

**Resolution No. 8/2018**  
**of the Supervisory Board of SECO/WARWICK S.A. of Świebodzin**  
**dated April 26th 2018**

concerning: *Assessment of the standing of SECO/WARWICK Spółka Akcyjna*  
*in the reporting period January 1st–December 31st 2017,*  
*including assessment of the internal control*  
*and risk management systems*

Pursuant to Principle II.Z.10.1 of the Code of Best Practice for WSE Listed Companies, the Supervisory Board of SECO/WARWICK Spółka Akcyjna submits to the Annual General Meeting and publishes its assessment of the Company's standing, including assessment of the internal control and risk management systems, as well as of compliance and internal audit function, taking into consideration control mechanisms relating to financial reporting and operating activities.

## **I. Business and financial performance in 2017**

### **STATEMENT OF COMPREHENSIVE INCOME**

In January 2017, the following companies were merged: SECO/WARWICK S.A., which had operated as the S/W Group's holding company since 2013, and production company SECO/WARWICK EUROPE Sp. z o.o. The merger was effected through the transfer of all assets of SECO/WARWICK EUROPE Sp. z o.o. SECO/WARWICK S.A. assumed all the rights and obligations of SECO/WARWICK EUROPE Sp. z o.o., which was dissolved.

Following the merger, SECO/WARWICK S.A.'s primary source of revenue in 2017 was the manufacture of industrial furnaces for metal heat treatment and not, as before, the provision of services to the Group companies covered by a CSA agreement (Management Services Agreement) and licensing fees (License Agreement). Commencement of production operations by the Company led to a significant increase in sales revenue: PLN 264.3m in 2017 vs PLN 11.4m in 2016.

At the same time, despite a significant appreciation of the Polish złoty against the Company's main contract currencies, i.e. EUR and USD, the Company was able to deliver PLN 16.5m in net profit. The net margin is 6.2%. In 2016, the Company reported a loss of PLN 2.0m and its net margin was negative at 17.5%.

In 2017, the ROE ratio was 11.9% (2016: -1.8%).

### **STATEMENT OF FINANCIAL POSITION**

Given the nature of the Company's business in 2016, the interpretation of some of the ratios for 2017 and their movements relative to the previous year could be different than in previous years.

As at the end of 2017, the Company's non-current to current assets ratio was 0.9 (2016: 13.3). The change is attributable to an increase in current assets, in particular assets related to running contracts, trade receivables and inventories, whose value in 2016 was significantly lower as the Company was not engaged in any production operations. The value of the ratio should be deemed normal considering the Company's current business profile – the Company's non-current assets include property, plant and equipment as well as equity interests in other Group companies. Higher asset mobility allows greater flexibility in changing and adapting the Company's business.

The equity to liabilities ratio was 0.9 in 2017 (2016: 3.4) The change was brought about by the change in the scope of the Company's business and commencement of production operations. Higher current asset requirement leads to an increase in the Company's debt. In 2017, the Company recorded an equity financing of non-current assets ratio of 1.0, slightly above the 2016 value of 0.8.

In 2017, the current and quick ratios were at model values of 1.2 and 1.0, respectively (2016: both ratios were 0.8), while the cash ratio (cash to current liabilities) was 0.2 (0.1 in 2016), also close to the model value.

The Company's debt ratios changed significantly in 2017: total debt ratio (total liabilities to total assets) rose to 53% in 2017 (2016: 23%). Long-term debt ratio (total non-current liabilities to equity) declined to 15% in 2017 (2016: 18%), on the back of an increase in current liabilities (related in particular to the settlement of long-term contracts and trade payables) compared with the growth rate of the Company's assets.

Presented below are the Company's selected efficiency indicators:

- the average collection period shortened markedly, from 384 days in 2016 to 45 days in 2017, and does not materially differ from the duration prevailing in the sector.
- the average payment period also shortened, from 527 days in 2016 to 148 days in 2017.

The asset turnover ratio and current asset turnover ratio stood at 1.2 and 2.6, respectively, in 2017, showing an improvement on the previous year, when they reached 0.2 and 0.6, respectively. This change is mainly attributable to the change in the Company's business profile. The value of those ratios should be considered healthy.

## **II. Internal audit and risk management systems, including control mechanisms for financial reporting**

The Management Board of the Parent is responsible for the Group's internal control system and its effectiveness in the process of preparation of periodic reports and financial statements drafted and published in accordance with the Regulation on current and periodic information to be published by issuers of securities of February 19th 2009.

The main objective of the Group's internal control system applied to financial reporting is to ensure adequacy, reliability, and accuracy of financial information presented in periodic reports and financial statements. The Group's effective internal control and risk management systems applied to financial reporting were developed based on:

- clear division of responsibilities and organisation of work in the financial reporting process
- precise definition of the scope of the Group's financial reporting
- application of uniform accounting policies across the Group, based on the Group's "accounting manual"
- periodic analysis of the SECO/WARWICK Group's performance based on financial reporting used at the Group and monthly meetings at which the performance of individual Group companies is discussed
- requirement to submit financial statements for approval prior to their publication
- audit/review of the Company's financial statements by an independent qualified auditor

In the opinion of the Company's Supervisory Board, both in Poland and in the entire Capital Group of the Company, there is an efficient and effective system of internal control, allowing on-going monitoring of compliance of actions taken with applicable laws and a designated economic strategy.

## **III. Internal audit and risk management systems, including control mechanisms for operating activities**

Risk control and management in operating activities are mainly performed by monitoring a number of ratios and indicators describing the organisation's functioning and project execution (these are primarily ratios and indicators measuring the quality, timeliness and costs), as well as by a number of processes defining relevant procedures, controls and risk mitigation measures. Findings of the monitoring and control, as well as the risk analysis form a basis for remedial and preventive measures. Control and risk mitigation processes are described in internal management documents and are subject to the both external and internal audits. One element of control of the organisation's functioning is a comparison of budget projections with current and expected performance, taking into consideration phenomena and situations that may result in changes and

deviations. Control and monitoring in operating activities, where they refer to projects, are already implemented at the time of preparing technical and price proposals and continue until the sale of the product/service and later, over the warranty period. They include numerous standardised processes, instructions and tools.

In the opinion of the Supervisory Board, the method of operational risk management applied in the Company and the Capital Group is adequate and adapted to the needs of the Company. The functioning of the control system operations allows for minimizing the risk of action taken by the Company and Group Companies that are in conflict with applicable laws and internal regulations. The Supervisory Board positively assesses the functioning of the operational risk management system of the Company and the Capital Group in the financial year 2017.

#### **IV. Internal control system including the internal audit function**

SECO/WARWICK SA established the function of an internal audit as of January 1<sup>st</sup>, 2018.

**The Supervisory Board approves the Management Board's activities in 2017. The Supervisory Board takes a positive view of the growth prospects of the Company and the Group.**

This Resolution shall become effective as of its date.

This Resolution was voted on by an open ballot.

*Number of Supervisory Board members in attendance:* \_\_\_\_\_

*Votes in favour of the resolution:* \_\_\_\_\_

*Votes against the resolution:* \_\_\_\_\_

*Abstentions:* \_\_\_\_\_