



THE SECO/WARWICK GROUP

**DIRECTORS' REPORT
ON THE SECO/WARWICK GROUP'S OPERATIONS
IN THE SIX MONTHS ENDED
JUNE 30TH 2016**

The Management Board of SECO/WARWICK S.A. (the "Company" or the "Issuer") presents the Directors' Report on the SECO/WARWICK Group's (the "Group") operations in the period January 1st–June 30th 2016, 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 (consolidated text: Dz.U. of 2014, item 133) (the "Regulation"). The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IFRS"), as endorsed by the European Union, and in accordance with the Regulation. The financial statements are presented in the zloty ("PLN") and, unless specified otherwise, all amounts are given in thousands of PLN. These interim condensed consolidated financial statements have been prepared on the assumption that the Group would continue as a going concern for the 12 months after the end of the most recent reporting period, i.e. June 30th 2016.

1. Information on the SECO/WARWICK Group

1.1. General information

SECO/WARWICK S.A. (the "Company" or the "Parent") was entered in the Business Register 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.

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

- SECO/WARWICK EUROPE Sp. z o.o.,
- SECO/WARWICK Corporation,
- SECO/WARWICK Rus,
- Retech Systems LLC,
- SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd.,
- SECO/WARWICK GmbH,
- SECO/WARWICK Germany GmbH,
- SECO/WARWICK Allied Pvt. Ltd. (Mumbai) India,
- SECO/WARWICK do Brasil Ind. de Fornos Ltda.,
- SECO/WARWICK France,
- SECO/WARWICK Services Sp. z o.o.
- SECO/WARWICK of Delaware Inc.,
- Retech Tianjin Holdings LLC.,

SECO/WARWICK of Delaware Inc and Retech Tianjin Holdings LLC are not consolidated as they are immaterial to the Group.

The Group has one associate:

- OOO SCT (Solnechnogorsk) Russia, in which the Parent holds a 50% interest, conferring the right to 50% of the total vote at the General Meeting of the company.

The five main product groups of the SECO/WARWICK Group include:

- 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 core 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), and
- equipment used for melting and vacuum casting of metals and specialty alloys (Melting).

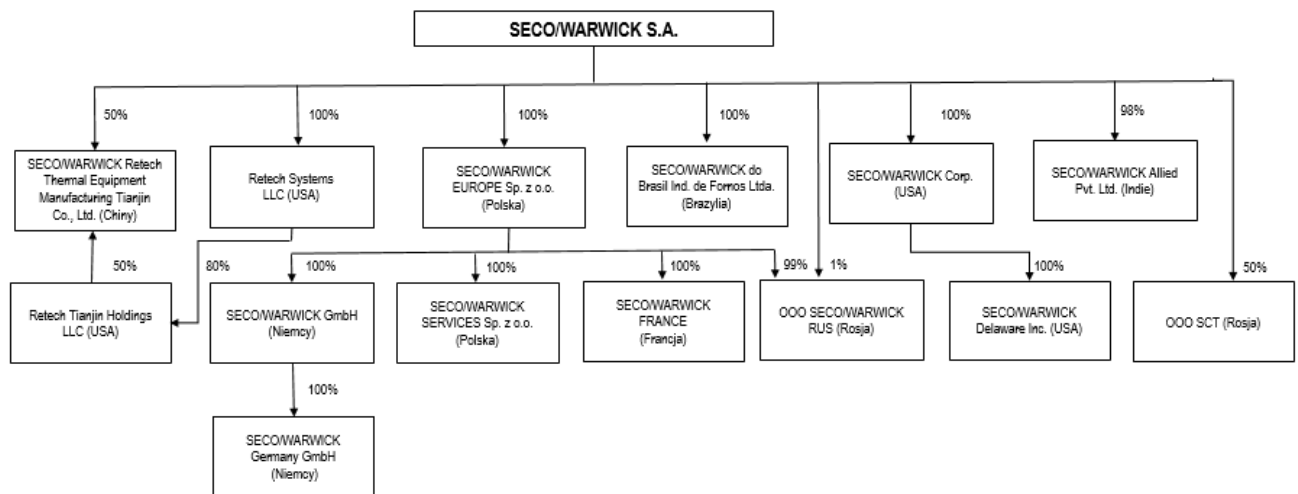
1.2 Group structure as at June 30th 2016

Table: Structure of the SECO/WARWICK Group as at June 30th 2016:

| Company | Registered office | Business profile | Method of consolidation / accounting for equity interest | Group's ownership interest |
|---|-------------------|--|--|----------------------------|
| Parent | | | | |
| SECO/WARWICK S.A. | Świebodzin | Holding company of the SECO/WARWICK Group. Holding equity interests and providing strategic management services | N.A. | N.A. |
| Direct and indirect subsidiaries | | | | |
| SECO/WARWICK EUROPE Sp. z o.o. | 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) | 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) | A holding company | Full | 80% |
| SECO/WARWICK Allied Pvt. Ltd. | Mumbai (India) | Manufacture of metal heat treatment equipment | Full | 98% |

| | | | | |
|---|-------------------------|--|--------|------|
| SECO/WARWICK GmbH | Bedburg-Hau (Germany) | Intermediation in the sale of furnaces and spare parts manufactured by SECO/WARWICK EUROPE Sp. z o.o., and provision of technical support to customers in Germany, Austria, the Netherlands, Switzerland, Liechtenstein and Slovenia | Full | 100% |
| OOO SCT | Solnechnogorsk (Russia) | Provision of metal heat treatment services in Russia | Equity | 50% |
| SECO/WARWICK Germany 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) | Jundiaí (Brazil) | Manufacture of metal heat treatment equipment | Full | 100% |
| SECO/WARWICK France | Roissy-en-Brie (France) | Commercial and technical representation of SECO/WARWICK Europe in France, French-speaking countries and their neighbouring countries | Full | 100% |
| SECO/WARWICK Services Sp. z o.o. | Świebodzin | Repair and maintenance services | Full | 100% |

SECO/WARWICK Group organisational chart as at June 30th 2016



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

On July 12th 2016, SECO WARWICK USA HOLDING LLC of Wilmington (USA), in which SECO/WARWICK S.A. holds 100% of shares, was registered. The company is a holding company.

On July 12th 2016, SECO VACUUM TECHNOLOGIES LLC of Wilmington (USA), in which SECO VACUUM TECHNOLOGIES LLC holds 100% of shares, was registered. The company is involved in sale and distribution of vacuum furnaces.

On July 14th 2016, a conditional agreement for the sale of shares in SECO/WARWICK do Brasil Indústria de Fornos Ltda. of Jundai (Brasil) was signed. On September 1st 2016, all the conditions were fulfilled and the company was sold.

2. Other supplementary information

2.1. Material achievements and failures of SECO/WARWICK S.A. and the Group in H1 2016

In H1 2016, SECO/WARWICK Group companies secured new orders worth PLN 261m, including PLN 117m in Q2 2016. This amount is lower than in H1 2015, but it should be noted that H1 2015 (Q1 2015 in particular) saw a record growth in new orders, driven by one-off orders in the melting furnaces segment, fulfilled jointly by SECO/WARWICK Europe and Retech LLC. As a result of the orders secured in H1 2016, as at the end of June the order book value was PLN 418m, up 5.5% compared to June 2015.

Analysis of sales by geographical segments showed a year-on-year rise in sales on the EU market (up 59% compared with H1 2015), achieved thanks to increased activity of sale companies. Sales on the market of former Soviet Union states, delivered by SECO/WARWICK EUROPE, grew by 210%. Equally noteworthy is an 11% increase in sales on the US market, delivered by both American companies of the Group. On the other hand, sales on Asian and Polish markets decreased slightly. The decrease was more than offset by the increases on other markets. Consolidated sales of the SECO/WARWICK Group rose by 22%, to PLN 285m, from PLN 233m in H1 2015.

The following changes in sales were recorded: the sales of SECO/WARWICK EUROPE and its subsidiaries rose by 37%. Also the companies operating on the US market recorded growths: SECO/WARWICK Corp. by 27% and RETECH LCC by 19%. SECO/WARWICK Retech (China) and SECO/WARWICK Allied (India) recorded sales declines, by 14% and 46%, respectively.

In H1 2016, almost every operating segment of the Group recorded higher sales. The highest sales growth was reported by the Melting Furnaces and Aluminium Process segments: 77% and 422%, respectively. The increases were offset by lower sales in the Atmosphere Furnaces (down 42%) and CAB (down 64%) segments.

As at the publication date of the H1 2016 report, the Company's and the Group's operations were stable. The Group and the Company pay all their liabilities when due.

2.2. Factors and events, including of a non-recurring nature, with a material bearing on interim condensed financial statements

In the SECO/WARWICK Group's business there were no factors or events, especially of a non-recurring nature, that would have a material bearing on its financial performance in Q1 2016.

2.3. Changes in the Group structure, including changes resulting from merger, acquisition or loss of control of subsidiaries and long-term investments, division, restructuring, and discontinued operations.

On March 31st 2016, in Current Report No. 6/2016, the Management Board of SECO/WARWICK S.A. announced that on March 30th 2016 the Company acquired 1,550,000 shares in SECO/WARWICK Allied Private Limited of Maharashtra, India, for INR 155,000,000 (PLN 8,767,265 translated at the mid-exchange rate quoted by the National Bank of Poland for March 30th 2016) in connection with a share capital increase and new share issue carried out by SWAPL. Following the acquisition of the 1,550,000 shares, the Company will hold a total of 1,632,014 shares, representing 98.4% of the SWAPL's share capital and carrying 98.4% of total voting rights at its General Meeting.

In H1 2016, the SECO/WARWICK Group's operations did not change as a result of mergers, acquisition or loss of control of subsidiaries or long-term investments, division, restructuring, or discontinued operations.

2.4. Management Board's position on the feasibility of meeting any previously published forecasts for 2016 in light of the results presented in the H1 2016 report.

The SECO/WARWICK Management Board did not publish any forecasts for 2016 concerning the Company's or the Group's financial performance.

2.5. Shareholders holding, directly or indirectly, 5% of the total vote at the General Meeting as at the date of issue of this Report, including information on any changes subsequent to the issue of the Group's report for Q1 2016.

Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total vote at the General Meeting as at the issue date of the previous report for Q1 2016, that is May 16th 2016

| Shareholder | Number of shares | Ownership interest (%) | Number of votes | % of total vote at General Meeting |
|--|------------------|------------------------|-----------------|------------------------------------|
| SW Holding | 3,387,139 | 31.54% | 3,387,139 | 31.54% |
| Spruce Holding Limited Liability Company (USA) | 1,123,337 | 10.46% | 1,123,337 | 10.46% |
| SECO/WARWICK S.A. ⁽¹⁾ | 1,041,783 | 9.70% | 1,041,783 | 9.70% |
| Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK | 904,794 | 8.43% | 904,794 | 8.43% |
| Bleauhard Holdings LLC | 637,028 | 5.93% | 637,028 | 5.93% |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny | 600,000 | 5.59% | 600,000 | 5.59% |
| Metlife OFE | 577,470 | 5.38% | 577,470 | 5.38% |

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

⁽¹⁾ treasury shares; the Company does not exercise voting rights in respect of its treasury shares

Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total vote at the General Meeting as at the date of issue of this report, i.e. September 9th 2016

| Shareholder | Number of shares | Ownership interest (%) | Number of votes | % of total vote at General Meeting |
|--|------------------|------------------------|-----------------|------------------------------------|
| SW Holding | 3,387,139 | 31.54% | 3,387,139 | 31.54% |
| Spruce Holding Limited Liability Company (USA) | 1,123,337 | 10.46% | 1,123,337 | 10.46% |
| SECO/WARWICK S.A. ⁽¹⁾ | 1,037,783 | 9.66% | 1,037,783 | 9.66% |
| Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK | 904,794 | 8.43% | 904,794 | 8.43% |
| Bleauhard Holdings LLC | 637,028 | 5.93% | 637,028 | 5.93% |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny | 600,000 | 5.59% | 600,000 | 5.59% |
| Metlife OFE | 577,470 | 5.38% | 577,470 | 5.38% |

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

⁽¹⁾ treasury shares; the Company does not exercise voting rights in respect of its treasury shares

In Current Report No. 14/2016 of May 24th 2016, the Management Board of SECO/WARWICK S.A. reported that on May 23rd 2016 the Company sold and settled 4,000 of its own shares. The sold shares were held by the Company following a share buyback. The sale was made under the General Meeting's right to further resell the shares. The transaction is related to the implementation of the incentive scheme. Following the transaction, the Company holds 1,037,783 of its own shares, i.e. 1,037,783 votes at the Company's General Meeting (9.66% of the total vote).

2.6. SECO/WARWICK shares held by members of the Management Board and Supervisory Board as at the date of issue of this Report, including information on any changes subsequent to the issue of the Q1 2016 report.

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

| | May 16 2016 | | | Decrease/increase | Sep 9 2016 | | | Total par value of shares (PLN) |
|--------------------------|---------------------------|--------------------|-----------------|-------------------|---------------------------|--------------------|-----------------|---------------------------------|
| | Number of S/W shares held | Ownership interest | % of total vote | | Number of S/W shares held | Ownership interest | % of total vote | |
| Management Board | | | | | | | | |
| Paweł Wyrzykowski | 254,558 | 2.37% | 2.37% | - | 254,558 | 2.37% | 2.37% | 50,912 |
| Jarosław Talerzak | 29,558 | 0.28% | 0.28% | - | 29,558 | 0.28% | 0.28% | 5,912 |
| Wojciech Peret | - | - | - | 4,000 | 4,000 | 0.04% | 0.04% | 800 |
| Supervisory Board | | | | | | | | |
| Andrzej Zawistowski | 65,000 | 0.61% | 0.61% | - | 65,000 | 0.61% | 0.61% | 13,000 |
| Jeffrey Boswell | 9,776 | 0.09% | 0.09% | - | 9,776 | 0.09% | 0.09% | 1,955 |
| Henryk Pilarski | 10 | 0.0001% | 0.0001% | - | 10 | 0.0001% | 0.0001% | 2 |
| Witold Klinowski | - | - | - | - | - | - | - | - |
| James A. Goltz | - | - | - | - | - | - | - | - |
| Marcin Murawski | - | - | - | - | - | - | - | - |
| Dr Gutmann Habig | - | - | - | - | - | - | - | - |
| Paweł Tamborski | - | - | - | - | - | - | - | - |
| Commercial proxy | | | | | | | | |
| Piotr Walasek | 19,335 | 0.18% | 0.18% | - | 19,335 | 0.18% | 0.18% | 3,867 |
| Total | 378,237 | 3.52% | 3.52% | 4,000 | 382,237 | 3.56% | 3.56% | 76,447 |

Item

| | |
|----------------------|---------------------|
| Number of shares | 10,737,837 |
| Par value per share | 0.20 |
| Share capital | 2,147,567.40 |

The Management Board of SECO/WARWICK S.A. (the "Company") reported that on May 24th 2016 it received a notification under Art. 160 of the Act on Trading in Financial Instruments ("Notification") from a Management Board Member. According to the notification, on May 23rd 2016 the Management Board Member purchased 4,000 Company shares for PLN 17.90 per share. The shares were acquired outside of a regulated market.

In the reporting period and as at the publication date of this report, members of SECO/WARWICK S.A.'s Management and Supervisory Boards did not enter into any other transactions that would involve their holdings of Company shares.

2.7. Material court, arbitration and administrative proceedings.

Seco/Warwick Corporation (SWC), a subsidiary of the Issuer, with its registered office in Pennsylvania, USA, along with a third party not associated with the Issuer ("Third Party"), are parties to a court dispute with Liberty Mutual Insurance (LMI), in which they claim from LMI additional insurance limits for continued product liability insurance coverage under insurance policies issued to the Third Party in 1980-1986. SWC and the Third Party are seeking coverage for the claims being raised against SWC and the Third Party in connection with product liability personal injury lawsuits filed by individuals alleging injury from asbestos as a result of their exposure to the Third Party's products manufactured by legal predecessors of SWC and

the Third Party in 1958-1984 (the Asbestos Claims). SWC was not established until 1984, and was not a part of the Issuer's Group until 2006.

To the best of the Issuer's knowledge, by the date of this Report 560 Asbestos Claims were filed against SWC, of which 189 were dismissed, 38 ended in settlements with LMI and other insurers for the total amount of USD 3m, and 333 Claims are being verified or negotiated to agree upon the terms of potential settlements with injured parties.

For further information, see Note 41 to the consolidated financial statements for the period ended December 31st 2015.

2.8. Transaction or a series of transactions concluded by the Company or its subsidiaries with related parties where the transactions were not concluded at arm's length.

In the period from the beginning of the financial year until the publication date of this Report, neither SECO/WARWICK S.A. or its subsidiaries did not enter into any related party transactions otherwise than on an arms' length basis.

2.9. 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 2016, there were no other events related to the provision by SECO/WARWICK S.A. or any of its subsidiaries of sureties for borrowings or of guarantees whose amount would exceed 10% of the Company's equity.

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

No events occurred in the SECO/WARWICK Group's business which in the Company's opinion are material for the assessment of its personnel, assets, financial standing and financial result or changes therein, or for the assessment of the Group's ability to fulfil its obligations

As at the date of issue of this report, the Company's and the Group's business was stable. The Group and the Company pay all their liabilities when due.

2.11. Factors which in the Company's opinion will affect the Group's results in the next half-year or in a longer term.

General objectives of the Incentive Scheme of SECO/WARWICK S.A.

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 April 23rd 2015 the Supervisory Board approved the key objectives of the 2016–2018 Incentive Scheme for members of the SECO/WARWICK Group's management staff (the "2016–2018 Incentive Scheme").

- The Incentive Scheme is effective for 2016, 2017 and 2018,
- and covers 995,750 Company shares which may be distributed to Eligible Persons.
- Scheme Participants include key members of the Group's management staff who are identified as Scheme Participants in the relevant resolution of the Supervisory Board, and in the period between February 1st 2015 and August 15th 2015 acquire with their own funds, in their own name and for their own account no less than 4,000 and no more than 11,500 Company shares. In the case of the President of the Management Board of SECO/WARWICK SA, the number of shares to be acquired is 100,000. In the case of the President of the Management Board of SECO/WARWICK Europe, the largest company of the Group, the number of shares to be acquired is 35,000. The price per share is PLN 25.
- The number of acquired shares and the 3.5 multiple defines the number of potential options which may be granted under the Scheme subject to fulfilment of the conditions specified below.
- Shares for a participant's own account must be acquired no later than on August 15th 2015,
- and may not be sold before June 30th 2022.
- The persons specified in the Supervisory Board's resolution are to declare their intention to participate in the Incentive Scheme by August 31st 2015.

- Participants of the scheme will be assigned individual objectives and a joint objective, the achievement of which is a precondition for a Scheme Participant to become eligible for benefits under the Scheme.
- Achievement of individual objectives is a pre-condition for acquiring rights to 15% of the options in each of the years 2016, 2017 and 2018.
- Achievement of the joint objective is a pre-condition for acquiring rights to 55% of the options in 2016, 2017 and 2018.
- Achievement of the Individual Objectives will be revised on the basis of the Company's audited financial information.
- Achievement of the Individual Objectives will be verified by the Audit Committee by April 30th of each consecutive financial year for the previous financial year.
- Achievement of the Joint Objective will be verified on the basis of the Company's audited financial information for all the financial years between 2016 and 2018.
- Achievement of the Joint Objective will be verified by the Audit Committee by April 30th 2019.
- If a Scheme Participant achieves the Individual Objectives or the Joint Objective, such participant will become eligible to acquire Company Shares in the number and on the terms and conditions specified in the Scheme Rules, and to obtain a Capital Bonus (the "Option").
- Options will vest in accordance with the provisions of agreements to be entered into between the Company and the individual Scheme Participants (the "Option Agreement").
- Rights under Options may not be transferred or encumbered. Such rights are attached to a Scheme Participant and expire upon his/her death.
- An Option entitles a Scheme Participant to purchase Shares at nominal price, in the number specified in the Option Agreement.
- An Option also entitles a Scheme Participant to receive from the Company annual payments whose amount will depend on the amount of dividend paid by the Company for a preceding financial year (the "Capital Bonus").
- The Capital Bonus for a given financial year will be calculated by July 31st of a given financial year, on the basis of a resolution on distribution of the Company's profit and the Company's audited financial information for the previous financial year, based on the following formula:

$$PK_t = \frac{Div_t}{LA} \times LAUP$$

where:

| | | |
|------|---|--|
| PKt | – | the Capital Bonus to be paid in a given financial year, |
| Divt | – | the amount of dividend to be paid in a given financial year, |
| LA | – | the total number of Company shares participating in dividend payment, |
| LAUP | – | the number of Company shares that a Scheme Participant is entitled to acquire in the exercise of an Option; Shares already delivered to a Scheme Participant are not taken into account in this calculation; |

- The right to obtain the Capital Bonus expires on or before the last Distribution Date.
- Date of settlement of the acquisition by a Scheme Participant of Company Shares in the exercise of an Option (Distribution Date)
 - in the case of Scheme Participants other than the President of the Management Board, the Distribution Date will be: June 30th 2020 – in respect of 33% of Shares receivable by a Scheme Participant, June 30th 2021 – in respect of another 33% of Shares receivable by a Scheme Participant, and June 30th 2022 – in respect of the remaining 33% of Shares receivable by a Scheme Participant;
 - in the case of the Management Board President, the Distribution Date will be August 31st 2019 in respect of all Shares receivable by him.

The Supervisory Board determined the Individual Objectives and the Joint Objective for the Incentive Scheme Participants, the achievement of which is a precondition for a Scheme Participant to become eligible for benefits under the Scheme for the financial year 2016. The Objectives cover financial and operating ratios of the individual subsidiaries, the organisational units related to particular technologies, or the entire Group, depending on the position of a Scheme Participant. For the entire Group, the Individual Objective for the President of the Management Board, Chief Financial Officer and Chief Operating Officer at SECO/WARWICK S.A., the Parent, is the consolidated net profit of the Group. For 2016, the Objective is set at PLN 18m.

2.12. Key threats and risks relating to the months remaining to the end of the financial year

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

Date: September 9th 2016

Paweł Wyrzykowski

Jarosław Talerzak

Wojciech Peret

President of the Management Board

Vice President of the Management Board

Member of the Management Board