

# **THE SECO/WARWICK GROUP**

DIRECTORS' REPORT

ON THE SECO/WARWICK GROUP'S OPERATIONS

IN THE SIX MONTHS ENDED

JUNE 30TH 2012

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The Management Board of SECO/WARWICK S.A. (“the Company”) presents the Directors’ Report on the operations of the SECO/WARWICK Group (“the Group”) in the period January 1st–June 30th 2012, prepared in accordance with 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). These interim condensed consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (“IFRS”) and the IFRS endorsed by the European Union.

## 1. Information on the SECO/WARWICK Group

### 1.1 General information

SECO/WARWICK S.A. of Świebodzin is the parent of the SECO/WARWICK Group. SECO/WARWICK S.A. was incorporated through transformation of a limited liability company (spółka z ograniczoną odpowiedzialnością – Sp. z o.o.) into a joint-stock company (spółka akcyjna – S.A.) under the name of SECO/WARWICK S.A. with registered office in Świebodzin. The transformation was effected in accordance with the provisions of the Polish Commercial Companies Code. On December 14th 2006, the General Meeting of SECO/WARWICK Sp. z o.o. of Świebodzin approved the transformation. In the same notarial deed, all shareholders of SECO/WARWICK Sp. z o.o. declared to join the joint-stock company under the name of SECO/WARWICK S.A. of Świebodzin and to acquire Series A Shares.

SECO/WARWICK S.A. 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, VIII Commercial Division of the National Court Register, under No. KRS 0000271014.

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

- SECO/WARWICK Thermal S.A. (formerly: Lubuskie Zakłady Termotechniczne Elterma S.A.)
- SECO/WARWICK Corporation
- OOO SECO/WARWICK Group Moscow
- Retech Systems LLC
- SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.
- SECO/WARWICK GmbH.

Other Group companies are:

- SECO/WARWICK of Delaware Inc.
- Retech Tianjin Holdings LLC
- SECO/WARWICK Allied Pvt. Ltd. (Mumbai) India.

The Group's five main product categories are:

- vacuum furnaces,
- aluminium heat exchanger brazing systems,
- aluminium heat treatment systems,
- atmosphere furnaces,
- metallurgy equipment used for melting and vacuum casting of metals and specialty alloys.

The SECO/WARWICK Group’s operations are divided into five business segments corresponding to the product groups:

- vacuum furnaces (Vacuum),
- aluminium heat exchanger brazing systems (Controlled Atmosphere Brazing),
- aluminium heat treatment systems (Aluminium Process),
- atmosphere furnaces (Thermal),
- metallurgy equipment used for melting and vacuum casting of metals and specialty alloys (Melting Furnaces).

## 1.2 Structure of the Group as at June 30th 2012

**Table: As at June 30th 2012, the structure of the SECO/WARWICK Group was as follows:**

Company	Registered office	Business profile	Method of consolidation / accounting for equity interest	Group's ownership interest
<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 ThermAL S.A. (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 (2)	Wilmington (USA)	Management of holding companies; registration of trademarks and patents, and granting licences for use of the trademarks and patents by SECO/WARWICK Corp.	Full	100%
OOO SECO/WARWICK Group Moscow	Moscow (Russia)	Distribution of the SECO/WARWICK Group's products	Full	100%
Retech Systems LLC (3)	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. (4)	Tianjin (China)	Manufacture of metal heat treatment equipment	Full	90%
Retech Tianjin Holdings LLC (5)	(USA)	Management of holding companies	Full	80%
SECO/WARWICK Allied Pvt., Ltd. (6)	Mumbai (India)	Manufacture of metal heat treatment equipment	Equity	50%
SECO/WARWICK GmbH (7)	Stuttgart, Germany	Intermediation in the sale of furnaces manufactured by SECO/WARWICK S.A. and SECO/WARWICK ThermAL S.A., and provision of technical support to customers in Germany, Austria, the Netherlands, Switzerland, Liechtenstein and Slovenia.	Full	51%

<sup>(1)</sup>On January 5th 2011, by virtue of Resolution No. 1 on amending the company's articles of association, the extraordinary general meeting of Lubuskie Zakłady Termotechniczne Elterma S.A., a subsidiary, renamed the company as SECO/WARWICK ThermAL S.A.

(2) SECO/WARWICK of Delaware, Inc is an indirect subsidiary owned through SECO/WARWICK Corp., which holds a 100% interest in SECO/WARWICK of Delaware, Inc.

(3) On November 16th 2010, SECO/WARWICK S.A. and James A. Goltz, a co-owner of Retech Systems LLC (USA), executed an agreement concerning acquisition by SECO/WARWICK S.A. of a 50% equity interest in Retech Systems LLC. As a result of the transaction, SECO/WARWICK S.A. came to hold 100% of the shares in Retech Systems LLC.

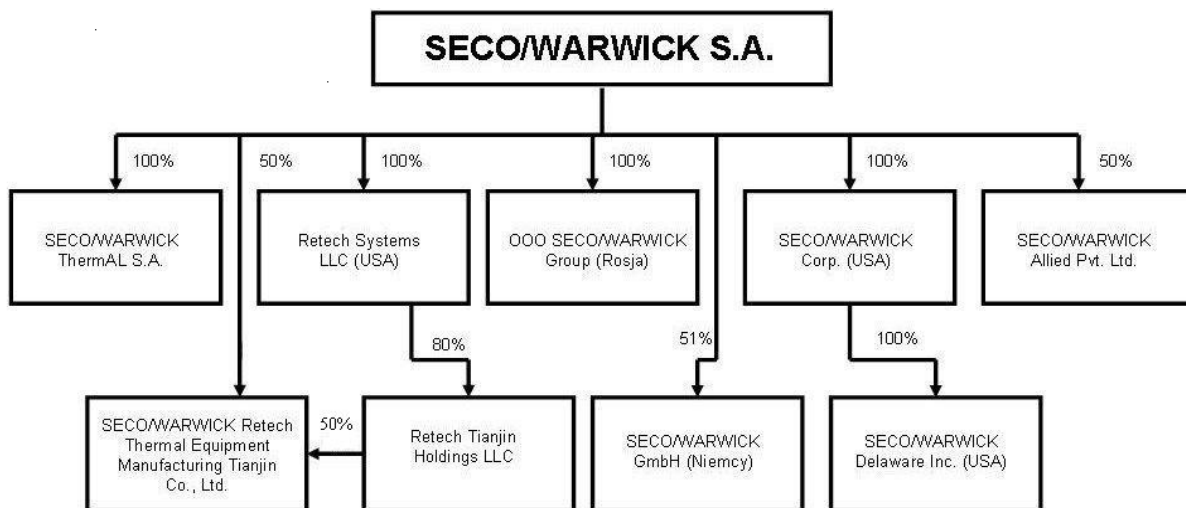
(4) SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd. of China. SECO/WARWICK Retech is a joint venture of SECO/WARWICK S.A. and Retech Systems LLC. SECO/WARWICK S.A. directly holds a 50% and indirectly a 40% interest in SECO/WARWICK Retech.

(5) Retech Tianjin Holdings LLC is an indirect subsidiary owned through Retech Systems LLC of USA, which holds an 80% interest in Retech Tianjin Holdings LLC.

(6) The shares held by SECO/WARWICK S.A. represent 50% of SECO/WARWICK Allied Pvt.'s share capital and confer the right to 50% of the total vote at the company's general meeting.

(7) On August 9th 2011, SECO/WARWICK GmbH of Germany joined the SECO/WARWICK Group. SECO/WARWICK S.A holds 51% of the shares in the company, while a German partner holds a non-controlling interest.

**SECO/WARWICK Group's structure as at June 30th 2012:**



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

On August 17th 2012, a new company was incorporated in Russia. Following the incorporation, construction and assembly work on a plant located near Moscow was launched. SECO/WARWICK S.A holds 50% of the shares in the company, while a Russian partner holds a non-controlling interest.

**2. Other supplementary information**

### 1. Effect of changes in the Group's structure, including changes resulting from mergers, acquisitions or disposals of Group companies, long-term investments, demergers, restructuring or discontinuation of operations

In view of the fact that SECO/WARWICK Industrial Furnace Co. Ltd. (Tianjin) had not been submitting its accounts, the SECO/WARWICK Management Board concluded that there was evidence of loss of control and, accordingly, deconsolidated the company (the deconsolidation was accounted for in the Group's financial statements for the period ended December 31st 2011).

In the H1 2012 consolidated financial statements, the company shares are classified as assets held for sale.

In H1 2012, there were no other changes in the SECO/WARWICK Group's structure resulting from mergers, acquisitions or disposals of Group companies, long-term investments, demergers, restructuring or discontinued operations.

### 2. Management Board's position on the feasibility of meeting any previously published forecasts for 2012 in light of the results presented in the H1 2012 report

The SECO/WARWICK Management Board did not publish any forecasts for 2012 concerning the Company's or the Group's financial performance.

### 3. Shareholders holding, directly or indirectly, 5% of the total vote at the General Meeting as at the date of release of this report, including information on any changes subsequent to the release of the Q1 2012 quarterly report

**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 the most recent quarterly report, i.e. May 15th 2012**

	Number of shares	Ownership interest (%)	Number of votes at GM	% of total vote
SW Poland Holding B.V. (Netherlands)	4,119,508	39.32%	4,119,508	39.32%
Spruce Holding Limited Liability Company (USA)	1,726,174	16.48%*	1,726,174	16.48%*
Bleauhard Holdings LLC	904,207	8.63%	904,207	8.63%
ING NN OFE	600,000	5.73%*	600,000	5.73%*
OFE POLSAT S.A.	485,974	4.64%*	485,974	4.64%*

- share capital 2,095,242

- number of shares 10,476,210

- par value per share 0.2

\* Percentages based on in-house calculations by SECO/WARWICK S.A. following a change in the amount and structure of the share capital effected on December 9th 2010.

**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 the semi-annual report, i.e. August 24th 2012**

	Number of shares	Ownership interest (%)	Number of votes at GM	% of total vote
SW Poland Holding B.V. (Netherlands)	4,119,508	39.32%	4,119,508	39.32%
Spruce Holding Limited Liability Company (USA)	1,726,174	16.48%*	1,726,174	16.48%*
Bleauhard Holdings LLC	904,207	8.63%	904,207	8.63%
ING NN OFE	600,000	5.73%*	600,000	5.73%*
OFE POLSAT S.A.	485,974	4.64%*	485,974	4.64%*

- share capital 2,095,242

- number of shares 10,476,210

- par value per share 0.2

\* Percentages based on in-house calculations by SECO/WARWICK S.A. following a change in the amount and structure of the share capital effected on December 9th 2010.

On March 12th 2012, SECO/WARWICK S.A. received notifications from James A. Goltz and Bleauhard Holdings LLC ("BHLLC") regarding sale by James A. Goltz of 904,207 Company shares to BHLLC. BHLLC is James A. Goltz's subsidiary.

In the period from the date of release of the Q1 2012 report to the date of release of the H1 2012 report, the SECO/WARWICK Group did not become aware of any changes in the significant holdings of Company shares.

#### 4. SECO/WARWICK shares held by members of the Management Board and Supervisory Board as at the date of release of this report, including information on any changes subsequent to the publication of the Q1 2012 report

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

	May 15 2012			Decrease/increase	Aug 24 2012			Total par value of shares (PLN)
	Number of SECO/WARWICK shares held	Ownership interest (%)	% of total vote		Number of SECO/WARWICK shares held	Ownership interest (%)	% of total vote	
<b>Management Board</b>								
Paweł Wyrzykowski	13,541	0.13%	0.13%	0	13,541	0.13%	0.13%	2,708
Wojciech Modrzyk	400	0.004%	0.004%	0	400	0.004%	0.004%	80
Witold Klinowski	58,100	0.55%	0.55%	0	58,100	0.55%	0.55%	11,620
Józef Olejnik	58,100	0.55%	0.55%	0	58,100	0.55%	0.55%	11,620
<b>Supervisory Board</b>								
Andrzej Zawistowski (1)	307,100	2.93%	2.93%	0	307,100	2.93%	2.93%	61,420
Henryk Pilarski	100	0.001%	0.001%	0	100	0.001%	0.001%	20
Jeffrey Boswell	229,633	2.19%	2.19%	0	229,633	2.19%	2.19%	45,927
James A. Goltz (2)	-	-	-	-	-	-	-	-
Piotr Kowalewski	-	-	-	-	-	-	-	-

Piotr Kula	8,500	0.08%	0.08%	0	8,500	0.08%	0.08%	1,700
Mariusz Czaplicki	-	-	-	-	-	-	-	-
Artur Rusiecki (3)	-	-	-	-	-	-	-	-
<b>Commercial proxies</b>								
Dorota Subsar	-	-	-	-	-	-	-	-
<b>Total</b>	<b>675,474</b>	<b>6.45%</b>	<b>6.45%</b>	<b>0</b>	<b>675,474</b>	<b>6.45%</b>	<b>6.45%</b>	<b>135,095</b>
<b>Item</b>	<b>Aug 24 2012</b>							
Number of shares	10 476 210							
Par value of shares	0,2							
Share capital	2 095 242,00							

(1) On May 25th 2012, in Current Report No. 14/2012, the SECO/WARWICK Management Board reported on Mr Andrzej Zawistowski's resignation as Vice-President of the Company's Management Board.

On May 28th 2012, the Annual General Meeting of SECO/WARWICK S.A. by virtue of Resolution No. 40 appointed Mr Andrzej Zawistowski to serve as Member of the Company's Supervisory Board. See Current Report No. 17/2012.

(2) On May 28th 2012, the Annual General Meeting of SECO/WARWICK S.A. by virtue of Resolution No. 34 appointed Mr James A. Goltz to serve as Member of the Company's Supervisory Board. See Current Report No. 17/2012.

(3) On May 25th 2012, in Current Report No. 15/2012, the SECO/WARWICK Management Board reported on Mr Artur Rusiecki's resignation as Member of the Company's Supervisory Board.

In the period under review and subsequent to June 30th 2012, members of the Management and Supervisory Boards of SECO/WARWICK S.A did not execute any transactions involving shares in SECO/WARWICK S.A.

## 5. Material court, arbitration or administrative proceedings

In H1 2012, 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.

## 6. Transaction or a series of transactions concluded by the Company or its subsidiaries with related parties where the value of such transaction or all such transactions jointly is material and the transactions were not concluded at arm's length

In the period from the beginning of the financial year until the date of release of this report, SECO/WARWICK S.A. and its subsidiaries did not enter into any material transactions with related parties other than routine transactions or transactions executed on an arms' length basis.

## 7. Sureties for bank borrowings or guarantees issued by SECO/WARWICK S.A. or its subsidiaries, jointly to one entity or its subsidiary, where the total outstanding amount of such sureties or guarantees exceeds 10% of SECO/WARWICK S.A.'s equity



In H1 2012, there were no events related to sureties for bank borrowings or guarantees exceeding 10% of the Company's equity issued by SECO/WARWICK S.A. or any of its subsidiaries.

## **8. Other information which in the Company's opinion is material for the assessment of its personnel, assets, financial standing and financial result and their changes, or for the assessment of its ability to fulfil obligations**

In the opinion of SECO/WARWICK S.A., an important factor improving the Group's overall economic standing is the growth in the value of its order book to PLN 438m at the end of June 2012, from PLN 240m at the end of March 2012. The change follows mainly from execution of new contracts with Chinese and US customers. For the most part, the contracts provide for delivery of specialist melting furnaces. The Group is beginning to tap the potential of the Chinese market, where the machine building industry is one of the sectors offering very good prospects for business development. The growing affluence of China's population lifts the country's demand for goods with proven reliability, a quality they associate with European and US manufacturers.

For example, Retech Systems LLC – a subsidiary based in Ukiah, US – has signed three major contracts for the manufacture and delivery of titanium melting and refining equipment with Qinghai Supower Titanium Co. Ltd of China (total contract value: PLN 68.8m), Titanium Metals Corporation of US (total contract value: PLN 53.7m) and China Aluminum International Engineering Corporation Limited of China (total contract value: PLN 55m).

On May 28th 2012, the Annual General Meeting of SECO/WARWICK S.A. adopted Resolution No. 20 concerning distribution of profit for the period January 1st – December 31st 2011. For the 2011 financial year, SECO/WARWICK S.A. of Świebodzin posted net earnings of PLN 4,169,370.80. The net earnings were transferred in full to statutory reserve funds.

This information may be relevant for the assessment of SECO/WARWICK S.A.'s ability to fulfil its obligations. As at the date of release of the H1 2012 report, the Company's operations were stable. All liabilities related to the Company's operations are settled on a timely basis.

## **9. Factors which in the Company's opinion will affect its performance in the next six months or in a longer term**

### **9.1. Material events in H1 2012**

In the opinion of the Company's Management Board, the following events which occurred between January 1st 2012 and June 30th 2012 will affect the Group's performance in the next six months or in a longer term.

- On January 12th 2012, the Supervisory Board appointed Mr Paweł Wyrzykowski as President of the SECO/WARWICK Management Board, with effect as of February 1st 2012.
- Between January 26th and February 2nd 2012, SECO/WARWICK S.A. and SECO/WARWICK Thermal S.A., a subsidiary, executed with BRE Bank S.A. of Warsaw nine forward contracts for sale of the euro for a total amount of EUR 2,788,000 (PLN 11,708,206), two forward contracts to sell the U.S. dollars for a total amount of USD 3,650,000 (PLN 11,663,575), eleven zero-cost collar contracts comprising a long put option and a short call option with a total value of EUR 2,220,000 (PLN 9,373,506), and one zero-cost collar contract comprising a long put option and a short call option with a total value of USD 800,000 (PLN 2,578,640). The total value of the contracts is PLN 35,323,927.
- On February 2nd 2012, the Company's Management Board was notified of a contract concluded between Retech Systems LLC. of Ukiah, US, its subsidiary, and Qinghai Supower Titanium Co. Ltd of China concerning the construction and delivery of titanium melting and



refining equipment. The contract was executed on February 2nd 2012 for a period of 12 months and its value amounts to USD 21,531,600 (PLN 68,804,228).

- On March 12th 2012, the Company's Management Board was notified by James A. Goltz and Bleauhard Holdings LLC ("BHLLC") of the sale by James A. Goltz of 904,207 Company shares to BHLLC. BHLLC is James A. Goltz's subsidiary.
- On April 16th 2012, the Company's Management Board was notified that its subsidiary Retech Systems LLC (US) and Titanium Metals Corporation (US) had signed a contract for the manufacture and delivery of titanium melting and refining equipment. The contract was signed on April 12th 2012, its term runs from April 12th 2012 until November 30th 2013, and its value is USD 16,884,192 (PLN 53,722,122).
- Between February 16th 2012 and May 18th 2012 four forward contracts to sell a total of EUR 1,455,000 (PLN 6,103,889), three forward contracts to sell a total of USD 4,210,000 (PLN 14,222,331), one forward contract to sell a total of CZK 15,600,000 (PLN 2,613,000) and a zero-cost collar comprising long PUT options and short CALL options with a total value of EUR 220,000 (PLN 930,072) were executed by SECO/WARWICK S.A. and its subsidiary SECO/WARWICK Thermal S.A. with BRE Bank S.A. of Warsaw. The value of the forward contracts totals PLN 23,869,292. The highest-value contract was the forward contract to sell USD 1,985,000 (PLN 6,834,554) entered into by SECO/WARWICK S.A. and BRE Bank S.A. of Warsaw on May 18th 2012.
- Between February 2nd and May 18th 2012, SECO/WARWICK S.A. and SECO/WARWICK Thermal S.A., a subsidiary, executed with Bank Zachodni WBK S.A. of Wrocław five forward contracts for the sale of the euro for a total amount of EUR 2,650,000 (PLN 11,333,345), seven zero-cost collar contracts comprising long put options and short call options with a total value of EUR 1,405,000 (PLN 5,898,608), and nine zero-cost collar contracts comprising long put options and short call options with a total value of USD 1,640,000 (PLN 5,479,262). The value of the forward contracts totals PLN 22,711,215. The forward contract to sell a total of EUR 1,100,000 (PLN 4,805,130) concluded between SECO/WARWICK Thermal S.A. and Bank Zachodni WBK of Wrocław on May 18th 2012 was the contract with the highest value.
- On June 11th 2012 the Company's Management Board was notified that its subsidiary Retech Systems LLC of Ukiah, US, and China Aluminum International Engineering Corporation Limited of China had signed a contract for the manufacture and delivery of titanium melting and refining equipment. The contract, with a value of USD 15,862,000 (PLN 55,045,899), was executed on June 6th 2012 for a period of 25 months.

## 9.2. General objectives of the Incentive Scheme of SECO/WARWICK SA

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

Key terms of the 2012–2016 Incentive Scheme:

1. The person serving as President of the Management Board as at the date of the Resolution ("**President of the Management Board**") and the key company employees indicated by the President of the Management Board in consultation with the Supervisory Board (jointly with the President of the Management Board - the "**Eligible Persons**") shall 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, shall be determined along with the indication of the person. The list of Eligible Persons shall 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 shall include up to 500,000 (five hundred thousand) of Company Series E shares (“**Series E Shares**”). The President of the Management Board shall be entitled to acquire up to 250,000 (two hundred and fifty thousand) Series E Shares, and the other Eligible Persons shall have the right to acquire up to the remaining 250,000 (two hundred and fifty thousand) Series E Shares.

3. Under the 2012–2016 Incentive Scheme, the Eligible Persons shall be entitled to acquire Series B subscription warrants (“**Series B Warrants**”) free of charge. Series B Warrants shall 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 shall confer the right to acquire one Series E Share.

5. The 2012–2016 Incentive Scheme shall be implemented by way of resolutions adopted by the General Meeting on conditional share capital increase by up to PLN 100,000 (one hundred thousand 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 the Eligible Persons shall depend on:

- (i) the price of the Company shares on the Warsaw Stock Exchange (“**WSE**”), or
- (ii) the price of selling, in one or more transactions (including as part of a tender offer), shares conferring the rights to at least 33% (thirty-three per cent) of the total vote 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 vote 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 transactions, then the number of Series B Warrants to be issued to Eligible Persons shall 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 shall 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 shall 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 its intention to acquire

Series B Warrants. The Company shall 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 shall be calculated based on the following formula:

$$Q = 6.666 P - 183.310$$

provided that:

$$\text{dla } P < 35 \text{ PLN} \Rightarrow Q = 0$$

$$\text{dla } P \geq 65 \text{ PLN} \Rightarrow Q = 250.000$$

where:

$Q$  shall mean number of Series B Warrants;

$P$  shall mean, 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 the acquirer.

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

Each time the President of the Management Board exercises its right to acquire Series B Warrants, the number of Series B Warrants to which it is entitled shall 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 shall be calculated based on the following formula:

$$Q = a_i \times (6.666 P - 183.310)$$

provided that:

$$\text{dla } P < 35 \text{ PLN} \Rightarrow Q = 0$$

$$\text{dla } P \geq 65 \text{ PLN} \Rightarrow Q = a_i \times 250.000$$

where:

$Q$  shall mean the number of Series B Warrants;

$P$  shall mean, 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 the acquirer.

$a_i$  shall mean a ratio determined individually for each Eligible Person, provided that

$$a_i \in (0,1) \text{ oraz } \sum_{i=1}^n a_i \leq 1$$

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

Each time an Eligible Person exercises its right to acquire Series B Warrants, the number of Series B Warrants to which it is entitled shall 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 the particular Eligible Persons shall 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 shall be entitled to acquire Series E Shares at any time, however, no later than by December 31st 2016.

#### **10. Types and amounts of items affecting assets, equity and liabilities, share capital, net profit/(loss), or cash flows, which are unusual due to their type, size or effect.**

In the business activities of SECO/WARWICK S.A. and its Group, there are no material types or amounts of items that would affect assets, equity and liabilities, share capital, net profit/(loss) or cash flows and that would be unusual due to their type, size or effect.

#### **11. Types and amounts of changes in estimates disclosed in previous interim periods of the financial year 2012 or changes in estimates disclosed in previous financial years if they have a material bearing on H1 2012.**

In the business activities of SECO/WARWICK S.A. and the SECO/WARWICK Group, there were no changes in the disclosed estimates that would, due to their type or amount, have a material bearing on the results of H1 2012.

#### **12. Issue, redemption and repayment of debt and equity securities**

No debt or equity securities were issued, redeemed or repurchased in H1 2012.

#### **13. Key threats and risks relating to the months remaining to the end of the financial year**

The Company is exposed to market risk, comprising currency risk, interest rate risk, liquidity risk and credit risk. As part of the risk management process, an expert management accounting system has been developed and implemented. The key risk parameters at the level of operating and financing activities are monitored through monthly reports. The Company's Finance Division identifies, measures, manages and monitors risks on an ongoing basis.

The Company operates a system of internal regulations (procedures, orders, rules and instructions), facilitating its proper functioning and mitigating the risks to which the Company is exposed.

The Company's effective internal control and risk management system applied to financial reporting was developed based on:

1. Clearly specified division of responsibilities and work organisation,

2. Precise definition of the scope of the Company's financial reporting,
3. Regular reviews of the Company's performance, based on the financial reporting system used by the Company,
4. Requirement to submit financial statements for approval prior to their disclosure,
5. Audit/review of financial statements by an independent qualified auditor,
6. Engaging internal audit functions in the assessment of control mechanisms used.

In the Management Board's opinion, the risk management system implemented at the Company significantly mitigates the risks to which the Company is exposed.

#### **14. Material events subsequent to the end of H1 2012, not disclosed in the financial statements for H1 2012 but potentially having a material bearing on future performance of the SECO/WARWICK Group**

On July 6th 2012, the SECO/WARWICK Management Board provided a surety for the liabilities of RETECH SYSTEMS LLC of the US (a wholly-owned subsidiary of SECO/WARWICK S.A.). The surety is to secure repayment of credit facilities which are to be granted to RETECH SYSTEMS LLC by HSBC BANK USA, N.A. The surety was provided for up to USD 3,500,000 (three million, five hundred thousand US dollar) and up to USD 25,000,000 (twenty five million US dollar) and secures repayment of the principal amount with interest, commission fees, charges and costs under the credit facility agreement in the period from the agreement date to June 30th 2015.

On July 6th 2012, further to Current Report No. 5/2012 of February 3rd 2012, the SECO/WARWICK Management Board reported that on July 5th 2012 all conditions precedent under the contract for manufacture and delivery of equipment for melting and refining of titanium, executed between its subsidiary – Retech Systems LLC. of Ukiah, USA, and Qinghai Supower Titanium Co. Ltd of China had been fulfilled.

Save for the above, in the operations of SECO/WARWICK S.A. and its subsidiaries, no material events occurred which might have a material bearing on the future performance of SECO/WARWICK S.A. or the SECO/WARWICK Group.

Date: August 24th 2012

Paweł Wyrzykowski <i>President of the Management Board</i>	Wojciech Modrzyk <i>Vice-President of the Management Board</i>	Witold Klinowski <i>Member of the Management Board</i>	Józef Olejnik <i>Member of the Management Board</i>
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