



SECO/WARWICK
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**DIRECTORS' REPORT
ON THE SECO/WARWICK GROUP'S OPERATIONS
IN THE SIX MONTHS ENDED JUNE 30TH 2017**

The Management Board of SECO/WARWICK S.A. presents the Directors' Report on the SECO/WARWICK Group's operations in the period January 1st–June 30th 2017, 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 2014, item 133, as amended) (the "Regulation").

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IFRS") – *Interim Financial Reporting* as endorsed by the EU and the Regulation. The financial statements are presented in the zloty ("PLN") and, unless specified otherwise, all amounts are given in thousands of zlotys. The interim condensed consolidated financial statements have been prepared on the assumption that the Group would continue as a going concern for 12 months from the last reporting date, i.e. June 30th 2017.

1. 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 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,
- ALLIED FURNACES PVT. LTD.,
- SECO/WARWICK France,
- SECO/WARWICK Services Sp. z o.o.
- SECO/WARWICK of Delaware Inc.*,
- Retech Tianjin Holdings LLC*,
- SECO/WARWICK USA HOLDING LLC,
- SECO VACUUM TECHNOLOGIES LLC,
- SECO/WARWICK Systems and Services India PVT. Ltd.

*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.

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Directors' Report on the Group's operations in the six months ended June 30th 2017

The SECO/WARWICK Group's business consists in the manufacture of products in the following four main groups:

- vacuum furnaces,
- aluminium heat treatment systems (Aluminium Process),
- atmosphere furnaces,
- melting furnaces.

In 2017, the CAB segment was combined with the Aluminium Process segment. The segments' data for the period January 1st – June 30th 2016 were combined for presentation purposes.

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

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

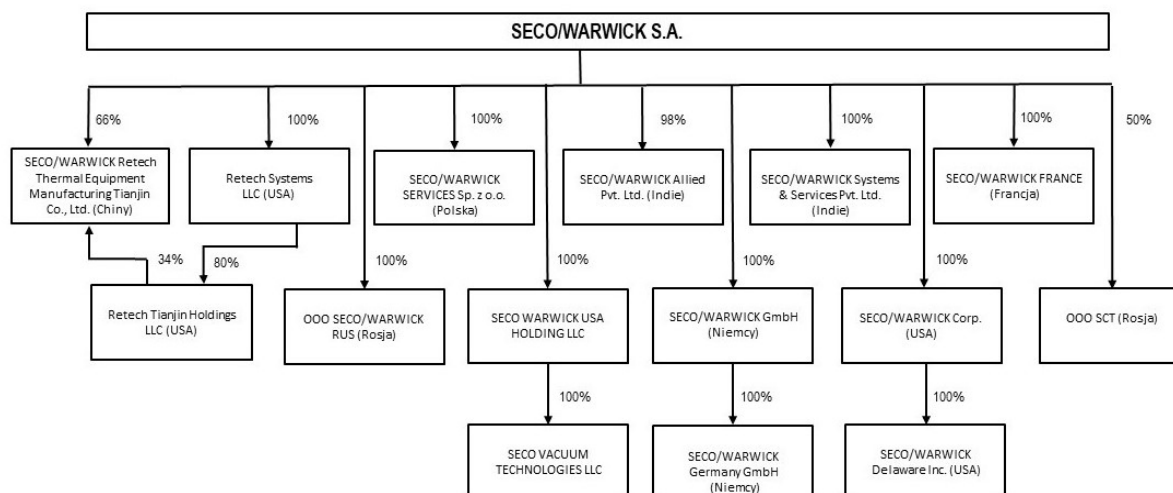
1.2 Composition of the Group as at June 30th 2017

Table: Structure of the SECO/WARWICK Group as at June 30th 2017:

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 Manufacture of metal heat treatment equipment	N.A.	N.A.
Direct and indirect subsidiaries				
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 speciality alloys	Full	100%

SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.	Tianjin (China)	Manufacture of metal heat treatment equipment	Full	93%
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%
ALLIED FURNACES 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 S.A., 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 France	Roissy-en-Brie (France)	Commercial and technical representation of SECO/WARWICK S.A. 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 USA HOLDING LLC	Wilmington (USA)	A holding company	Full	100%
SECO VACUUM TECHNOLOGIES LLC	Wilmington (USA)	Sale and distribution of vacuum furnaces	Full	100%
SECO/WARWICK Systems and Services India PVT. Ltd.	Mumbai (India)	Sale, repair and maintenance services	Full	100%

SECO/WARWICK Group's structure as at June 30th 2017:



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

Between June 30th 2017 and the issue date of this Report, there were no changes in the composition of the SECO/WARWICK Group.

2. Other supplementary information

2.1. Material achievements and failures of SECO/WARWICK S.A. and the Group in H1 2017

In the first half of 2017, the SECO/WARWICK Group companies secured orders with a value totalling PLN 218m (including PLN 128m in Q2 2017), down 17% year on year. Including the orders secured in the first half of 2017, the order book value at the end of June 2017 was PLN 405m, down 3% year on year.

On June 14th 2017, SECO/WARWICK S.A. issued Current Report No. 15/2017, announcing additional unplanned costs of contract performance at the subsidiary Retech Systems LLC (USA). The increase amounted to PLN 11.75m, which significantly affected the Group's consolidated financial statements for the first half of 2017.

An analysis of sales by geographical segments showed a year-on-year drop in sales on the EU market (down 17%). Sales were also lower (by 10%) on the US market, where the Group's three American companies sell its products. A 47% increase in sales on Asian markets deserves notice. The SECO/WARWICK Group's consolidated sales fell by 11%, to PLN 253m, compared with PLN 285m for H1 2016.

Sales at the individual Group companies changed as follows: SECO/WARWICK S.A. and its subsidiaries recorded a 17% drop in total sales; lower sales were also recorded at RETECH LLC operating on the US market (down 44%) and SECO/WARWICK Allied (India) operating on the Indian market (down 8%); SECO/WARWICK Retech (China) and SECO/WARWICK Corp. posted higher sales – by 127% and 48%, respectively.

In the first half of 2017, sales growth was recorded in almost every segment of the Group's operations. The largest increases were posted by aluminium heat treatment systems and CAB (38%), vacuum furnaces (12%) and atmosphere furnaces (11%). These improvements were offset by a sharp drop in the segment of equipment used for melting and vacuum casting of metals and specialty alloys (sales down 56%).

As at the date of issue of this H1 2017 report, the Company's and the Group's business was stable. The Group and the Company pay all their liabilities when due.

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

In the SECO/WARWICK Group's business, other than those described in Section 2.1, there were no factors or events, especially of a non-recurring nature, that would have a material bearing on its financial performance in H1 2017.

2.3. Changes in the Group structure in H1 2017, including changes resulting from merger, acquisition or loss of control of subsidiaries and long-term investments, division, restructuring, and discontinued operations

In Current Report No. 1/2017, referring to Current Report No. 26/2016 of October 31st 2016, the Management Board of SECO/WARWICK S.A. announced that on January 2nd 2017 the District Court in Zielona Góra, 8th Commercial Division of the National Court Register, registered the merger of the Company with its subsidiary, SECO/WARWICK EUROPE sp. z o.o. of Świebodzin.

The merger was effected pursuant to Art. 492.1.1 of the Commercial Companies Code, i.e through the transfer of all assets of SECO/WARWICK EUROPE Sp. z o.o. to SECO/WARWICK S.A. by way of universal succession. As a result of the merger, SECO/WARWICK S.A., as the acquirer, assumed all the rights and obligations of SECO/WARWICK EUROPE Sp. z o.o., which was dissolved without liquidation proceedings, as of the date of its deletion from the register.

As SECO/WARWICK S.A. was the sole owner of SECO/WARWICK EUROPE Sp. z o.o., the merger was effected under Art. 515.1 of the Commercial Companies Code, i.e. without a share capital increase at SECO/WARWICK S.A.

On March 28th 2017, the Company increased the share capital of the subsidiary SECO/WARWICK Retech of China by USD 1,000,000.00 (PLN 3,925,900.00 translated at the mid exchange rate quoted by the NBP for March 27th 2017), thus increasing its shareholding in S/W Retech to 93.13%.

On May 24th 2017, SECO/WARWICK Systems and Services India PVT. Ltd. of Mumbai (India) was registered. The company's business consists in sale and repair and maintenance services.

In the first half of 2017, save as described above, no other organisational changes, such as merger, acquisition or loss of control over subsidiaries and long-term investments, division, restructuring or discontinued operations, occurred in the SECO/WARWICK Group.

2.4. Management Board's position on the feasibility of meeting any previously published forecasts for 2017 in light of the results presented in the H1 2017 report.

The SECO/WARWICK Management Board did not publish any forecasts of the Company's or the Group's financial performance in 2017.

2.5. Shareholders holding, directly or indirectly, 5% of the total vote at the General Meeting as at the date of issue of the report, including information on any changes subsequent to the issue of the SECO/WARWICK Group's interim report for Q1 2017

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 the report for Q1 2017, that is May 15th 2017.

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of total vote at General Meeting
SW Holding	3,387,139	32.89%	3,387,139	34.92%
Spruce Holding Limited Liability Company (USA)	1,123,337	10.91%	1,123,337	11.58%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	1,046,573	10.16%	1,046,573	10.79%
Bleauhard Holdings LLC	637,028	6.19%	637,028	6.57%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	600,000	5.83%	600,000	6.19%
Metlife OFE	577,470	5.61%	577,470	5.95%

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

Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total vote at the General Meeting as at the date of issue of the report for H1 2017, that is September 11th 2017.

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of total vote at General Meeting
SW Holding	3,387,139	32.89%	3,387,139	34.92%
Spruce Holding Limited Liability Company (USA)	1,123,337	10.91%	1,123,337	11.58%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	1,046,573	10.16%	1,046,573	10.79%
Bleauhard Holdings LLC	637,028	6.19%	637,028	6.57%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	600,000	5.83%	600,000	6.19%
Metlife OFE	577,470	5.61%	577,470	5.95%

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

SECO/WARWICK S.A. holds 598,500 treasury shares, representing 5.81% of the share capital. The Company does not exercise voting rights in respect of its treasury shares.

From the date of issue of the report for Q1 2017, i.e. May 15th 2017, to the date of issue of the H1 2017 report, there were no changes in major holdings of Company shares.

2.6. SECO/WARWICK S.A. 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 date of the interim report for Q1 2017

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

	May 15 2017				Sep 11 2017			
	Number of S/W shares held	Ownership interest	% of total vote	Decrease/increase	Number of S/W shares held	Ownership interest	% of total vote	Total par value of shares (PLN)
Management Board								
Paweł Wyrzykowski	254,558	2.47%	2.47%	-	254,558	2.47%	2.47%	50,912
Sławomir Woźniak	20,246	0.20%	0.20%	-	20,246	0.20%	0.20%	4,049
Bartosz Klinowski	50,335	0.49%	0.49%	-	50,335	0.49%	0.49%	10,067
Supervisory Board								
Andrzej Zawistowski	65,000	0.63%	0.63%	-	65,000	0.63%	0.63%	13,000
Jeffrey Boswell	9,776	0.09%	0.09%	-	9,776	0.09%	0.09%	1,955
Henryk Piłarski	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	0.19%	0.19%	-	19,335	0.19%	0.19%	3,867
Total	378,237	4.07%	4.07%	-	419,260	4.07%	4.07%	83,852

Item	May 15 2017	Sep 11 2017
Number of shares	10,298,554	10,298,554
Par value per share	0.20	0.20
Share capital	2,055,710.80	2,055,710.80

In the period covered by this Report and by its issue date, members of SECO/WARWICK S.A.'s Management and Supervisory Boards did not enter into any other transactions that would involve their holdings of SECO/WARWICK S.A. shares.

2.7. Material court, arbitration and administrative proceedings

In H1 2017, neither the Company nor any other SECO/WARWICK Group company was party to any proceedings whose value (whether jointly or individually) would exceed 10% of the Company's equity.

2.7a. Other material proceedings

For detailed information on material proceedings in 2016, see Note 37 to the consolidated financial statements for the period ended December 31st 2016. By the date of issue of these financial statements, the Company had not received any additional information.

2.8. Non-arm's length transaction or series of transactions concluded by the Company or its subsidiaries with related parties

In the period from the beginning of the financial year to the date of issue of this Report, neither SECO/WARWICK S.A. nor its subsidiaries entered into any non-arm's length transactions with related parties.

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 2017, SECO/WARWICK S.A. and its subsidiaries did not provide any sureties for bank borrowings, loans or guarantees exceeding 10% of SECO/WARWICK S.A.'s equity.

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

In Current Report No. 11/2017 of May 17th 2017, the Management Board announced the signing of a settlement regarding compensation for losses caused by an event that occurred on the premises of the Company's subsidiary SECO/WARWICK Europe Sp. z o.o. of Świebodzin, causing damage to, among other things, a part of a production building and current assets (the „Settlement”). In Current Report No. 3/2017 of February 14th 2017, the Company announced that it received PLN 12,157,646.03 as part of compensation for the losses, paid by transfer to the Company's bank account. As part of the Settlement, the parties agreed that Aviva would pay the Company additional compensation of PLN 4,025,000.00 within seven days as of the Settlement date and the parties thus consider the claim fully settled in the total amount of PLN 16,182,646.03.

On July 4th 2017, the Company paid dividend of PLN 4,947,027.54. Dividend per share is PLN 0.51.

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 its results in H2 2017 or in a longer term**SECO/WARWICK S.A. Incentive Scheme**

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”).

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

- The Incentive Scheme is effective for 2016, 2017 and 2018.
- The Incentive Scheme 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

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- 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. 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 2017, the Objective is set at PLN 18m.

In Current Report No. 10/2017, the Management Board of SECO/WARWICK S.A. announced that on April 27th 2017 the Company's Supervisory Board, having examined the Company's and its Group's audited financial information, passed a resolution to review the Individual Objectives and the Joint Objective of the Company's Incentive Scheme, defined in the Rules of the Incentive Scheme (which was approved by a Supervisory Board resolution of April 23rd 2015), related to the achievement of specific operating and financial metrics for 2016.

Based on the review findings, the Supervisory Board granted to the eligible Scheme participants 81,657 share options, conferring rights to acquire 81,657 Company shares at a price of PLN 0.20 per share. Of that number, 73,393 share options were granted to the Management Board members and the commercial proxy.

2.12. Key threats and risks relating to the six 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 11th 2017

Paweł Wyrzykowski

*President of the
Management Board*

Sławomir Woźniak

Member of the Management Board

Bartosz Klinowski

*Member of the
Management Board*