



THE SECO/WARWICK GROUP

**DIRECTORS' REPORT
ON THE SECO/WARWICK GROUP'S OPERATIONS
IN THE SIX MONTHS ENDED
JUNE 30TH 2014**

The Management Board of SECO/WARWICK S.A. (the “Company”) presents the Directors' Report on the SECO/WARWICK Group's (the “Group”) operations in the period January 1st–June 30th 2014, 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). The half-year 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

The Parent of the SECO/WARWICK Group is SECO/WARWICK Spółka Akcyjna of Świebodzin, which was established as a result of the transformation of a limited liability company (spółka z ograniczoną odpowiedzialnością, Sp. z o.o.) into a joint-stock company under the name SECO/WARWICK Spółka Akcyjna of Świebodzin. The change of legal form was made in accordance with the Polish Commercial Companies Code. On December 14th 2006, the General Meeting of SECO/WARWICK Spółka z ograniczoną odpowiedzialnością of Świebodzin passed a resolution to transform the company. In the same notarial deed, all shareholders of SECO/WARWICK Spółka z ograniczoną odpowiedzialnością made a representation to the effect that they agree to become members of a joint-stock company under the name SECO/WARWICK Spółka Akcyjna (SECO/WARWICK S.A.) of Świebodzin and to subscribe for 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, 8th Commercial Division of the National Court Register, under KRS No. 0000271014.

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

- SECO/WARWICK EUROPE Sp. z o.o.,
- SECO/WARWICK Corporation,
- OOO SECO/WARWICK Rus,
- Retech Systems LLC,
- SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd.,
- SECO/WARWICK GmbH,
- SECO/WARWICK Service GmbH,
- SECO/WARWICK Allied Pvt. Ltd. (Mumbai) India,
- SECO/WARWICK do Brasil Ind. de Fornos Ltda.

The Group has one associate company:

- 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.

Other Group companies are:

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

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 Structure of the Group as at June 30th 2014

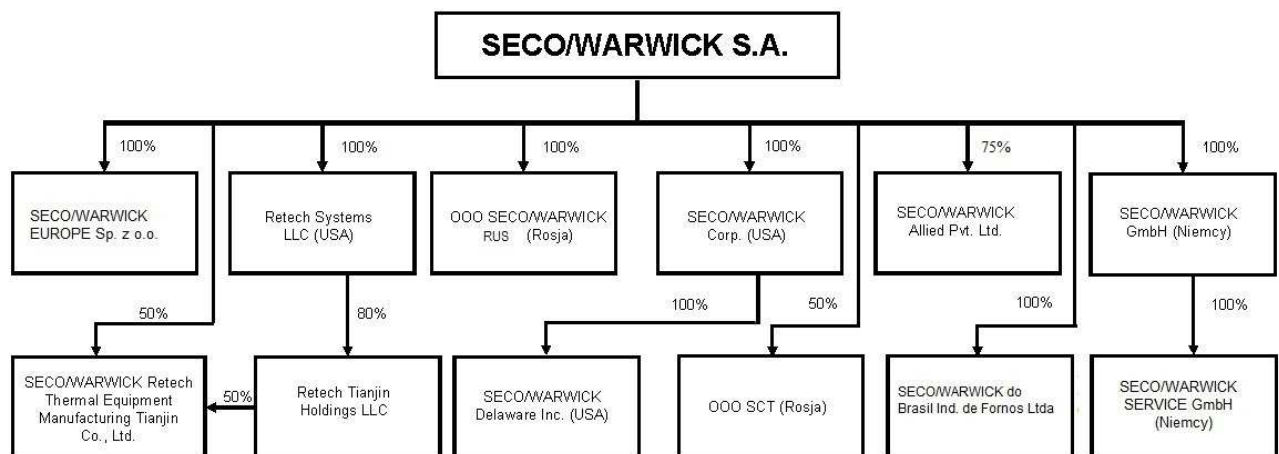
Table: As at June 30th 2014, the structure of the SECO/WARWICK Group was as follows:

Company	Registered office	Business profile	Method of consolidation / accounting for equity interest	Group's ownership interest
Parent				
SECO/WARWICK S.A.	Świebodzin	Manufacture of vacuum furnaces, aluminium heat exchanger brazing systems and aluminium heat treatment systems	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)	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)	A holding company.	Full	80%
SECO/WARWICK Allied Pvt. Ltd. (1)	Mumbai (India)	Manufacture of metal heat treatment equipment	Full	75%

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, 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 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)	Jundiaí (Brazil)	Manufacture of metal heat treatment equipment	Full	100%

⁽¹⁾On June 4th 2014, conditions precedent for the acquisition of 9,122 Sale Shares were fulfilled. Following the acquisition, the Company holds 82,014 shares, representing 75.0% of the company's share capital.

SECO/WARWICK Group organisational chart as at June 30th 2014



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

After June 30th 2014 and until the issue of this Report, there were no changes in the composition of the SECO/WARWICK Group.

2. Other supplementary information

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

On June 4th 2014, conditions precedent for the purchase of 9,122 sale shares of SECO/WARWICK Allied Pvt. Ltd (Mumbai, India) and payment of the third instalment of the selling price were fulfilled. Following acquisition of the 9,122 sale shares, the Company holds 82,014 shares, representing 75.0% of the company's share capital and carrying the right to 75.0% of the total votes at its General Meeting.

In H1 2014, there were no other changes in the SECO/WARWICK Group's structure which would include mergers, acquisitions or disposals of Group entities, long-term investments, demergers, restructuring or discontinuation of operations.

2. Management Board's position on the feasibility of meeting any previously published forecasts for 2014 in light of the results presented in the H1 2014 report.

The SECO/WARWICK Management Board did not publish any forecasts for 2014 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 issue of this Report, including information on any changes subsequent to the issue of the Group's report for Q1 2014.

Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total votes at the General Meeting as at the date of issue 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%

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

From the date of issue of the Q1 2014 report until the date of issue of the H1 2014 report, there were no changes in the ownership of major holdings of Company shares.

4. 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 publication of the Q1 2014 report.

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

	May 15 2014				Sep 1 2014				Total par value of shares (PLN)
	Number of SECO/WARWICK shares held	Ownership interest (%)	% of total vote	Decrease/increase	Number of SECO/WARWICK shares held	Ownership interest (%)	% of total vote		
Management Board									
Paweł Wyrzykowski	145,866	1.35%	1.35%	8,692	154,558	1.44%	1.44%	30,912	
Wojciech Modrzyk	25,958	0.24%	0.24%	-	25,958	0.24%	0.24%	5,192	
Jarosław Talerzak	25,558	0.24%	0.24%	-	25,558	0.24%	0.24%	5,112	
Supervisory Board									
Henryk Pilarski	100	0.0009%	0.0009%	-	100	0.0009%	0.0009%	20	
Jeffrey Boswell	9,776	0.09%	0.09%	-	9,776	0.09%	0.09%	1,955	

Commercial proxies								
Piotr Walasek	15,335	0.14%	0.14%	-	15,335	0.14%	0.14%	3,067
Total	222,593	2.06%	2.06%	-	231,285	2.15%	2.15%	46,257

Item	Sep 1 2014
Number of shares	10,737,837
Par value of shares	0.20
Share capital	2,147,567.40

The Management Board of SECO/WARWICK S.A. (the "Company") announced that on May 16th 2014 it received a notification under Art. 160 of the Act on Trading in Financial Instruments (the "Notification") from the President of the Company's Management Board.

According to the Notification, on May 13th 2014 and on May 14th 2014, respectively, the President of the Management Board purchased 4,547 Company shares at an average price of PLN 27.69 per share, and 4,145 shares at an average price of PLN 29.93 per share. The shares were acquired on the regulated market (the WSE), during regular trading sessions.

In the reporting period and until September 1st 2014, members of SECO/WARWICK S.A.'s Management and Supervisory Board did not enter into any other transactions that would involve their holdings of Company shares.

5. Material court, arbitration and administrative proceedings.

In H1 2014, 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 publication date of this Report, SECO/WARWICK S.A. and its subsidiaries did not enter into any material transactions with related parties other than routine 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 2014, 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.

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 H1 2014, SECO/WARWICK Group companies secured new orders worth PLN 223,000 thousand, including PLN 95,000 thousand in Q2 2014. The lower value of orders in Q2 2014 was mainly due to withdrawal from contract by a customer of Retech LLC (- PLN 10,200 thousand) and reduced scope and value of an order placed by a customer of SECO/WARWICK Allied (PLN -2,900 thousand). Despite these changes, the order book value rose 15.5% on H1 2013, to PLN 304,000 thousand as at the end of June 2014.

Analysis of sales by geography showed a rise in sales in the German market (achieved thanks to the distribution company SECO/WARWICK Service GmbH) and a growth in sales to customers in Russia, Ukraine and Belarus, as compared with H1 2013. In the Management Board's opinion, the uptrend in sales to German customers should continue in the coming quarters, with the uptrend in sales to Russia, Ukraine and Belarus likely to reverse in future considering the current political

situation and the ban on contracts to the Russian arms industry. The Group recorded a significant drop in sales in its US markets (mainly driven by a decline in the melting furnaces segment) and Asian markets (a fall in new orders in 2013 was reflected in much lower sales in subsequent quarters).

Mr Sławomir Woźniak was appointed Managing Director of SECO/WARWICK Retech (China), who occupied this position in 2011–2012. With new management at the helm, the company has undergone major restructuring designed to improve its efficiency and financial standing, which included such measures as workforce reductions, analysis of production costs and overheads, and review of the company's sales potential. In May, arbitration proceedings were instigated in connection with the Elcoro project. Costs related to the project were written-off in 2013 (PLN 1,418 thousand).

Also, a concept was developed and production was launched of low-cost, standard Compact-class vacuum furnaces. Following a series of analyses, a decision was made that the furnaces will be manufactured in China. The first devices will be ready in 2014.

At SECO/WARWICK do Brasil, steps were taken to improve the company's financial position.

Overall headcount at the SECO/WARWICK Group was down 4%, mainly in administration, on the back of organisational restructuring and efforts to adapt to the changing economic environment.

As at the issue date of the H1 2014 report, the Company's and the Group'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 the Group's results in the next half-year or in a longer term

9.1. Key events in H1 2014

In the opinion of the Company's Management Board, the following events which occurred between January 1st and June 30th 2014 will affect the Group's performance in the next half-year, or in a longer term:

Indian market – increased equity interest in SECO/WARWICK Allied

In Current Report No. 24/2014, related to Current Report No. 4/2013 of March 22nd 2013, the Management Board of SECO/WARWICK S.A. announced that on June 4th 2014 conditions precedent were fulfilled for the purchase of 9,122 Sale Shares and payment of the third instalment of the Selling Price of INR 53,722,480 (PLN 2,760,261, translated at the mid-exchange rate quoted by the National Bank of Poland for June 4th 2014), 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 the acquisition of 9,122 Sale Shares, the Company will hold 82,014 shares, representing 75.0% of the SWAPL's share capital and carrying the right to 75.0% of the total votes at the General Meeting of SWAPL.

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

The SECO/WARWICK S.A. 2012–2016 Incentive Scheme is currently being implemented. Its key terms are presented below.

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**") are 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_1 ratio, referred to in section 11 below, has been determined along with the indication of the person. A list of Eligible Persons has been prepared by the Supervisory Board in consultation with the President of the Management Board.

2. The 2012–2016 Incentive Scheme includes up to 500,000 (five hundred thousand) of Company Series E shares ("**Series E Shares**"). The President of the Management Board is entitled to acquire up to 250,000 (two hundred and fifty thousand) Series E Shares, and the other Eligible Persons 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 are entitled to acquire Series B subscription warrants ("**Series B Warrants**") free of charge. Series B Warrants 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 confers the right to acquire one Series E Share.
5. The 2012–2016 Incentive Scheme is 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 the issue of up to 500,000 (five hundred thousand) Series E Shares and 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 depends 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 right 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 is 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 is 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 has been calculated based on the following formula:

$$Q = 6.666 P - 183.310$$

provided that:

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

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

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 is calculated based on the following formula:

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

provided that:

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

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

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.

10. Types and amounts of items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows, which are extraordinary 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 2014 or changes in estimates disclosed in previous financial years if they have a material bearing on H1 2014

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 H1 2014 results.

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



There were no issues, redemptions or repayments of debt or equity securities in H1 2014.

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

The Group is exposed to 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 at the Company. Key risk parameters at the level of operating and financing activities are monitored based on monthly reports. The Finance Department of the Group companies, 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.

14. Material events subsequent to the end of H1 2014, not disclosed in the financial statements for H1 2014 but potentially having a material bearing on future performance of the SECO/WARWICK Group

No such events occurred.

Date: September 1st 2014

Paweł Wyrzykowski

Wojciech Modrzyk

Jarosław Talerzak

President of the Management Board

Vice-President of the Management Board

Vice-President of the Management Board