capital expenditure of PLN 40–50m in 2012–2013.

**5. Financing structure, dividend distributions**

- A secure financing structure planned to be maintained, with low debt facilitating flexible response to market changes;
- Investment programmes to be financed with internally generated cash flows;
- Effective control over SUBs – implementation of a system to effectively expatriate profits to the holding company;

- Dividend policy from 2013 onwards – upon completion of intensive investment efforts, recommendation to pay out >50% of net profit.

#### 6. Macroeconomic assumptions

- In the Group's markets, including emerging markets, expected improvement in the GDP growth rate; over the next two years the growth rate is expected to return to its pre-crisis level; China and India will remain growth leaders;
- Foreign exchange rates of the currency pairs relevant to SECO/WARWICK's business are expected to stabilise within the following ranges: EUR/USD: 1.25–1.35; EUR/PLN: 3.8–4.2; and as the product of the two preceding rates - USD/PLN: 2.8–3.4.

SECO/WARWICK S.A. is aware of benefits to be derived from the development of the vacuum carburising technology. The technology continues to be researched and developed by the Company's personnel. It is also consulted as part of a cooperation project with academic partners from the leading academic centres in Poland. The research work performed by SECO/WARWICK S.A. has helped the Company to win many contracts related to this technology across the world. Those projects can now serve as valuable credentials when next bids are submitted by the Company. The development of the aluminium heat exchanger brazing technology for the air conditioning and refrigeration industries is also considered a promising application by the Company. SECO/WARWICK S.A. intends to continue its efforts to intensify the development work on improving new systems. Considering that the annual value of the market of new systems for the air conditioning industry is estimated by SECO/WARWICK S.A. at as much as approximately USD 100m, it is a very attractive direction of development for SECO/WARWICK S.A. Furthermore, the Company plans to take advantage of the high growth potential of the Russian market to expand its sales of aluminium heat treatment systems.

#### 25. Events with a material bearing on the Company's business which occurred in the financial year or in the period from the end of the financial year to the date of approval of the financial statements

Events with a material bearing on the Company's business which occurred in the financial year are discussed in detail in Section 13 of this Report.

No events with a material bearing on the Company's business occurred after the end of the financial year.

Details on the events occurring after the end of the reporting period are provided in current reports, available from the corporate website at:

[www.secowarwick.com](http://www.secowarwick.com)

#### 26. Major achievements in research and development

In 2013, the Research and Development division of the SECO/WARWICK Group worked on the following projects:

- Development of the FineCarb® and PreNitLPC® vacuum carburising technology and testing the carburising process simulator (in partnership with Łódź University of Technology).

The vacuum carburising systems with process simulator (SimVaC) were successfully implemented in furnaces of our customers in the US, Canada, Mexico, Sweden, Italy, Czech Republic, and Poland.

The R&D team carried out research and development work on vacuum carburising procedures for new grades of steel for application in the automotive and aviation industries.

- Process testing and development of the FineLPN vacuum nitriding technology. First implementations in Korea and India.
- Preparation of documentation and launch of production phase of the NCBiR's (National Centre for Research and Development) project on hardening distortion control.
- Launch of another NCBiR project for the construction of Multi-Task Intelligent Modular Centre for High-Tech Vacuum Heat and Surface Treatment.
- Construction of a superconductor heat treatment furnace for the international thermonuclear power reactor project (ITER).
- Development and launch of commercial production of the universal two-chamber CAB furnace with optional vacuum purging (three furnaces delivered to customers).
- Development and promotion of technologies Expanite® (stove atmosfery VTR 669).

- Attempts to technology and technology development nitriding ZeroFlow ®
  - Technological tests carried out in SWE and in the Poznan University of Technology
  - Creation of a database on process economics ZeroFlow ® ( energy and utilities)
  - Creating a database of the results of the process ZeroFlow ® (layer thickness , structure )
  - The cyclical development of the test technology VDRFC ( completion of work in April 2014 ).
- Development of technologies sulfonitriding - tests and technological tests in cooperation with the Technical University of Lodz.
- Development of passivation technology - R & D project in collaboration with Dr. Ing. George Ivanov of the Institute of Precision Mechanics in Warsaw.
- Research and technological tests ( IQ Technologies, USA) intensive cooling parts in water.
- Calibration simulator on-line process heating coils of aluminum sheet in the oven Vortex ® Jet Heating System (Research in aluminum smelter ASSAN - Turkey).
- Flow Model PIT -type furnaces for the homogenization of aluminum - the implementation of solutions.
- The test chamber furnace coil annealer type of mixer drum - the implementation of solutions.

In 2013, the Group took steps to actively promote its technological and engineering achievements at international seminars, conferences and industry fairs. Members of the R&D team wrote papers and prepared presentations, and took part in the following events:

- European Heat Treatment Conference, April 25th-26th 2013, Lucerne, Switzerland
- 3<sup>rd</sup> International Congress, Aluminium Heat Exchanger Technologies for HVAC&R, May 15th-16th 2013, Duesseldorf, Germany
- Aluminium 2000 World Congress in Milan, May 2013
- International Federation of Heat Treatment, June 11th-14th 2013, Dubrovnik, Croatia
- Korean Society For Heat Treatment, June 21-22 2013, Seoul (ZeroFlow®)
- ASM Heat Treat Conference and Exposition, September 16th-18th 2013, Indianapolis, USA
- Expanite Conference, October 4th 2013, Copenhagen, Denmark
- Harterei Kongress, October 9th-11th 2013, Wiesbaden, Germany
- Conference on Heat Treatment, November 26th-27th 2013, Jihlava, Czech Republic.

Professional magazines:

- FOCUS Stainless Poland (Expanite®)
- FOCUS Rostfrei Germany (Expanite®)

The Group successfully organised the 17th 'New trends in heat treatment' seminar, which is an annual industry event in Poland. The seminar was held on September 12th-13th 2013 at the conference centre in Łagów (Poland). The event was attended by over 100 guests, including customers and trade and research partners. The participants gave fourteen thematic lectures and took part in two workshops. The participants praised the seminar for its high quality, both in terms of content and form.

In January 2014, a part of a technology demonstration unit, whose development is co-financed under the GRAFTECH programme, was delivered by SECO/WARWICK to the Łódź University of Technology. The 'Graphene nanocomposite for the reversible hydrogen storage' project is designed to develop a technology for producing the GraphRoll functional nanocomposite material on the basis of polycrystalline graphene for reversible storage of hydrogen. The new nanomaterial will be first implemented in heat and thermochemical treatment systems using hydrogen as a process medium or hardening agent. GraphRoll-based pump-less compressors will be used for hydrogen recycling in high-pressure gas quenching and for separation of hydrogen from mixtures of exhaust gases in thermochemical treatment operations. With further development and refinement of the GraphRoll technology, it will be possible to reach or exceed the critical threshold of 6.5% wt. hydrogen absorption on an industrial scale, a condition that must be met before reversible hydrogen storage material can be used in vehicles of the future.



SECO/WARWICK is planning to deliver the unit to the Institute of Electronic Materials Technology (ITME) in Warsaw, as part of the Graftech programme, in April 2014. The project envisages further development of a technology for growing graphene on metals, as well as the design of a new Chemical Vapor Deposition (CVD) system for growing graphene on large-size metal foils. The CVD system will be built at SECO/WARWICK (SW). The unit will use a technology for the epitaxial graphene growth on metals, developed at the ITME.

## 27. Environmental matters

In 2013, SECO/WARWICK S.A. of Świebodzin used the natural environment in the course of its production and trade operations in accordance with the applicable law and was charged with no penalties.

The Company holds all relevant permits for waste generation and release of gas and dust into the air. The permits expire on November 28th 2021. The Company maintains a register of generated waste. In addition, SECO/WARWICK S.A. executed agreements with specialist companies which handle waste disposal, recycling and treatment. All such companies hold relevant permits.

All fees due for the use of natural environment were transferred to the dedicated account of the Marshall Office of the Province of Zielona Góra / Gorzów Wielkopolski in a timely manner. Similarly, the summary of information on the scope of natural environment use was submitted to the Marshall Office of the Province of Zielona Góra / Gorzów Wielkopolski by the prescribed date.

## 28. Workforce

In 2013, the average headcount at SECO/WARWICK S.A. was 24 FTEs, having decreased from 298 FTEs in 2012. This substantial fall is a result of the transfer of the Company's organised part of business to SECO/WARWICK EUROPE Sp. z o.o.

For more information on the workforce of SECO/WARWICK S.A., see Note 31 to the Separate Financial Statements of SECO/WARWICK S.A.

## 29. Information on:

- a) **the date of the agreement concluded by the Company with a qualified auditor of financial statements for an audit or review of financial statements or consolidated financial statements, and the term of such agreement,**
- b) **the remuneration payable or paid to the qualified auditor of financial statements for the financial year, separately for:**
  - **audit of the annual financial statements**
  - **other assurance services, including a review of financial statements,**
  - **tax advisory services,**
  - **other services,**
- c) **information specified in item b) above should also be disclosed for the previous financial year**

The Supervisory Board of the Company, acting under Par. 29.1.6 of the Articles of Association, which authorises it to select the Company's auditor, passed Resolution No. 8/2013, appointing PKF Audyty Sp. z o.o. of Warsaw as the auditor responsible for auditing the annual separate financial statements of SECO/WARWICK S.A. and the consolidated financial statements of the SECO/WARWICK Group for 2013.

Furthermore, the Supervisory Board, acting under Par. 29.1.6 of the Articles of Association, which authorises it to select the Company's auditor, passed Resolution No. 8/2013, appointing PKF Audyty Sp. z o.o. of Warsaw as the auditor responsible for reviewing the semi-annual separate financial statements of SECO/WARWICK S.A. and the semi-annual consolidated financial statements of the SECO/WARWICK Group for 2013.

The agreement with the auditor was executed on July 2nd 2013.

PKF Audyty Sp. z o.o., with registered office at ul. Orzycka 6 (suite 1B), Warsaw, is entered in the list of qualified auditors of financial statements under Reg. No. 548.

On September 27th 2013, PKF Consult Sp. z o.o. acquired PKF Audyty Sp. z o.o. The former assumed all rights and obligations under the agreements to which PKF Audyty Sp. z o.o. was a party. Hence, the relevant resolution concerning appointment of the qualified auditor remains in effect. PKF Consult Sp. z o.o. is entered in the list of qualified auditors of financial statements under Reg. No. 477.



The table below presents the total remuneration of the auditor for 2013 and 2012.

**Table: Total remuneration of the auditor for 2013 and 2012**

<b>Service</b>	<b>Remuneration for 2013 PLN '000</b>	<b>Remuneration for 2012 PLN '000</b>
Audit of annual financial statements	53	57
Other assurance services, including a review of financial statements	97	51
Tax advisory services provided by PKF Tax Sp. z o.o., a related entity of PKF Audyt Sp. z o.o.	36	29
Other services provided by PKF Audyt Sp. z o.o.	-	-
<b>Total</b>	<b>186</b>	<b>137</b>

Date: April 29th 2014

Paweł Wyrzykowski  
*President of the  
Management Board*

Wojciech Modrzyk  
*Vice-President of the  
Management Board*

Jarosław Talerzak  
*Vice-President of the  
Management Board*