



SECO/WARWICK
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**DIRECTORS' REPORT
ON THE SECO/WARWICK GROUP'S OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30TH 2018**

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 2018, 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 *Interim Financial Reporting* ("IFRS"), as endorsed by the EU, and the Regulation. The financial statements are presented in the złoty ("PLN") and, unless specified otherwise, all amounts are given in thousands of PLN. The interim condensed consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern for the 12 months after the end of the most recent reporting period, i.e. June 30th 2018.

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, on January 2nd 2007 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.,
- ACE THERMAL TECHNOLOGIES PRIVATE LIMITED,
- 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 because of their immateriality to the Group.

The Group has one associate:

- OOO SCT (Solnechnogorsk) Russia, in which SECO/WARWICK S.A. holds a 50% interest, conferring the right to 50% of the total voting rights in the company.

The operations of the SECO/WARWICK Group are divided into five main business segments:

- Vacuum Furnaces
- aluminium heat treatment systems (Aluminium Process + Controlled Atmosphere Brazing),
- Atmosphere Furnaces (Thermal)
- Melting Furnaces,
- Aftersales.

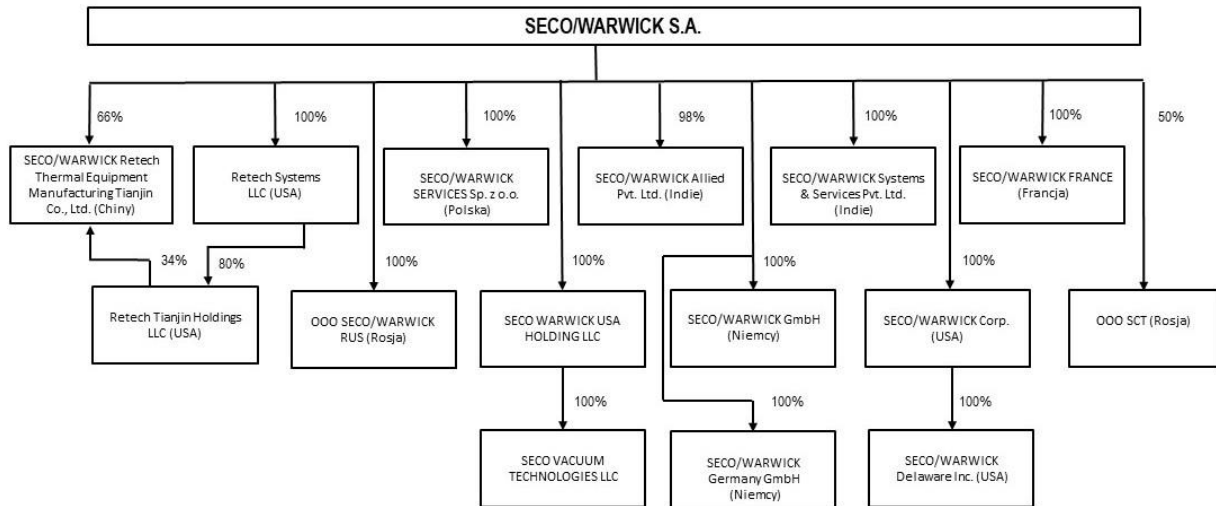
1.2 Composition of the SECO/WARWICK Group as at June 30th 2018

Table: Composition of the SECO/WARWICK Group as at June 30th 2018 is presented below:

Company	Registered office	Principal business activity	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 equipment for metal heat treatment	N.A.	N.A.
Direct and indirect subsidiaries				
SECO/WARWICK Corp.	Meadville (USA)	Manufacture of equipment for metal heat treatment	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 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 equipment for metal heat treatment	Full	93%
Retech Tianjin Holdings LLC	(USA)	Holding company	Full	80%
SECO/WARWICK Allied Pvt. Ltd.	Mumbai (India)	Manufacture of equipment for metal heat treatment	Full	98%

ALLIED FURNACES LTD.	PVT.	Mumbai (India)	Manufacture of equipment for metal heat treatment	Full	98%
ACE TECHNOLOGIES PRIVATE LIMITED		Mumbai (India)	Manufacture of equipment for metal heat treatment	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)	Holding company	Full	100%
SECO VACUUM TECHNOLOGIES LLC		Wilmington (USA)	Sale and distribution of vacuum furnaces	Full	100%
SECO/WARWICK Systems and Services PVT. Ltd.	India	Mumbai (India)	Sale, repair and maintenance services	Full	100%

Organisational chart of the Group as at June 30th 2018



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

There were no changes in the composition of the SECO/WARWICK Group between June 30th 2018 and the date of issue of this Report.

2. Other supplementary information.

2.1. Material achievements and failures of SECO/WARWICK S.A. and the SECO/WARWICK Group in H1 2018 and key related events

In the first half of 2018, the SECO/WARWICK Group companies secured a backlog of orders worth PLN 212m (including ca PLN 100m in Q2 2018), roughly on a par with the H1 2017 figure. Including the orders secured in the first half of 2018, the total backlog value at the end of June 2018 was PLN 361m.

Analysis of sales by geographical segments showed a year-on-year rise in sales on the EU market (up 9% compared with H1 2017). Sales were also higher (by 15%) on the US market, where the Group’s three American companies operate. Another noteworthy development was a 37% increase in sales on the Asian markets. Consolidated sales of the SECO/WARWICK Group rose by 9%, to PLN 268m, from PLN 245m in H1 2017.

The following changes were recorded in sales at individual Group companies: Sales of SECO/WARWICK S.A. rose by 9%. Markedly higher sales were recorded at the companies operating on the US market: RETECH LLC (up 89%) and SECO/VACUUM Technologies LLC. SECO/WARWICK Retech (China) also posted significantly higher sales – up by 37%. SECO/WARWICK Corp. recorded a significant decline in sales – down by 61%.

In H1 2018, almost all of the Group’s operating segments saw an increase in sales. The strongest increases were reported in the following segments: equipment used for melting and vacuum casting of metals and specialty alloys (+91%), atmosphere furnaces (+48%), vacuum furnaces (+13%) and aftersales (+9%). These improvements were offset by a sharp drop in sales of aluminium heat treatment systems and CAB (down by 50%).

As at the date of issue of the H1 2018 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 non-recurring ones, with material bearing on the interim condensed financial statements

Other than those described in Section 2.1, there were no factors or events in the SECO/WARWICK Group's business, especially non-recurring ones, that would have material bearing on its financial performance in H1 2018.

2.3. Changes in the Group structure in H1 2018, including changes resulting from merger, acquisition or loss of control of subsidiaries and long-term investments, demerger, restructuring or discontinued operations

On December 20th 2017, the Management Board of SECO/WARWICK S.A. passed a resolution to sell 98% of shares in SECO/WARWICK Allied Pvt. Ltd. ("SW Allied") of India. This information was announced to the public on the same day in Current Report No. 19/2017.

In the interim consolidated financial statements of the SECO/WARWICK Group for H1 2018, the SW Allied business is shown as discontinued operations in the statement of profit or loss and as assets held for sale and liabilities related to assets held for sale in the statement of financial position.

Save as described above, no other changes took place in the organisational structure of the Group's business in H1 2018, including changes resulting from merger, acquisition or loss of control of subsidiaries and long-term investments, demerger, restructuring or discontinued operations.

2.4. Management Board's position on the feasibility of meeting any previously published forecasts for 2018 in light of the results presented in the H1 2018 report

The SECO/WARWICK Management Board did not publish any forecasts of the Company's or the Group's financial results in 2018.

2.5. Shareholders holding, directly or indirectly, 5% of the total voting rights at the General Meeting as at the date of issue of this Report, including information on any changes subsequent to the issue of the SECO/WARWICK Group's interim report for Q1 2018

Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total voting rights at the General Meeting as at the issue date of the Q1 2018 report, that is May 18th 2018

Shareholder	Number of shares	Ownership interest (%)	Number of voting rights	% of total voting rights
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 is based on notifications received from the shareholders.

Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total voting rights at the General Meeting as at the issue date of the H1 2018 report, that is September 11th 2018

Shareholder	Number of shares	Ownership interest (%)	Number of voting rights	% of total voting rights
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 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 issue date of the Q1 2018 report, i.e. May 18th 2018, to the issue date of the H1 2018 report, there were no changes in major holdings of Company shares.

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 date of the Q1 2018 report

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

	May 18 2018			Decrease/increase	Sep 11 2018			Total par value of shares (PLN)
	Number of S/W shares held	Ownership interest	% of total voting rights		Number of S/W shares held	Ownership interest	% of total voting rights	
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 Pilarski	10	0.0001%	0.0001%	-	10	0.0001%	0.0001%	2

James A. Goltz	-	-	-	-	-	-	-	-
Marcin Murawski	-	-	-	-	-	-	-	-
Jacek Tucharz	-	-	-	-	-	-	-	-
Commercial proxy								
Piotr Walasek	19,335	0.19%	0.19%	-	19,335	0.19%	0.19%	3,867
Total	419,260	4.07%	4.07%	-	419,260	4.07%	4.07%	83,852

Item	May 18 2018	Sep 11 2018
Number of shares	10,298,554	10,298,554
Par value per share	0.20	0.20
Share capital	2,059,710.80	2,059,710.80

In the reporting period and until the date of issue 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

In H1 2018, neither the Company nor any other SECO/WARWICK Group company was party (whether jointly or individually) to any material court, arbitration or administrative proceedings.

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. Loan sureties or guarantees provided 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 is material

In H1 2018, SECO/WARWICK S.A. and its subsidiaries did not provide any loan sureties or guarantees the amount of which would be material.

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

In H1 2018, no events occurred in the SECO/WARWICK Group's business which in the Company's opinion would be material for the assessment of its personnel, assets, financial condition and financial result or changes therein, or for the assessment of the Company's ability to meet 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 performance in H2 2018 or in a longer term

SECO/WARWICK S.A. Incentive Scheme

I. The incentive scheme of April 23rd 2015 for the years 2016-2018

With a view to providing additional incentives to the 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 assumptions of the 2016–2018 Incentive Scheme for members of the SECO/WARWICK Group's management staff (the "2016–2018 Incentive Scheme").

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 respective subsidiaries, the organisational units related to particular technologies, or the entire Group, and depend on the position held by the Scheme Participant. For the entire Group, the Individual Objective defined for the President of the Management Board, the Chief Financial Officer and the Chief Operating Officer at SECO/WARWICK S.A. is the Group's consolidated net profit. For 2016 and 2017, the Objective was set at PLN 18m.

On April 27th 2017, having examined the Company's and the Group's audited financial information for 2016, the Supervisory Board passed a resolution to review the Individual Objectives and the Joint Objective defined in the Rules of the Incentive Scheme, relating 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.

II. Termination of the Incentive Scheme

On March 14th 2018, the Supervisory Board passed a resolution to terminate the 2016–2018 Incentive Scheme (the "Resolution") adopted pursuant to Resolution No. 9 of the Supervisory Board of April 23rd 2015.

Pursuant to the Resolution, the Incentive Scheme had to be terminated in its entirety due to material distortion of the Company's financial result for the financial year 2017 caused mainly by significant one-off events at the Group with an adverse effect on the Group's financial performance in 2017, which rendered the original assumptions of the Incentive Scheme inadequate.

The Resolution also defined the terms and conditions on which the terminated Incentive Scheme would be settled:

1. The Company will conclude with nine beneficiaries of the terminated Incentive Scheme ("Beneficiaries") relevant agreements ("Agreements"), under which a total of 102,166 Company shares will be delivered to the Beneficiaries free of charge, and compensation bonuses in a total amount of PLN 389.6 thousand will be paid to the Beneficiaries;
2. Under the Agreements, the Beneficiaries will waive any claims against the Company related to the Incentive Scheme or its termination.

III. Adoption of the 2018–2020 Incentive Scheme for members of the SECO/WARWICK Group's management staff

On April 11th 2018, an Extraordinary General Meeting of SECO/WARWICK S.A. passed Resolution No. 20 to approve the 2018–2020 Incentive Scheme, approve the Rules of the Incentive Scheme, and allocate the Company's treasury shares for the purposes of the Incentive Scheme. The Meeting also passed Resolution No. 21 approving the list of participants of the 2018–2020 Incentive Scheme. The above information was published in Current Report No. 09/2018 of April 11th 2018.

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

As part of its operating and financing activities, the Group is exposed to risks related primarily to its financial instruments. Those risks may be broadly defined as market risk, and comprise currency risk, interest rate risk, liquidity risk and credit risk. The Group manages financial risks in order to limit the adverse impact of changes in foreign exchange rates and interest rates, as well as to stabilise cash flows and ensure an appropriate level of financial liquidity and flexibility. The Group's financial risk management policies are determined by the Management Board of the Parent. As part of the risk management process, an expert system for management accounting was developed and implemented. The key parameters of operational and financial risks are monitored on the basis of monthly reports prepared by the Group companies.

Date: September 11th 2018

Paweł Wyrzykowski

*President of the
Management Board*

Sławomir Woźniak

*Vice President of the
Management Board*

Bartosz Klinowski

*Member of the
Management Board*