



THE SECO/WARWICK GROUP

**DIRECTORS' REPORT
ON THE SECO/WARWICK GROUP'S OPERATIONS
IN THE SIX MONTHS ENDED
JUNE 30TH 2015**

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 2015, 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 half-year condensed consolidated financial statements were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IFRS"), as endorsed by the European Union, and in accordance with the Regulation.

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.,
- SECO/WARWICK France.

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:

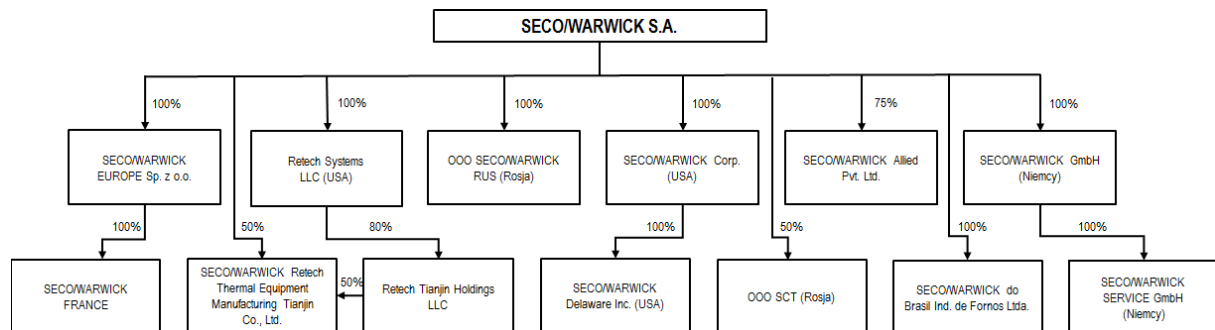
- vacuum furnaces (Vacuum),
- aluminium heat exchanger brazing systems (Controlled Atmosphere Brazing),
- aluminium heat treatment systems (Aluminium Process),
- atmosphere furnaces (Thermal), and
- equipment used for melting and vacuum casting of metals and specialty alloys (Melting).

1.2 Group structure as at June 30th 2015

Table: As at June 30th 2015, 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.	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%

SECO/WARWICK Group organisational chart as at June 30th 2015

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

From June 30th 2015 to the date of 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.

SECO/WARWICK France of Roissy-en-Brie, France, was registered on April 8th 2015. The company's core activities are to consist of commercial and technical representation of SECO/WARWICK Europe in France, French-speaking countries and their neighbouring countries.

In H1 2015, 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 2015 in light of the results presented in the H1 2015 report.

The SECO/WARWICK Management Board did not publish any forecasts for 2015 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 2015.

Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total votes at the General Meeting as at the issue date of the previous report for Q1 2015, that is May 15th 2015

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.*	1,073,789	10.00%	1,073,783	10.00%
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%
AMPLICO	577,470	5.38%	577,470	5.38%

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

* 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 votes at the General Meeting as at the issue date of this Report, that is August 31st 2015

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.*	1,041,783	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%
AMPLICO	577,470	5.38%	577,470	5.38%

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

* Treasury shares; the Company does not exercise voting rights in respect of its treasury 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 2015 report.

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



THE SECO/WARWICK GROUP

Directors' Report on the operations of the SECO/WARWICK Group for the period January 1st–June 30th 2015

	May 15 2015				Aug 31 2015			
	Number of SECO/WARWICK shares held	Ownership interest (%)	% of total vote	Decrease/increase	Number of SECO/WARWICK shares held	Ownership interest (%)	% of total vote	Total par value of shares (PLN)
Management Board								
Paweł Wyrzykowski	254,558	2.37%	2.37%	-	254,558	2.37%	2.37%	50,912
Wojciech Modrzyk	25,958	0.24%	0.24%	4,000	29,958	0.28%	0.28%	5,992
Jarosław Talerzak	25,558	0.24%	0.24%	4,000	29,558	0.28%	0.28%	5,912
Supervisory Board								
Henryk Pilarski	10	0.0001%	0.0001%	-	10	0.0001%	0.0001%	2
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
Commercial proxies								
Piotr Walasek	15,335	0.14%	0.14%	4,000	19,335	0.18%	0.18%	3,867
Total	396,285	3.69%	3.69%	-	408,195	3.80%	3.80%	81,639
Item	396,285	3.69%	3.69%					
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. reported that on August 3rd 2015 it received a notification under Art. 160 of the Act on Trading in Financial Instruments from two Vice-Presidents of the Management Board and a Commercial Proxy.

According to the notification, on July 29th 2015 the Vice-Presidents and the Commercial Proxy each purchased 4,000 Company shares at a price of PLN 25 per share. The shares were acquired on the regulated market (the WSE), during regular trading sessions.

In the reporting period and by August 31st 2015, members of SECO/WARWICK S.A.'s Management and Supervisory Board did not enter into any other transactions that would have involved their holdings of Company shares.

5. 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 policy limits for continued product liability insurance coverage for insurance issued to the Third Party from 1980 to 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 equipment products manufactured by predecessors of SWC and the Third Party from 1958 through 1984 (the Asbestos Claims). SWC was not established until 1984, and it did not belong to the Issuer's Group until 2006.

SWC and the Third Party have alleged in court that the insurance policy contract entered into by LMI extends additional coverage to the Asbestos Claims, including the costs of settlements entered into with injured parties and the legal costs in connection with verifying the legitimacy of such claims and negotiating such settlements. LMI claims that the policy limits have been exhausted, citing certain special provisions of the insurance policy. SWC and the Third Party disagree with LMI's contract interpretation.

To the best of the Issuer's knowledge, by the date of this Report, 409 Asbestos Claims have been filed against SWC, out of which 124 such Claims were rejected, 31 Claims ended in settlements entered into by LMI for the total amount of USD 3m, and 252 Claims are being verified or negotiations of the terms of settlements, if any, with injured parties are being conducted in respect thereof.

Should no agreement be reached with LMI on continued insurance coverage for SWC or should the lawsuit against LMI be dismissed in this respect, there arises the risk that SWC will be forced to bear the costs relating to the Asbestos Claims while SWC and the Third Party pursue the excess carriers to take over the asbestos product liability claims.

To the best of the Issuer's knowledge, the risk of SWC being forced to bear further costs relating to the Asbestos Claims is not significant, as the Third Party holds other excess insurance policies contracted with other insurance companies, which policies can, according to the information received from SWC, cover the Asbestos Claims.

As at the date of this Report, the Issuer is not able to reliably estimate the total amount of its contingent liability related to the claims discussed above. Any important information regarding the matter will be published by the Issuer.

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 2015, 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 2015, SECO/WARWICK Group companies secured new orders worth PLN 346m, including PLN 92m in Q2 2015. The first quarter of 2015 saw a record high in new order growth, driven by one-off orders in the melting furnaces segment, executed jointly by SECO/WARWICK Europe and Retech LLC. New orders rose 55% on H1 2014, with the order book value up 30% on June 2014, to PLN 396m as at the end of June 2015.

Analysis of sales by geographical segments showed a year-on-year rise in sales on the EU market (turnover up 44% compared with H1 2014), achieved thanks to the distribution company SECO/WARWICK Service GmbH. Sales on the Asian market grew 49% thanks to improved performance of local companies. Restructuring efforts at SECO/WARWICK Retech are bringing positive effects, with sales having nearly tripled on H1 2014. A 30% increase in sales posted by SECO/WARWICK Allied points to a trend reversal following the collapse in sales in 2014. The Group saw a marked decrease in sales to Russia, Belarus and Ukraine. The decline is attributable to the current political situation, which has led to a ban on contracts for the Russian arms industry. However, this decrease was fully offset by higher inflows from the EU and Asia. The Group recorded a slight drop in sales on its US markets.

As at the issue date of the H1 2015 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

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 SECOWARWICK 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.

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 2015 or changes in estimates disclosed in previous financial years if they have a material bearing on H1 2015

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 2015 results.

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

On October 30th 2014, the Extraordinary General Meeting resolved to approve a buyback of up to 1.5m shares (up to 13.97% of the share capital) at a price of not less than PLN 10 and not more than PLN 27.50, for a total amount of not more than PLN 41.75m. The buyback was announced on February 3rd 2015. On February 13th 2015, the Company acquired 1,073,783 own shares, representing 10% of its share capital. The average price per share was PLN 25. The acquisition was financed with an investment credit facility.

13. 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.

14. Material events subsequent to the end of H1 2015, not disclosed in the financial statements for H1 2015 but potentially having a material bearing on future performance of the SECO/WARWICK Group

No such events occurred.

Date: August 31st 2015

Paweł Wyrzykowski

Wojciech Modrzyk

Jarosław Talerzak

President of the Management Board

Vice-President of the Management Board

Vice-President of the Management Board