



SECO/WARWICK
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**DIRECTORS' REPORT
ON THE SECO/WARWICK GROUP'S OPERATIONS
IN THE YEAR ENDED
DECEMBER 31ST 2018**

The Management Board of SECO/WARWICK S.A. (the “Company”) presents the Directors’ Report on the Group’s operations in the period January 1st – December 31st 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 March 29th 2018 (Dz.U. of 2018, item 757) (the “Regulation”).

The consolidated financial statements of the SECO/WARWICK Group (the “Group” or the “SECO/WARWICK Group”) were prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the EU, and their scope is compliant with the Regulation. The financial statements cover the period January 1st–December 31st 2018 and the comparative period January 1st–December 31st 2017.

1. Introduction

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.

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

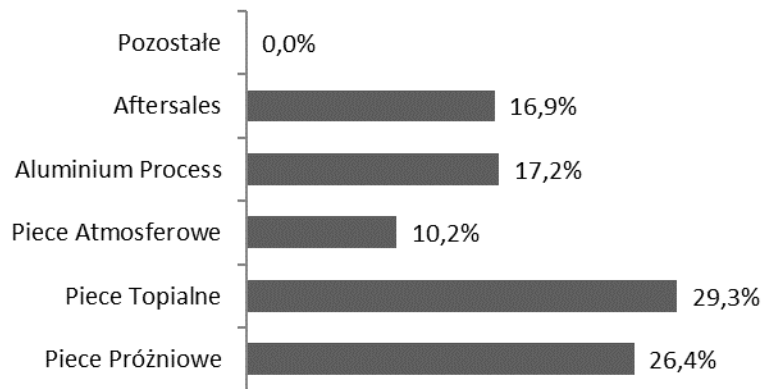
- Vacuum Furnaces
- aluminium heat treatment systems (Aluminium Process + Controlled Atmosphere Brazing),
- Atmosphere Furnaces (Thermal)
- Melting Furnaces,
- Aftersales.

Information on particular operating segments is presented in the consolidated financial statements of the SECO/WARWICK Group (Note 2 to the consolidated financial statements for the 12 months ended December 31st 2018) and in Section 36 of this Directors’ Report.

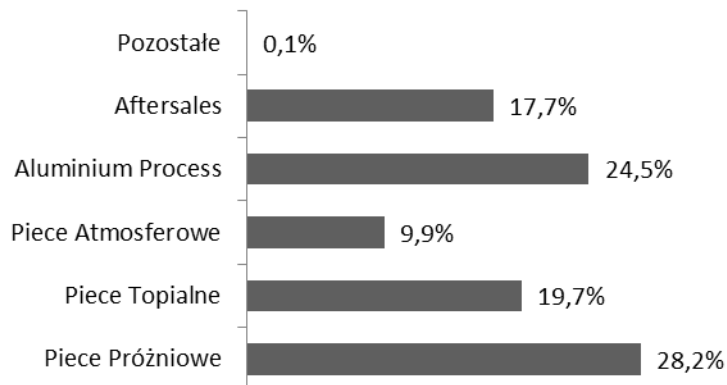
Table: Revenue (PLN ‘000)

Item	Continuing operations						Total
	Vacuum Furnaces	Melting Furnaces	Atmosphere Furnaces (Thermal)	Aluminium Process	Aftersales	Other	
Jan 1-Dec 31 2018	138,131	153,320	53,417	90,041	88,428	169	523,506
Jan 1-Dec 31 2017	136,597	95,166	47,806	118,594	85,451	290	483,903

Przychody ze sprzedaży na 2018 w podziale na segmenty operacyjne



Przychody ze sprzedaży na 2017 w podziale na segmenty operacyjne



2. Organisational and equity links between the SECO/WARWICK Group companies and other entities; information on key domestic and foreign equity investments (securities, financial instruments, intangible assets and property), including equity investments outside of the group of related entities; financing of the investments

Table: Composition of the SECO/WARWICK Group as at December 31st 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%
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%

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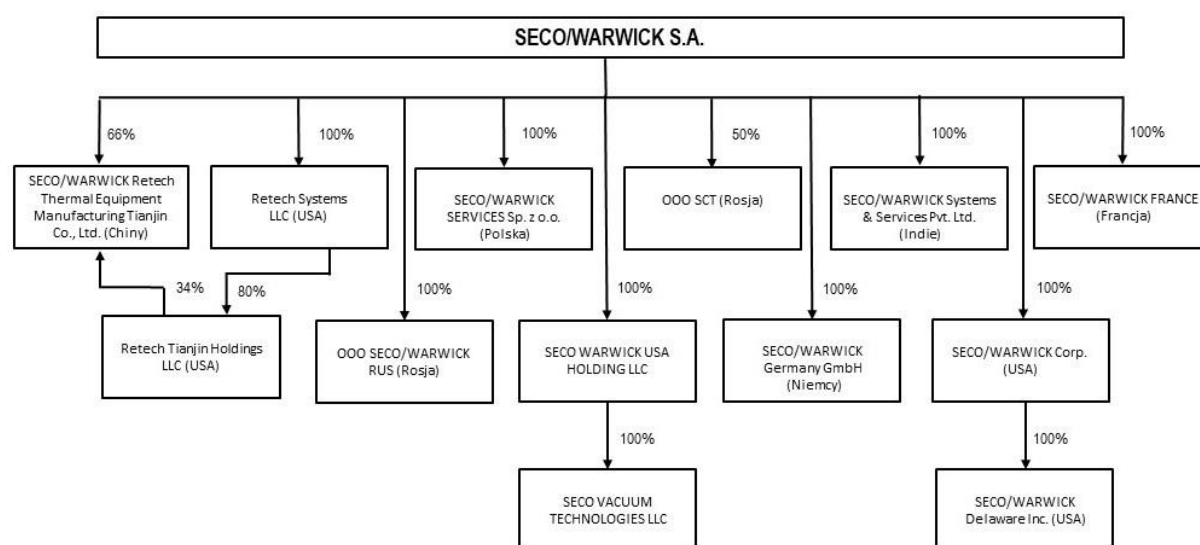
SECO WARWICK USA HOLDING LLC	Wilmington (USA)	Holding company	Full	100%
SECO VACUUM TECHNOLOGIE S LLC	Wilmington (USA)	Sale and distribution of vacuum furnaces	Full	100%
SECO/WARWI CK Systems and Services India PVT. Ltd.	Mumbai (India)	Sale, repair and maintenance services	Full	100%

Changes in the composition of the SECO/WARWICK Group in the reporting period

On October 2nd 2018, SECO/WARWICK GmbH of Germany was liquidated.

On October 25th 2018, an agreement was signed for the sale of shares in ALLIED FURNACES PVT. LTD. and ACE THERMAL TECHNOLOGIES PRIVATE LIMITED of Mumbai (India). followed by an agreement for sale of all shares held by SECO/WARWICK S.A. Subsequently, on December 28th 2018, an agreement was signed for the sale of all shares held by SECO/WARWICK S.A. in SECO/WARWICK Allied Pvt. Ltd.

Structure of the Group as at December 31st 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 December 31st 2018 and the date of issue of this Report.

For information on key domestic and foreign investments (financial instruments, intangible assets and property), see the Notes to the full-year separate financial statements of SECO/WARWICK S.A. No equity investments outside the group of related entities were made.

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3. Changes in significant management policies at the Company and the Group.

In the reporting period, there were no changes in significant management policies of the Company or the Group.

4. Amount of remuneration, bonuses and benefits, benefits under share-based incentive and bonus schemes, including schemes based on bonds with pre-emptive rights, convertible bonds or subscription warrants, paid, payable or potentially payable, presented separately for each member of the management and supervisory staff of the SECO/WARWICK Group.

MANAGEMENT BOARD

Members of the Management Board receive remuneration based on their respective employment contracts. Any severance or compensation payments are governed by the Labour Code. The amount of remuneration of the Management Board members is defined in the resolutions passed by the Company's Supervisory Board on January 12th 2012, December 13th 2012, December 5th 2013, and April 23rd 2015.

Table: Remuneration of members of the SECO/WARWICK S.A. Management Board in 2018 (PLN '000)

Name and surname	Remuneration for the period	Other benefits	Total remuneration for the period
Dec 31 2018	(PLN '000)	(PLN '000)	(PLN '000)
Paweł Wyrzykowski	784	1,059	1,843
Sławomir Woźniak	519	44	563
Bartosz Klinowski	387	628	1,015
Total	1,689	1,732	3,421

In 2018, the Management Board members received SECO/WARWICK shares in the settlement of the Incentive Scheme. Mr Paweł Wyrzykowski received 52,500 shares, and Mr Sławomir Woźniak received 1,260 shares, and Mr Bartosz Klinowski received 34,646 shares. For information on the value on the management stock options awarded, see Note 34 "Management stock options" to the Consolidated Financial Statements.

No Management Board member receives remuneration for serving on the governing bodies of subordinated entities.

SUPERVISORY BOARD

Members of the Supervisory Board are entitled to a monthly remuneration in the amount determined by the General Meeting, paid by the fifteenth day of the month following the month for which the remuneration is due. The remuneration covers all expenses related to the performance of duties of a member of the Supervisory Board. Supervisory Board members are not entitled to severance pay.

Table: Remuneration of members of the SECO/WARWICK S.A. Supervisory Board for 2018 (PLN '000)

Name and surname	(PLN '000)
Andrzej Zawistowski, including:	220
- for his service as Chairman of the Supervisory Board	120
- under contract for advisory services ⁽¹⁾	100
Jeffrey Boswell, including:	147
- under employment contract ⁽²⁾	147

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Henryk Pilarski	54
Marcin Murawski	43
Paweł Tamborski ⁽³⁾	11
Jacek Tucharz ⁽⁴⁾	32
Total	506

(1) Under a service contract between SECO/WARWICK S.A. and Mr Andrzej Zawistowski, who conducts business activities as USŁUGI DORADCZE Andrzej Zawistowski. The contract of July 2nd 2012 is for the provision of technical and product development advisory services.

(2) Under an employment contract between SECO/WARWICK Corp. and Mr Jeffrey Boswell.

(3) Mr Paweł Tamborski was appointed Member of the Supervisory Board by Resolution No. 29 of the General Meeting of June 24th 2016. Mr Paweł Tamborski tendered his resignation as member of the Supervisory Board, with effect as of February 16th 2018.

(4) On April 11th 2018, Mr Jacek Tucharz was appointed to the Supervisory Board by Resolution No. 18 of the Extraordinary General Meeting of SECO/WARWICK S.A.

5. Agreements between the SECO/WARWICK Group companies and their management staff, providing for compensation in the event of resignation or removal from office without a good reason or following acquisition of the Company by another company

Employment contracts concluded between the Company and its management staff do not provide for compensation in the event of their resignation or dismissal. Any severance or compensation payments are governed by the Labour Code, and the employment contracts do not contain any other specific provisions in this respect. Similarly, the contracts do not provide for severance payments in the event of removal from office or termination of contract due to acquisition of SECO/WARWICK S.A. by another company.

6. Liabilities arising from pensions or similar benefits to former members of management, supervisory or administrative bodies, and liabilities incurred in connection with such pensions, with a specification of the total amount for each body.

The Parent does not have any pension or similar benefit obligations with respect to former members of its management, supervisory or administrative bodies.

7. Total number and par value of SECO/WARWICK shares and shares in related entities of the Parent, held by the management and supervisory staff

As at Dec 31 2018:

	Jan 1 2018				Dec 31 2018			
	Number of S/W shares held	Ownership interest	% of total voting rights	Decrease/increase	Number of S/W shares held	Ownership interest	% of total voting rights	Total par value of shares (PLN)
Management Board								
Paweł Wyrzykowski	254,558	2.47%	2.47%	52,500	307,058	2.98%	2.98%	61,412
Sławomir Woźniak	20,246	0.20%	0.20%	1,260	21,506	0.21%	0.21%	4,301
Bartosz Klinowski	50,335	0.49%	0.49%	34,646	84,981	0.83%	0.83%	16,996

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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	-	-	-	-	-	-	-	-
Paweł Tamborski	-	-	-	-	-	-	-	-

Commercial proxy

Piotr Walasek	19,335	0.19%	0.19%	2,100	21,435	0.21%	0.21%	4,287
Total	419,260	4.07%	4.07%	90,506	509,766	4.95%	4.95%	101,953

Item	Jan 1 2018	Item	Dec 31 2018
Number of shares	10,298,554	Number of shares	10,298,554
Par value per share	0.20	Par value per share	0.20
Share capital	2,059,710.80	Share capital	2,059,710.80

As at the date of issue of this Report, there were no changes in the number of Company shares held by the management or supervisory personnel.

8. Agreements (including agreements executed after the reporting period) known to the SECO/WARWICK Group which may result in changes in the proportions of shares held by the current shareholders and bondholders.

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.

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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 relevant agreements (“Agreements”) with nine beneficiaries of the terminated Incentive Scheme (“Beneficiaries”), under which a total of 102,166 Company shares will be delivered to the Beneficiaries for 2016 and 2017, 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 Incentive Scheme for members of SECO/WARWICK Group’s management staff for 2018-2020

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 Incentive Scheme beneficiaries are the Group’s senior management staff. The scheme covers a total of 494,000 shares. The annual equity volumes for the years 2018, 2019, 2020 and the assessment parameter, which is determined by the Company’s Supervisory Board and approved by the General Meeting, have been established for each beneficiary of the scheme. The assessment parameter is closely linked to the Group’s net profit, separate profit or operating profit of an operating segment. After the end of the financial year, the Company’s Supervisory Board and General Meeting determine and approve the achievement of objectives by individual beneficiaries of the scheme.

9. Control systems for employee stock option plans

The Company’s Incentive Schemes for 2016–2018 and 2018–2020 are supervised by the Supervisory Board and Management Board of SECO/WARWICK S.A.

10. Share buybacks

In 2018, the Company did not buy back any of its own shares. On September 20th 2018, in Current Report No. 21/2018 the Company announced a reduction to less than 5% in the total voting rights at the Company.

11. Discussion of key financial and economic data disclosed in the full-year consolidated financial statements and of factors and events, including non-recurring ones, with a material effect on the Group’s operations and profits earned or losses incurred in the financial year; discussion of development prospects in a period covering at least the next financial year

In 2018, the SECO/WARWICK Group recorded a significant increase in revenue in nearly all the Group’s companies. The largest sales growth was reported by Retech Systems LLC - up 62.2% (2018: PLN 143.2m, 2017:

PLN 88.3m). At SWSA, sales increased by 5.5% (2018: PLN 278.7m, 2017: PLN 264.3m), at SECO/WARWICK Retech China by 33% (2018: PLN 39.9m; 2017: PLN 30.0m), and at SECO/VACUUM Technologies by 232% (2018: PLN 35.8m); 2017: PLN 10.8m). At SW Corporation, sales fell by 53.6% (2018: PLN 42.5m, 2017: PLN 91.6m). The Group reported consolidated revenue of PLN 523.5m, up by PLN 39.6m (8.2%) compared with 2017.

In 2018, the Group companies secured new orders with an aggregate value of PLN 457.8m, which marked a 13.8% decrease on the previous year (PLN 531.1m). The Group's order book value at the end of 2018 fell to PLN 351m, from PLN 451m at the end of 2017.

2018 saw changes in the structure of sales (by operating segments). The Group recorded a significant increase in sales in the Melting Furnaces (up 61.1%) and Atmosphere Furnaces (up 11.7%) segments, and a slight increase in sales in the Vacuum Furnaces (up 1.1%) and spare parts and maintenance services segments (up 3.5%). In the Aluminium Proces segment, sales dropped from the high level recorded in 2017 on the back of lower demand for capital goods on the markets of Russia, Belarus and Ukraine (-24.1%).

Geographically, in 2018 the largest contributors to the SECO/WARWICK Group's revenue included the US market (38%) and the EU market (32%), accounting jointly for 70% of the Group's total sales. At the same time, in 2018 sales in the US rose by 28.5% relative to 2017, while in the EU market the Group saw its sales decline by -3.8% year on year. These trends are indicative of the growing absorptive capacity of the US market and improved effectiveness of the Company's sales efforts in that country. In 2018, sales in Asia also increased (by 6.2%), driven by the dynamic growth of the subsidiary in China. The Group posted the largest sales drop in Russia, Belarus, and Ukraine (down 25.2%).

In 2018, the Group posted a gross profit of PLN 117.0m, which represents nearly a twofold increase relative to the 2017 figure (PLN 60.4m). Based on the Group's 2018 consolidated figures, distribution costs and administrative expenses fell by PLN 3.0m (3.5%) compared with 2017. In 2018, other income and other expenses amounted to PLN 2.7m, compared with PLN 0.4m in 2017. In 2018, the Group posted EBIT of PLN 29.5m compared with the loss of PLN 25.3m in 2017.

Unlike in 2017, in 2018 there were no material adverse factors with a bearing on net profit. Only in the last quarter of 2018, as a result of the sale of the subsidiary in India, the SECO/WARWICK Group recorded a loss of PLN 2.0m. The positive financial performance was mainly attributable to SECO/WARWICK S.A. (up PLN 14.4m), Retech Systems LLC (up PLN 2.2m), and SW Retech China (up PLN 2.5m). Taking into account the above factors, as well as finance costs, tax expenses and profit attributable to non-controlling interests, in 2018 the SECO/WARWICK Group posted a net profit attributable to owners of the Parent of PLN 19.1m, versus a net loss of PLN 41.9m in 2017.

STATEMENT OF FINANCIAL POSITION

Compared with 2017, 2018 saw a 2.2% decrease in total assets (from PLN 484.0m to PLN 473.4m). The decrease is entirely due to the sale of SECO/WARWICK Allied of India, the book value of which recognised in the financial year 2017 was PLN 33.2m. Non-current assets rose by 9.9% year on year. The rise was mainly due to a 36.6% increase in intangible assets, driven by research and development projects implemented at the Parent. Current assets went up by 2.3% over the same period. In current assets, following the implementation of IFRS 15, the largest change occurred in inventories, which went up by 62.6% (from PLN 41.4m to PLN 67.3m). Receivables fell by 17.3% (from PLN 69.1m to PLN 57.1m). Cash remained broadly unchanged, and amounted to PLN 53.6m at the end of the financial year 2018.

There was a significant year-on-year increase in equity (up 15.3%) and a slight decline in current liabilities (down 1.2%), with a 7.9% growth in non-current liabilities. In current liabilities, the largest change occurred in the case of trade payables, which fell by PLN 14.0 million (down 23.3%). The change in equity was materially driven by the 2018 profit of PLN 19.1m.

In 2018, the share of equity in total equity and liabilities rose from 31.2% to 36.8% year on year.

The current, quick and cash ratios remained unchanged at 0.2, 0.9 and 1.1, respectively. The ratios indicate that the Group is operationally stable and has the ability to pay its liabilities when due.

Higher sales brought about changes in the efficiency ratios in 2018. The average collection period shortened from 83 to 54 days. Inventory turnover deteriorated from 35 to 47 days, while the average payment period was 227 days. The asset turnover ratio of 3.1 (the non-current asset turnover ratio in particular) confirms the effective use of the Group's production potential.

STATEMENT OF CASH FLOWS

In 2018, the Group generated positive operating cash flows of PLN 34.1m (2017: PLN 16.1m). The largest items of operating cash flows included change in current liabilities (down PLN 8.9m), change in receivables (up PLN 17.1m), depreciation and amortisation (up PLN 10.7m), and change in inventories (down PLN 14.8m).

In 2018, cash flows from investing activities were down by PLN 21.8m (2017: down PLN 18.6m), of which a majority of PLN 24.3m was spent on intangible assets and property, plant and equipment at SECO/WARWICK SA.

Cash flows from financing activities included mainly repayment of bank and other borrowings of PLN 10.2m. In 2018, cash used in financing activities exceeded cash provided by financing activities, resulting in negative cash flows from financing activities of PLN -11.3m (2017: positive cash flows of PLN 41.7m). As a result, as at the end of 2018 cash grew year on year, to PLN 53.6m.

12. Assessment of factors and non-recurring events with a bearing on the Group's results for the financial year; the extent to which such factors or non-recurring events affected the results

No such events occurred.

13. Information on the markets, broken down into domestic and foreign markets, on the supply sources for production materials, goods and services, including information on dependence, if any, on any single customer or supplier, or a group of customers or suppliers, and where the share of a single customer or supplier in total revenue equals or exceeds 10% – the company name of such customer or supplier, its share in total sales or purchases, and its formal links with SECO/WARWICK S.A.

Geographical segments are based on the Company's markets. The Group has identified the following segments:

- the EU market,
- the Russian, Belarusian and Ukrainian markets,
- the US market,
- the Asian market,
- other countries.

The Group purchases the majority of materials used in the production of heat treatment equipment on three main markets.

Poland is the largest market supplying production materials for the SECO/WARWICK Group. It is followed by the EU (with Germany as the largest supplier). The US market is the third largest supply market for the Group in terms of both importance and volume.

In addition to these three main supply markets, the Group also procures production materials in India, China and Japan.

With a broad supplier base and access to numerous markets, the Group does not depend on any single supplier (there is no single supplier whose sales to the Group would account for more than 10% of the Group's total revenue) and is able to ensure uninterrupted production of heat treatment equipment.

Customers buying the Group's products operate in the automotive, aviation, power, machine-tool, medical equipment, electrical engineering and machine-building industries. The economic situation on those markets affects the situation of many other associated markets. The Group supplies its products both to manufacturers from the abovementioned industries and to their suppliers. The Group's customers include both automotive and aircraft manufacturers as well as producers of components and spare parts. The machine-building industry,

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understood as a group of customers purchasing the Group's products, encompasses a wide variety of business activities driven by GDP growth. There is no dependence on a single customer.

14. Agreements significant to the Group's business, including shareholder agreements known to the Group, insurance, partnership or cooperation agreements

In Current Report No. 31/2016 the Management Board of SECO/WARWICK S.A. announced that it was notified that on November 8th 2016 the following shareholders of the Company:

- SW Holding sp. z o.o. ("SWH"), holding 3,387,139 Company shares,
- Spruce Holding LLC ("SHLLC"), holding 1,123,337 Company shares,
- Paweł Wyrzykowski ("PW"), holding 255,000 Company shares,
- Andrzej Zawistowski ("AZ"), holding 65,000 Company shares,
- Bartosz Klinowski ("BK"), holding 35,000 Company shares,

(SWH, SHLLC, PW, AZ and BK, jointly the "Shareholders") signed of a share lock-up agreement (the "Agreement").

Pursuant to the Agreement, the Shareholders agreed not to dispose of, offer or pledge the following holdings of Company shares:

- 3,387,139 Company shares held by SWH,
- 1,123,337 Company shares held by SHLLC,
- 255,000 Company shares held by PW,
- 65,000 Company shares held by AZ, and
- 35,000 Company shares held by BK.

The lock-up restrictions under the Agreement remain in effect until December 31st 2019, but they may expire before that date in certain circumstances agreed by the Parties in the Agreement.

In 2018, neither SECO/WARWICK S.A. nor its Group companies entered into any significant insurance, partnership or cooperation agreements. Likewise, SECO/WARWICK S.A. has no knowledge of any other significant shareholder agreements.

15. Related-party transactions concluded by the SECO/WARWICK Group other than arm's length transactions

In 2018, SECO/WARWICK S.A. and its subsidiaries did not enter into any transactions with related entities other than transactions executed on an arms' length basis.

16. Information on agreements on bank and other borrowings executed or terminated in the financial year, including at least information on the types, amounts and interest rates, as well as currencies and repayment dates

Short-term and long-term bank and other borrowings as at December 31st 2018

Lender	Borrowing amount		Repayment date	Security	Interest rate	Type
	PLN ('000)	Currency ('000)				
HSBC Bank	1,644	CNY 3,000	Mar 14 2019	SBLC	fixed	Overdraft facility
CITI BANK	610	CNY 1,113	Jun 28 2019	SBLC	fixed	Overdraft facility
CITI BANK	199	EUR 46	Mar 22 2019	SBLC	fixed	Overdraft facility
HSBC Bank	495	EUR 115	Jun 20 2019	SBLC	fixed	Overdraft facility
Commerzbank	1,011	EUR 235	Oct 31 2019	-	fixed	Overdraft facility
Toyota Kreditbank	47	EUR 11	May 15 2021	-	fixed	Overdraft facility
Toyota Kreditbank	49	EUR 11	May 15 2021	-	fixed	Overdraft facility
SANTANDER	1,695	-	Jun 30 2018	-	variable	Overdraft facility
mBank	28	-	-	-	-	Credit card limit
mBank	23	EUR 5	-	-	-	Credit card limit
mBank	53	-	-	-	-	Credit card limit
mBank	11	3 USD	-	-	-	Credit card limit
mBank	90	21 USD	-	-	-	Credit card limit
SANTANDER	15,177	-	Jan 30 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
Raiffeisen	18,468	-	Dec 31 2019	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure	variable	Overdraft facility
PEKAO	15,692	-	Sep 8 2019	promissory note	variable	Overdraft facility
PEKAO	4,963	-	Sep 11 2019	Representation on voluntary	variable	Overdraft facility

				submission to enforcement under Art. 777.1 of the Code of Civil Procedure		
CITI BANK HANDLOWY	1,373	EUR 319	May 22 2019	trade credit secured with proceeds from the contract	variable	Investment facility
mBank	7,885	-	Jan 31 2020	Mortgage, surety provided by SWE, hold on securities account	variable	Investment facility
Total	69,513					

17. Sureties and guarantees issued and received in the financial year

Contingent liabilities under guarantees and sureties issued were PLN 51,508 thousand as at the end of 2018, and PLN 62,720 thousand as at the end of 2017. The following guarantees were issued:

Item	Dec 31 2018
advance payment guarantee	42,588
bid bond payment guarantee	-
loan guarantee	-
performance bond	1,475
stand-by letter of credit	-
bid bond	4,679
loan guarantee	2,766
Total	51,508

18. Information on loans advanced in the financial year, in particular loans to the Company's related entities, including at least information on the types, amounts and interest rates, as well as the currencies and repayment dates

On February 22nd 2017, SECO/WARWICK S.A. granted its subsidiary SECO/WARWICK Services Sp. z o.o. a loan of PLN 1m, with an interest rate of 3% per annum, repayable in December 2018. The loan was repaid in full in 2018.

No loans were advanced by SECO/WARWICK S.A. to members of the Management or the Supervisory Board, or any non-related parties in 2018.

19. Assessment (and grounds for the assessment) of financial resources management, including in particular an assessment of the Group's ability to repay its liabilities, as well as an identification of threats, if any, and measures used or intended to be used by the Group to mitigate such threats. Feasibility of planned

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investments, including equity investments, in view of the funds available to the Group; possible changes in the financing of the investments

As at December 31st 2018, the SECO/WARWICK Group's outstanding debt under investment loans and overdraft facilities was PLN 69,513 thousand, having increased from PLN 78,239 thousand at the end of 2017.

The funds and credit facilities available to the Group were sufficient to finance investments and capital expenditure planned for and executed in 2017.

In the opinion of the Management Board of the Parent, as at the end of the reporting period there was no threat of the Company's failure to meet its liabilities.

The table below presents the liquidity ratios of the SECO/WARWICK Group.

LIQUIDITY RATIOS	Dec 31 2018	Dec 31 2017
Current ratio	0.2	0.2
Quick ratio	0.9	0.9
Cash ratio	1.1	1.1

20. Issue of securities and use of issue proceeds by SECO/WARWICK S.A.

No such events occurred in 2018.







21. Explanation of discrepancies between the financial results disclosed in the full-year report and the previously released forecasts for the year, if any



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











22. Description of material risk factors and threats, including information on the degree of the Group's exposure to such risks or threats

The fast-changing environment and growth of the SECO/WARWICK Group require seeking continuous improvement and ensuring highly active risk management. The SECO/WARWICK Group focuses mainly on financial risks (liquidity, credit, market, currency), operational risks (mainly related to quality, timeliness and project costs) and compliance risks (legal, regulatory).



Detailed overview of key risks to the SECO/WARWICK Group

Small risk 	Moderate risk 	Significant risk 
Stable risk 	Upward risk 	Downward risk 

CATEGORY	BRIEF DESCRIPTION RISKS	RISK MITIGATION / HANDLING	POTENTIAL ADVERSE IMPACT OF RISK	RISK LEVEL	TREND
FINANCIAL RISKS					
1. Risk related to R&D projects	Risk of delays in research and development projects and risk of cost overruns	<ul style="list-style-type: none"> detailed and step-by-step project preparation risk review on a regular basis on-going project status monitoring and forecasting of project parameters active project management, including close oversight and communication 	<ul style="list-style-type: none"> delays in achieving expected financial results budget overruns failure to validate technical feasibility of equipment 		

2.	Liquidity and financing risk	Inappropriate working capital management	<ul style="list-style-type: none"> analysis and forecasting of the Group's cash flows and liquidity diversification of financing sources effective management of R&D projects optimisation of working capital 	<ul style="list-style-type: none"> lower efficiency of sales activities suspension or delay in the implementation of R&D activities 		
3.	Market risk	Changes in prices of materials, foreign exchange rates and interest rates	<ul style="list-style-type: none"> following the adopted material price management policy and currency risk management policy 	<ul style="list-style-type: none"> deterioration of financial performance deterioration of liquidity 		
4.	Credit risk	Insolvent partners trading	<ul style="list-style-type: none"> monitoring of partners' ratings and financial position the use of diverse financial tools to hedge risk 	<ul style="list-style-type: none"> deterioration of financial performance deterioration of liquidity 		
OPERATIONAL RISKS						
5.	Risks in project implemented at Retech Systems LLC.	Non-payment	<ul style="list-style-type: none"> negotiations with customers 	<ul style="list-style-type: none"> deterioration of financial performance deterioration of liquidity 		
6.	IT system risk	External or internal interference with IT systems (cyber-attack)	<ul style="list-style-type: none"> IT security audits in-house procedures for IT security management security tests for IT systems 	<ul style="list-style-type: none"> loss of data confidentiality revenue reduction and financial loss 		

			<ul style="list-style-type: none"> raising employees' awareness of cyber security issues (training, information, tests) 	<ul style="list-style-type: none"> 		
7.	Employee risk	Difficulties with recruitment of qualified employees and retention of competent and experienced staff	<ul style="list-style-type: none"> close cooperation with secondary schools and higher education facilities (vocational classes under the Group's patronage, student apprenticeship and internships, competitions for pupils to develop their vocational skills, participation in open days, job fairs, etc.) employer branding through presence in social and traditional media building career paths and opportunities for employees development of leadership skills building an engaging work environment creation of space for innovation within the organisation system of periodic employee assessment satisfaction surveys and follow-up based on survey results employee benefits 	<ul style="list-style-type: none"> Scaling down of operations and financial performance 	●●●	➔

COMPLIANCE RISKS						
7.	Legal risk – asbestos lawsuit against SWC	Possible payment of damages for asbestos claims	<ul style="list-style-type: none"> • cooperation with a specialised law firm • use of existing insurance policies 	<ul style="list-style-type: none"> • deterioration of financial performance • deterioration of liquidity 		

23. Statement of compliance with corporate governance principles by the SECO/WARWICK Group in 2018

a. Identification of the set of corporate governance principles followed by the Parent of the SECO/WARWICK Group and place where the text of the rules is publicly available

SECO/WARWICK S.A. is subject to the Code of Best Practice for GPW Listed Companies 2016 implemented under Resolution No. 26/1413/2015 passed by the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (WSE) on October 13th 2015.

The Code is available at www.corp-gov.gpw.pl and www.secowarwick.com.

The Company did not observe any corporate governance principles going beyond the requirements stipulated by Polish law.

b. Scope of non-compliance with the corporate governance rules referred to above, specification of the rules not complied with, and explanation of why they were not complied with and how the company intends to eliminate the effects (if any) of non-compliance with a given rule or measures it intends to take to reduce the risk of non-compliance with a given rule in the future

In 2016, acting under Par. 29.3 of the WSE Rules, the Company submitted a report on the Company's compliance with the recommendations and principles laid down in the Code of Best Practice for GPW Listed Companies 2016. The report is available at www.secowarwick.com.

According to the report, SECO/WARWICK S.A. did not comply with the following principles and recommendations:

- **I.Z.1.19.** A company should operate a corporate website and publish on it shareholders' questions asked to the management board pursuant to Article 428.1 or 428.6 of the Commercial Companies Code together with answers of the management board to those questions, or a detailed explanation of the reasons why no answer is provided, pursuant to principle IV.Z.13.
 - The Company's commentary: The Company complies with this principle where it obliges the Company to publish shareholders' questions asked to the management board pursuant to Article 428.1 or 428.6 of the Commercial Companies Code together with the management board's answers to those questions by fulfilling the obligation set forth in Par. 38.1.12 of the Minister of Finance's Regulation on current and periodic information of February 19th 2009. However, the Company believes that publishing shareholders' questions which the Company refused to answer pursuant to Article 428.2 or 428.3 of the Commercial Companies Code, which would mean full compliance with the principle discussed, could be detrimental to the Company's interests. Having no control over the contents, scope and wording of such questions, the Company would be obliged to publish them even if their publication were detrimental to the Company's interests or cause the Company to incur liability to third parties.
- **I.Z.1.20.** A company should operate a corporate website and publish on it a record of the General Meeting in audio or video format.
 - The Company's commentary: Given the Company's concentrated ownership structure, the Company does not record its General Meetings in electronic form. General Meetings are attended by shareholders representing over 50% of the share capital. Each General Meeting is broadcast live on the Company's corporate website.
- **III.Z.3.** The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks.
 - The Company's commentary: Since the beginning of 2018, the Company has had an internal audit function in place. However, it is yet to meet all the independence requirements.

- **III.Z.4.** At least once a year, the person responsible for the internal audit function (if such function is designated within the Company) and the Management Board shall present to the Supervisory Board their own evaluation of the effectiveness of systems and functions referred to in Principle III.Z.1, together with an appropriate report.
 - The Company's commentary: In the course of its work summing up the year 2018, the internal audit function presented an evaluation of the internal control system for the first time in April 2019. The Company intends to apply this principle in the future.
- **IV.R.2.** If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:
 - real-life broadcast of the general meeting;
 - real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;
 - exercise of the right to vote during a general meeting either in person or through a plenipotentiary.
 - The Company's commentary: The Company's general meetings are not held with the use of electronic communication means. The Company believes that considering its concentrated ownership structure and financial aspects the use of electronic communication would not be reasonable. However, the Company declares that it will make an effort to implement the principle at the Company if a wider group of shareholders so request.
- **IV.Z.13.** If a shareholder requests information about the company, the management board of the company should provide an answer to the shareholder's request within 30 days or inform the shareholder of its refusal to provide such information where the management board has made such decision pursuant to Art. 428.2 or Art. 428.3 of the Commercial Companies Code.
 - The Company's commentary: The Company seeks to comply with this principle in full, yet this may prove difficult or impossible in practice. In certain cases it may happen that in order to answer shareholder questions exhaustively the Company needs more than the 30-day time limit set by the principle, especially if to give an answer the Company is required to conduct additional analyses or ask employees or members of the Company's governing bodies for clarifications.
- **VI.Z.4.** In the activity report, the company should report on the remuneration policy including at least the following:
 - 1) general information about the company's remuneration system;
 - 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
 - 3) information about non-financial remuneration components due to each management board member and key manager;
 - 4) significant amendments of the remuneration policy in the last financial year or information about their absence;
 - 5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.
 - The Company's commentary: This principle is not applied as the Company has not adopted any a remuneration policy. Remuneration of the Management Board Members is defined by the Company's Supervisory Board, while the Supervisory Board Members receive monthly lump-sum remuneration in amounts defined by resolution the Company General Meeting. The amounts of remuneration paid to the Management Board Members are disclosed in the Directors' Report on the Company's operations.

c. Main features of the SECO/WARWICK Group's systems of internal control and risk management with respect to preparation of financial statements and consolidated financial statements

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 prepared and published in accordance with the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities dated March 29th 2018.

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 internal control and risk management system applied to financial reporting was developed based on:

- **Clear division of responsibilities and organisation of work in the financial reporting process**

Responsibility for the preparation of the Group's financial statements, current management reports, and periodic financial reports lies with the Parent's Financial Department, headed by the Chief Financial Officer.

Financial statements of the SECO/WARWICK Group are prepared by the staff of the Parent's Financial Department, based on financial data contained in the financial and accounting system, as approved by the Chief Financial Officer, and on other additional data provided by designated employees from other departments in the Group. Prior to being handed over to an external auditor, complete financial statements are reviewed by the Head of the Accounting Department and then by the Chief Financial Officer.

Periodic reports of the Group are prepared by the staff of the Financial Department, based on financial data contained in the financial and accounting system, as approved by the Chief Financial Officer, and on other additional data provided by designated employees of other departments. Prior to being handed over to an external auditor, complete periodic reports are reviewed by the Head of the Accounting Department and then by the Chief Financial Officer.

- **Precise definition of the scope of the Group's financial reporting**

The Group reviews its strategy and business plans annually, in cooperation with its senior and middle management. Based on the outcome of the review, the Group carries out a budgeting process covering all areas of its operations. During the year, the Parent's Management Board analyses current financial performance and compares it against the adopted budget in accordance with the management reporting system adopted by the Group and based on the Group's accounting policies (International Financial Reporting Standards), taking into account the format and level of detail of the financial data presented in periodic financial statements of the SECO/WARWICK Group.

The accounting policies applied to statutory reporting are included in the budgeting process and in the Group's management reporting system.

The Group makes every effort to ensure that the financial statements, periodic reports, and other reports presented to investors are based on consistently applied accounting policies.

- **Regular reviews of the Group's performance, based on the financial reporting system used by the Group**

Financial data used to prepare financial statements and periodic reports is sourced from the financial and operational reports prepared by the SECO/WARWICK Group. After the closing of accounts for each calendar month, the employees of the Financial Department, acting under the direction of the Chief Financial Officer, analyse the Group's financial results by business segments in the context of original objectives.

Any errors revealed during the analysis are corrected immediately in accordance with the adopted accounting policies.

The work on financial statements and periodic reports starts only after the results recorded in a closed month (reporting period) have been approved by the Chief Financial Officer.

- **Requirement to submit financial statements for approval prior to their publication**

Periodic reports and financial statements, once reviewed or audited by the auditor, are submitted to the members of the Company's Supervisory Board.

All members of the Supervisory Board are offered an opportunity to get acquainted with the financial statements or auditor's report. All queries can be discussed with Chief Financial Officer, who is available for this purpose to the members of the Supervisory Board.

- **Audit/review of financial statements by an external auditor**

In accordance with the applicable legal regulations, the SECO/WARWICK Group submits its financial statements for a review or audit, as appropriate, by a qualified external auditor.

- **Engaging the Parent's internal audit functions in the assessment of the control mechanisms in place at the SECO/WARWICK Group**

SECO/WARWICK S.A. appoints a CEO Proxy for Quality Assurance and Turnover Control, who participates in the analysis of processes and, through internal audits, in the assessment of the control mechanisms. The programme of half-year internal audits is created based on an analysis of the findings of the previous audits, taking into account the significance of particular processes in place. The audit programme is approved by the CEO, member of the Management Board, and is implemented by a team of auditors. Apart from scheduled audits, there are also audits reviewing the conclusions of previous audits, and unscheduled audits conducted at the request of the Management Board.

Internal auditors prepare reports that include their comments and information on any identified inconsistencies. Auditors' reports may also include determinations reflecting changes made in a given area. The audit results are used by the managers of organisational units to introduce improvements to control mechanism in the processes they supervise. If changes apply to the company as a whole, they are introduced, if necessary, by the Proxy in the system documentation.

d. Shareholders holding, directly or indirectly, major holdings of the Company's shares

Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total voting rights in the Company as at December 31st 2017 and as at the date of issue of this Report:

Shareholder	Number of shares	Ownership interest (%)	Number of voting rights	% of total voting rights
SW Holding	3,387,139	32.89%	3,387,139	32.89%
Spruce Holding Limited Liability Company (USA)	1,123,337	10.91%	1,123,337	10.91%
Aviva Otwarty Fundusz Emerytalny Aviva Santander	1,046,573	10.16%	1,046,573	10.16%
Bleauhard Holdings LLC	637,028	6.19%	637,028	6.19%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	600,000	5.83%	600,000	5.83%
Metlife OFE	577,470	5.61%	577,470	5.61%

The data is based on notifications received from the shareholders.

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SECO/WARWICK S.A. holds 496,334 treasury shares, representing 4.82% of the share capital. The Company does not exercise voting rights in respect of its treasury shares.

e. Holders of any securities that confer special control powers, and description of such powers

SECO/WARWICK S.A. (Parent) has not issued any securities conferring special control powers with respect to SECO/WARWICK S.A.

f. Restrictions on the exercise of voting rights such as restrictions on the exercise of voting rights by holders of a certain portion or number of votes, time limits for exercising voting rights, and provisions under which, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of the securities

There are no restrictions on the exercise of voting rights such as restrictions on the exercise of voting rights by holders of a certain portion or number of votes, time limits for exercising voting rights, or provisions under which, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of the securities.

g. Restrictions on transferability of the Company securities

In Current Report No. 31/2016 the Management Board of SECO/WARWICK S.A. announced that on November 8th 2016 the following shareholders of the Company:

- SW Holding sp. z o.o. ("SWH"), holding 3,387,139 Company shares,
- Spruce Holding LLC ("SHLLC"), holding 1,123,337 Company shares,
- Paweł Wyrzykowski ("PW"), holding 255,000 Company shares,
- Andrzej Zawistowski ("AZ"), holding 65,000 Company shares,
- Bartosz Klinowski ("BK"), holding 35,000 Company shares,

(SWH, SHLLC, PW, AZ and BK, jointly the "Shareholders") signed of a share lock-up agreement (the "Agreement").

Pursuant to the Agreement, the Shareholders agreed not to dispose of, offer or pledge the following holdings of Company shares:

- 3,387,139 Company shares held by SWH,
- 1,123,337 Company shares held by SHLLC,
- 255,000 Company shares held by PW,
- 65,000 Company shares held by AZ, and
- 35,000 Company shares held by BK.

The lock-up restrictions under the Agreement remain in effect until December 31st 2019, but they may expire before that date in certain circumstances agreed by the Parties in the Agreement.

h. Rules governing the appointment and removal from office of the management staff, and of their powers, including in particular the power to decide on an issue or buyback of shares

The Company's Management Board consists of two to five members and is appointed and removed from office by the Supervisory Board, which has the power to appoint any number of Vice-Presidents. Members of the Management Board are appointed for a joint three-year term of office. The Management Board comprises the President of the Management Board, Vice-Presidents and members. When appointing the members of the Management Board, the Supervisory Board decides who will be appointed to the positions of the President and Vice-Presidents of the Management Board. The mandate of a Management Board member expires on the date of the General Meeting approving the Directors' Report, the statement of financial position and the statement of comprehensive income for the last year in which the member held the office. Members of the Management Board may be re-appointed for another term of office. The Management Board may appoint one or more commercial proxies

The Management Board has all powers to manage the Company's affairs other than those which fall within the exclusive scope of competence of the other governing bodies of the Company. The Management Board defines the overall organisation structure of the Company and the principles of its operation. For this purpose it may issue relevant rules and other internal regulations. Every member of the Management Board may, without a prior resolution of the Management Board, manage any affairs of the Company falling within the scope of the day-to-day management, except where, before the matter is settled, at least one member objects to it. Each Management Board member may individually incur a liability or dispose of a right for an amount of up to PLN 200,000.00 (two hundred thousand). Assuming an obligation or disposing of a right in excess of PLN 200,000.00 (two hundred thousand zloty) requires two Management Board members acting jointly or a Management Board member acting jointly with a commercial proxy authorised to act individually, or a Management Board member acting jointly with a commercial proxy holding joint powers of proxy. Any issues which fall beyond the scope of the day-to-day management of the Company's affairs require a resolution of the Management Board.

The Company shares may be cancelled upon the shareholder's consent through the acquisition of the shares by the Company ("voluntary cancellation") or without the shareholder's consent ("compulsory cancellation"), in compliance with the provisions of the Commercial Companies Code. Shares may be cancelled without the shareholder's consent on the basis of a resolution of the General Meeting if: the shareholder is declared bankrupt; an enforcement procedure has been instituted with respect to the shares; a court of general jurisdiction has declared in civil proceedings that the shareholder acted to the detriment of the Company; a final ruling has been issued convicting the shareholder of a crime connected with acting to the detriment of the Company.

Compulsory cancellation is effected against compensation, which may not be lower than the value of net assets attributable to the shares, as disclosed in the financial statements for the previous financial year, less the amount allocated for distribution among the shareholders. The General Meeting may cancel all or part of a shareholder's shares at the shareholder's written request. In such a case, the value of the cancelled shares is determined by a resolution of the Company's General Meeting, with a proviso that the resolution is valid only if the shareholder requesting the cancellation of the shares votes in favour of the resolution. The Company may acquire its own shares for the purpose of retiring them or for other purposes set forth in Art. 362.1 of the Commercial Companies Code. The General Meeting may authorise the Management Board to acquire the Company shares from the shareholders with a view to retiring them.

i. Rules governing amendments to the Parent's Articles of Association

In accordance with Art. 430.1 of the Commercial Companies Code, any amendment to SECO/WARWICK S.A.'s Articles of Association requires a resolution by the General Meeting and must be entered in the relevant court register. Amendments to the Articles of Associations are submitted to the registry court by the Management Board of SECO/WARWICK S.A. The General Meeting of the Company may authorise the Supervisory Board to prepare a consolidated text of the amended Articles of Association or to make other editorial changes specified in the General Meeting's resolution.

j. Manner of operation of the General Meeting, its basic powers and description of the shareholder rights, along with the procedure for their exercise, including in particular rules provided for in the Rules of Procedure for the General Meeting, if any, unless such information follows directly from the provisions of law

The General Meeting operates according to the Rules of Procedure for the General Meeting of SECO/WARWICK S.A., adopted by virtue of Resolution No. 32 of the SECO/WARWICK S.A. General Meeting of June 24th 2016. The General Meeting may only be attended by persons who are the Company's shareholders sixteen days prior to the date of the General Meeting. The record date for participation in the General Meeting is the same for the holders of rights under bearer and under registered shares. (Art. 406 [1] of the Commercial Companies Code) Holders of rights under registered shares and provisional certificates, as well as pledgees and usufructuaries holding voting rights, are entitled to participate in the General Meeting of a public company only if they are entered in the share register as at the record date (Art. 406 [2] of the Commercial Companies Code)

The General Meeting may be attended by persons whose presence is considered indispensable by the Supervisory Board or Management Board (Par. 4 of the Rules of Procedure for the General Meeting).

After presentation of each item on the agenda, the Chairman of the General Meeting opens the discussion and gives floor in the order in which the participants requested to speak. While taking the floor, the shareholder may speak only on the matters included in the agenda and discussed at a given moment. With respect to each agenda item being discussed, a shareholder is entitled to give one speech and one reply (Par. 14 of the Rules of Procedure for the General Meeting).

Depending on their subject matter, resolutions of the General Meeting are adopted by the majority of votes required by the Company's Articles of Association, the Commercial Companies Code, or other generally applicable laws (Par. 18 of the Rules of Procedure for the General Meeting).

Resolutions of the General Meeting are adopted in an open ballot, subject to the provisions of Par. 17.2 on voting by secret ballot in the following cases: elections; proposals to remove a member of the Company's governing body or its liquidator; proposals to bring a member of the Company's governing body or its liquidator to account; proposals concerning personnel matters, at the request of at least one shareholder present or represented at the General Meeting; in any other cases provided for in generally applicable laws (Par. 16 of the Rules of Procedure for the General Meeting).

The Chairman of the General Meeting presents the agenda of the Meeting and submits it for approval by the General Meeting. If no objections are raised, the agenda is deemed approved by the General Meeting (Par. 9 of the Rules of Procedure for the General Meeting). After the Chairman of the General Meeting closes the list of speakers, no speakers may be added to the list, and after the discussion is declared closed, no speakers may take the floor and no proposals referred to in Par. 15 of Rules and Procedure for the General Meeting may be submitted

In 2018, the Annual General Meeting of SECO/WARWICK S.A., formally convened, was held on May 29th 2018. The General Meeting was convened at the request of the Management Board. No requests to convene a General Meeting were submitted by shareholders in 2018.

The General Meeting was held in accordance with the Commercial Companies Code, the Rules of Procedure for the General Meeting of SECO/WARWICK S.A. and the Code of Best Practice for WSE Listed Companies 2016. The shareholders were afforded the opportunity to read draft resolutions for the General Meeting as these were published on the Company's website and in Current Report No. 16/2018 of April 27th 2018 at least 26 days prior to the General Meeting. The Company approved the documents submitted by the shareholders and their proxies, and recognised the validity of the powers of proxy, right to represent and participate in the General Meeting.

In 2018, within its powers, the Annual General Meeting adopted resolutions essential for proper operation of the Company, including a resolution on the approval of the Directors' Report on the Company's operations and the financial statements for the financial year 2017, allocation of profit for the financial year 2017, approval of the Directors' Report on the Group's operations and the consolidated financial statements of the SECO/WARWICK Group for the financial year 2017, and granting discharge in respect of performance of duties to members of the Company's governing bodies.

The Chairman of the General Meeting ensured procedural efficiency and respect for the rights and interests of all shareholders. The General Meeting was not adjourned or interrupted. Members of the Management Board and Supervisory Board were available to the shareholders and proxies, ready to provide explanations to the extent permitted by their knowledge and required by the provisions of law. None of the resolutions adopted at the General Meeting was challenged in court proceedings.

In 2018, an Extraordinary General Meeting of SECO/WARWICK S.A. was held on April 11th 2018. The Extraordinary General Meeting was convened at the request of the Management Board.

The General Meeting was held in accordance with the Commercial Companies Code, the Rules of Procedure for the General Meeting of SECO/WARWICK S.A. and the Code of Best Practice for WSE-Listed Companies. The

shareholders had the opportunity to read the draft resolutions for the General Meeting as these were published on the Company's website and in Current Report No. 5/2018 of March 14th 2018 at least 26 days prior to the General Meeting. The Company approved the documents submitted by the shareholders and their proxies, and recognised the validity of the powers of proxy, right to represent and participate in the General Meeting.

Within its powers, the Extraordinary General Meeting passed resolutions important for the Company's operations, including a resolution to amend Art. 20 of the Company's Articles of Association, draw up the consolidated text of the Company's Articles of Association, shorten the Supervisory Board's term of office, remove and appoint Supervisory Board members, determine the remuneration of Supervisory Board members, adopt the 2018-2020 Incentive Scheme, adopt the Rules of the Incentive Scheme, allocate treasury shares for the purposes of the Incentive Scheme, and designate participants of the 2018-2020 Incentive Scheme.

All the resolutions adopted in 2018 by the General Meeting are aimed at serving the interest of the Company, with due consideration given to other stakeholders' rights. The resolutions adopted by the General Meeting were published on the Company's website at: www.secowarwick.com

k. Composition and changes in the composition of the Company's management, supervisory and administrative bodies and their committees, which took place in the last financial year; description of their activities

Management Board

• **Composition of the Management Board**

In the period January 1st – December 31st 2018, the composition of the Company's Management Board was as follows:

Paweł Wyrzykowski – President of the Management Board
Bartosz Klinowski – Member of the Management Board
Sławomir Woźniak – Member of the Management Board.

As at the date of issue of this Report, the composition of the Company's Management Board was as follows:

Paweł Wyrzykowski – President of the Management Board
Bartosz Klinowski – Member of the Management Board
Sławomir Woźniak – Member of the Management Board
Earl Good – Member of the Management Board.

On December 13th 2018, Mr Earl Good was appointed Member of the Management Board, with effect from January 2nd 2019.

• **Operation of the Management Board**

The Management Board operated under the regulations of the Commercial Companies Code, the Rules of Procedure for the Management Board, approved by the resolution of the Supervisory Board and available to the public, and in accordance with the Code of Best Practice for WSE-Listed Companies. The Rules of Procedure for the Management Board stipulate the division of responsibilities, tasks and authority among the members.

The Management Board is the executive body of the Company, managing its current operations and representing it in relations with third parties. The powers of the Management Board include all matters which do not fall within the exclusive scope of competence of the General Meeting or the Supervisory Board. A decision to acquire or dispose of property, perpetual usufruct right to or an interest in property, rests exclusively with the Management Board and requires approval by the General Meeting.

The Management Board is composed of 2 (two) to 5 (five) members appointed by the Supervisory Board, including President, Vice President and members of the Management Board. The Supervisory Board may

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appoint any number of Vice-Presidents. The Management Board members are appointed by the Supervisory Board for a joint three-year term of office. Each Management Board member may individually incur a liability or dispose of a right for up to the equivalent of PLN 200,000.00 (two hundred thousand). Assuming an obligation or disposing of a right in excess of PLN 200,000.00 (two hundred thousand złoty) requires two Management Board members acting jointly or a Management Board member acting jointly with a commercial proxy authorised to act individually, or a Management Board member acting jointly with a commercial proxy holding joint powers of proxy. The Management Board acts in accordance with its Rules of Procedure, approved by the Supervisory Board at the request of the Management Board.

When formulating strategic objectives and setting current tasks, the Management Board was primarily guided by the Company's best interest and the provisions of law, while also protecting the interests of shareholders, employees and creditors.

In order to ensure the clarity and efficiency of the management system, the Management Board observed the rules of professional conduct within the limits of reasonable economic risk, using a wide range of information, opinions and analyses available.

The Supervisory Board decides on the remuneration of the members of the Management Board based on clearly defined procedures. The remuneration for serving as members of the Management Board was granted taking into account the economic results achieved on the basis of competence and responsibility of the individual members of the Board. The amount of remuneration payable to the Management Board members is defined in the resolutions passed by the Company's Supervisory Board on January 12th 2012, December 13th 2012, December 5th 2013, and April 23rd 2015. Remuneration paid to the members of the Management Board did not vary from the level of remuneration paid to members of management boards at electromechanical industry companies of comparable size.

Supervisory Board

- **Composition of the Supervisory Board**

As at January 1st 2018, the composition of the SECO/WARWICK Supervisory Board was as follows:

Andrzej Zawistowski – Chairman of the Supervisory Board
Henryk Pilarski – Deputy Chairman of the Supervisory Board
Jeffrey Boswell – Member of the Supervisory Board
James A. Goltz – Member of the Supervisory Board
Marcin Murawski – Member of the Supervisory Board
Paweł Tamborski – Member of the Supervisory Board.

As at December 31st 2018 and the date of issue of this Report, the SECO/WARWICK S.A. Supervisory Board was composed of:

Andrzej Zawistowski – Chairman of the Supervisory Board
Henryk Pilarski – Deputy Chairman of the Supervisory Board
Jeffrey Boswell – Member of the Supervisory Board
Marcin Murawski – Member of the Supervisory Board
Jacek Tucharz – Member of the Supervisory Board.

Mr Paweł Tamborski tendered his resignation as member of the Supervisory Board, with effect as of February 16th 2018.

On April 11th 2018, Mr James A. Goltz was removed from the Supervisory Board by Resolution No. 10 of the Extraordinary General Meeting of SECO/WARWICK S.A., while Mr Jacek Tucharz was appointed to the Supervisory Board by Resolution No. 18 of the Extraordinary General Meeting of SECO/WARWICK S.A.

- **Operation of the Supervisory Board**

The Supervisory Board of SECO/WARWICK S.A. operates under the regulations of the Commercial Companies Code, the Rules of Procedure for the Supervisory Board (approved by the General Meeting and available to the public), and in accordance with the Code of Best Practice for WSE-Listed Companies. The Rules of Procedure for the Supervisory Board stipulate the division of responsibilities, tasks and authority among the members.

The Supervisory Board of SECO/WARWICK S.A. adopts resolutions and issues opinions on the matters falling within its exclusive scope of competence under the Articles of Association, and in a manner provided for in the Articles of Association and applicable laws.

The Supervisory Board complied with the requirement of having at least two independent members, meeting the independence criteria specified in the Company's Articles of Association.

In 2018, the Supervisory Board meetings were held on a regular basis, and were attended by members of the Management Board, who provided the Supervisory Board with reliable and complete information on material issues relating to the operation of the Company. The Supervisory Board held five meetings, at which resolutions were adopted with respect to the matters included in the meeting agendas. The resolutions were sent to the members of the Supervisory Board in the notices of the meetings.

Provision of any benefits by the Company or related parties to members of the Management Board was approved by virtue of a resolution adopted by a majority of members of the Supervisory Board.

The General Meeting decides on the remuneration of the members of the Supervisory Board based on clearly defined procedures. The remuneration for serving as members of the Supervisory Board was granted taking into account the economic results achieved on the basis of competence and responsibility of the individual members of the Supervisory Board. Remuneration paid to the members of the Supervisory Board did not vary from the level of remuneration paid to members of supervisory boards at electromechanical industry companies of comparable size. Throughout 2018, members of the Supervisory Board informed the Company's Management Board of their trades in SECO/WARWICK S.A. shares.

In 2018, the Supervisory Board focused primarily on the matters significant to the Company's operations.

Within its powers to define the development strategy for the Company, the Supervisory Board made a number of analyses of the directions for long-term growth of the SECO/WARWICK Group in the context of the changes taking place in the market of manufacturers of heat treatment furnaces, including technological changes and growing competition.

The Supervisory Board, within its powers to supervise the Company's and the Group's operations, conducted an analysis and carried out periodic assessments of the financial statements of SECO/WARWICK S.A. and the Group, as well as of the Directors' Reports on the Company's operations.

The Supervisory Board will provide the Annual General Meeting with an assessment of the Company's situation, including an assessment of the system for internal control and management of risk material to the Company, assessment of the Company's fulfilment of disclosure requirements, assessment of the reasonableness of the Company's policy for sponsorship and charitable activities, as well as evaluation of the operation of the Supervisory Board, prepared in accordance with the Code of Best Practice for WSE-Listed Companies 2016.

Committees of the Supervisory Board

In 2018, an Audit Committee operated within the Supervisory Board, performing analytical and control functions under the Rules of Procedure for the Supervisory Board, the guidelines set out in the Act on Statutory Auditors, Audit Firms, and Public Oversight, and the Code of Best Practice for WSE-Listed Companies 2016. The Audit Committee held four meetings and one voting using electronic means of communication. The Audit Committee performed analytical and control functions in line with the Rules of Procedure for the Supervisory Board, the Rules of Procedure for the Audit Committee, and the guidelines set out in the Code of Best Practice for WSE-Listed Companies. The Committee's activities included in particular:

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1. regular monitoring of the Company's and Group's financial reporting process and informing the Supervisory Board about the results of the process,
2. monitoring of internal control systems and risk management systems used to control the main risks to which the Company was exposed;
3. monitoring of the Company's relations with related parties,
4. monitoring of the performance of financial audit tasks, in particular the audit of the Company's and Group's financial statements performed by an audit firm,
5. the merger of SECO/WARWICK S.A. and SECO/WARWICK Europe Sp. z o.o.,
6. implementation of IFRS 15,
7. the 2018-2020 Incentive Scheme,
8. monitoring of the operating risks of the Group's foreign companies (SWC, Retech, SW Germany, and SW France),
9. monitoring of the performance by the Company and the Group companies of the activities requested by the statutory auditor,
10. checking the independence of the statutory auditor;
11. monitoring of the information intended for publication on the financial reporting process of the Company and the Group,
12. monitoring the company's performance with regard to compliance regulations and legal risks;
13. making recommendations for appointment of the internal auditor,
14. the Company has implemented the principles of best practice with respect to maintaining effective internal control, risk management and compliance systems as well as an effective internal audit function, in line with the company's size and the type and scale of its business,
15. submitting recommendations on appointment of an auditor for the Company and the Group in accordance with the audit firm selection policy;
16. holding meetings with audit firms,
17. monitoring of internal audit and internal control activities, in particular regarding compliance of the operations of the Company and the Group companies with applicable laws,
18. implementation of IFRS 16 – leases,
19. winding up of SECO/WARWICK France.

As at December 31st 2018, the Audit Committee was composed of:

1. Marcin Murawski – Chairman of the Audit Committee
2. Henryk Pilarski – Secretary of the Audit Committee
3. Jacek Tucharz – Member

The following members of the Supervisory Board and the Audit Committee met the criteria of independence according to the applicable regulations: Mr Marcin Murawski and Mr Jacek Tucharz.

Mr Marcin Murawski has knowledge and skills in accounting, while Mr Henryk Pilarski has knowledge and skills relevant for the industry in which the Company operates.

Audit firm selection policy

1. In the procedure for appointing an audit firm, the Supervisory Board takes the following into consideration:
 - a) the experience of the audit team in the audit of financial statements of public interest entities (in particular joint stock companies whose securities are admitted to trading on a regulated market);
 - b) the general competence of the audit team;
 - c) financial criteria;

- d) audits of financial statements of companies with business profiles similar to the Company's profile (including in terms of industry and geographical structure) previously conducted by the audit firm and the audit team.
2. The Supervisory Board selects the audit firm with due regard to the principle of independence of the audit firm, and after analysing the work performed by the audit firm in the Company which went beyond the scope of audit of financial statements.
3. The Audit Committee may discuss with the audit firm the threats to the audit firm's independence and the safeguards used to mitigate those risks.
4. Prior to performing the audit, each year the audit firm and members of the audit team submit a declaration of meeting the independence criteria set out in Art. 69–73 of the Act.
5. The audit firm will be selected and the audit will be performed pursuant to applicable laws, in particular the Act and the Accounting Act of September 29th 1994 (Dz.U. of 2016: items 1047, 2255; Dz. U. of 2017: items 61, 245, 791, and 1089). The audit will be conducted in accordance with the International Financial Reporting Standards as well as the requirements and rules applicable to the Company, in particular the principles of the Code of Best Practice for WSE-Listed Companies which the Company observes.
6. Introducing any contractual clauses that would require the Supervisory Board to select the qualified auditor from a specific category or list of qualified auditors is prohibited.

I. Policy for sponsorship, charitable and similar activities

It follows from the documents and Management Board's explanations submitted to the Supervisory Board that in the financial year 2018 SECO/WARWICK S.A. undertook the following activities and incurred the following expenses connected with sponsorship and charitable activities:

- Błękitni Ołobok Sporting Club - PLN 0.5 thousand
- Zielona Góra Zaczynij Biegać Association – PLN 0.2 thousand
- Lubuskie Journalists Association – PLN 5.0 thousand
- Children's Home No. 2 of Świebodzin – PLN 0.4 thousand
- Pentecostal Church of Świebodzin – PLN 0.5 thousand
- Natural person – PLN 1.5 thousand
- a Roman Catholic parish – PLN 0.5 thousand

The expenses connected with sponsorship and charitable activities totalled PLN 8.6 thousand. For more information on sponsorship activities, see Section 36 of this Report.

m. Diversity policy

The aim of diversity management at SECO/WARWICK S.A. is to create a workplace where each employee feels respected and valued and where they can fully realise their potential, contributing to the Company's success.

The Company ensures equal access to professional development and promotion opportunities for its employees, irrespective of the colour of their skin, religion, gender, age, nationality, citizenship, marital and children status, political beliefs, disability or any other legally protected status.

Decisions on hiring new staff and appointing members of the Management and Supervisory Boards are made based on objective criteria. SECO/WARWICK S.A. strives to ensure versatility and diversity in the Company's governing bodies, especially with respect to gender, educational background, age and professional experience. Candidates for particular positions are selected based on their qualifications, professionalism and competence.

The diversity policy aims to prevent discrimination at work, and to build a corporate culture open for staff diversity, which in turn helps build market position and competitive advantage.

Pursuant to the Code of Best Practice for WSE-Listed Companies, the Company hereby discloses that in the last three years (2016–2018), the participation of men and women in the Company’s Management Board and Supervisory Board was as follows: men - 100%, women - 0%.

24. Material court, arbitration and administrative proceedings

Seco/Warwick Corporation (SWC), a subsidiary of the Company, with its registered office in Pennsylvania, USA, along with a third party which is not associated with SECO/WARWICK (the “Third Party”), are parties to a court dispute with Liberty Mutual Insurance (LMI), in which they claim from LMI additional insurance limits for continued product liability insurance coverage under insurance policies issued to the Third Party in 1982–1986. 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 products manufactured by legal predecessors of SWC and the Third Party in 1958-1984 (the “Asbestos Claims”). SWC was established in 1984 and was not a part of the SECO/WARWICK 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 include the Asbestos Claims, including the costs of settlements entered into with the injured parties and the legal costs incurred to verify the legitimacy of such claims and negotiate the 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 interpretation of the contract provisions.

To the best of the Company’s knowledge, by the date of this Report, 696 Asbestos Claims had been filed against SWC, of which 268 Claims were dismissed, 41 Claims ended in settlement with the insurers for a total amount of USD 3,530 thousand, and with respect to 360 Claims verification procedures are underway or the terms of potential settlement with the injured parties are being negotiated.

If no agreement is reached with LMI on continued insurance coverage for SWC or if the lawsuit against LMI is dismissed, 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 Company’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 providers, which policies can, according to the information obtained from SWC, cover the Asbestos Claims.

As at the date of this Report, the Company’s Management Board is not in a position to make a reliable estimate of the total amount of the Company’s contingent liability related to the claims described above. The Company will disclose to the public further material information relating to this event.

25. External and internal drivers of the Company’s growth

External factors:

- The Group’s financial performance will be driven to a large extent by the macroeconomic conditions prevailing on the markets where the Group companies operate or which they plan to enter. The Group’s growth will depend on key economic indicators reported for the markets where the Group is present, such as the demand for capital goods, GDP growth rate, inflation rate, unemployment rate, and capital expenditure.
- The achievement of the SECO/WARWICK Group’s strategic objectives may be hindered by competition. If competitive pressures intensify, especially in Asian markets, they may adversely affect the Group’s ability to meet its planned financial results.
- Foreign exchange rates, particularly the EUR/PLN rate, are a significant factor for the development of the Group’s business. However, the Group actively mitigates currency risk by changing the reference

rates used to calculate the price of the equipment it manufactures, executing hedging transactions on the futures market, and making purchases in the euro and US dollars.

Internal factors:

- The achievement of the financial targets set by the SECO/WARWICK Group depends on its ability to retain highly-skilled professionals in managerial and specialist positions at the Group. In the sector where the Parent operates, as in many other sectors of the Polish economy, remuneration of highly qualified staff is lower compared with other EU countries, which may encourage employees to seek employment abroad. The Parent is actively trying to mitigate this risk by implementing such measures as a share-based incentive scheme or a financial assistance programme designed to help finance the costs of university and specialist courses. Retention of the highly-qualified staff in the mid- and long-term perspective may result in an increase in employment costs, which in turn may reduce the profitability of the Group's business.

26. Information on the issuer's and its group's growth strategy and measures taken as part of its implementation in the reporting period, including information on the issuer's growth prospects in at least the next financial year

Key objectives of the Group's new development strategy for 2017–2021:

In Current Report No. 26/2016 of October 31st 2016, the Management Board of SECO/WARWICK S.A. announced the decision not to pursue the financial objectives presented in 2012 (Current Report No. 28/2012 of October 23rd 2012) and updated in 2014 (Current Report No. 15/2014 of April 29th 2014). At the same time, the period covered by the strategy was changed to 2017–2021 and the strategy was modified mainly where it referred to the Group's structure and organisation. The plan to pay 50% or more of the profits as dividend was maintained.

The following measures are proposed to implement the modified strategy for 2017–2021:

- Merger of SW S.A. and SW EUROPE covering their production and distribution activities, organisation, management and legal status,
- Adaptation of the subsidiaries' structure and costs to the current sales capabilities,
- Implementation of a new approach to regional management at the Group, with three areas (Europe, Asia & Pacific and the Americas) distinguished for the purposes of business supervision,
- Continued development of structures, sales and servicing competencies and aftersales services at the subsidiaries,
- Implementation of an integrated management support system (ERP),
- Standardisation of a part of the offering in terms of products, technologies and processes.

These measures are expected to facilitate the achievement of the following principal objectives:

- Implementation of a sustainable growth concept, providing for the merger of SW S.A. and SW EUROPE to create a competence, production and sales centre integrating the management and engineering staff. In line with this concept, the subsidiaries will implement their individual strategies on their local markets with strict supervision and selective support from SW S.A. The Management Board believes that the merger of SW S.A. and SW EUROPE will help to streamline management functions, optimise the asset base, and deliver tangible savings in general and administrative expenses.
- Reaching the break-even point by all the subsidiaries as soon as possible.

It is expected that all the subsidiaries will modify their product and organisational structure to achieve this objective. In addition, the rules of technology transfer to the subsidiaries will be changed.

Successful implementation of the modified business strategy for 2017–2021 will enable the Group to be more effective in pursuing its business objectives thanks to cost savings and creating foundations for further economic growth.

27. Major R&D achievements

In 2018, the Research and Development division of the SECO/WARWICK Group worked on the following projects:

In 2018, an agreement was signed for co-financing of the following research and development projects, which were then started:

- “Stand-alone system for the monitoring and processing of operating parameters of a soaking furnace for the purposes of Industry 4.0 in low pressure carburising processes” – DeepCaseMaster Evolution 4.0. Intermediary institution: National Centre for Research and Development. 2014–2020 Smart Growth Operational Programme. Priority axis: Increasing the research potential. Measure: Research and development. Sub-measure: Regional scientific and research agendas. No. of grant application: POIR.04.01.02-00-0064/17. Application filing date: February 29th 2016. No. of call: 2/1.1.2/2015. Agreement for co-financing concluded in Warsaw in March 2018 between the National Centre for Research and Development and the University of Zielona Góra. The project is implemented by a consortium comprising the University of Zielona Góra and SECO/WARWICK S.A. Total amount of eligible expenditure: PLN 1,963,163.24. Total amount of co-financing: PLN 1,532,760.70 .
- “Development of an innovative device for multi-option and high-volume casting of gas turbine blades with monocrystalline microstructure for the aviation industry” – JetCaster. Intermediary institution: National Centre for Research and Development. 2014–2020 Smart Growth Operational Programme. Priority axis: Increasing the research potential. Measure: Research and development. Sub-measure: Application projects. No. of grant application: POIR.04.01.04-00-0044/17. Application filing date: December 19th 2017. No. of call: 1/4.1.4/2017. A co-financing agreement concluded in Warsaw on November 29th 2018 between the National Centre for Research and Development and SECO/WARWICK S.A. The project is implemented by a consortium comprising SECO/WARWICK S.A. and the Rzeszów University of Technology. Total amount of eligible expenditure: PLN 7,420,429.24. Total amount of co-financing: PLN 4,509,721.01.

The following interim reports were prepared in 2018/2019:

- Interim report on the project ‘SeCoil® Coil Temperature Control System’ (Growth Project No. 307053) – confirming the ability to accurately match the results of simulations with the results of measurements and thus the ability to use the simulator in the furnace control system. The results were presented at the MEFORM 2019 conference in the paper entitled ‘Microstructure oriented optimization with SeCoil digital twin for aluminium alloy 1050 coil annealing’.
- Interim report on the project ‘Development of the vacuum nitrocarburising (LPNC) technology for vacuum furnaces’ (Growth Project No. 400151) – confirmation of the technological assumptions regarding the chemical composition of the hardened top layer.
- Interim report on the ‘Development of an innovative device for multi-option and high-volume casting of gas turbine blades with monocrystalline microstructure for the aviation industry’ (JetCaster) – positive results of technological trials of monocrystalline bars cast from the CMSX4 superalloy using the classic Bridgman method.
- ZeroFlow® Feedback Control – a report on the completion of tasks/stages of work in the reporting period from September 1st 2017 to December 31st 2018 was sent.

In addition, in 2018 final reports were prepared for eight successfully completed growth projects, including:

- Final report on the project 'Continuous sulphur feeding system designed to create protective atmosphere for heat treatment of magnesium alloys' (Growth Project No. 305324) – confirming the technological assumptions and launch of the technology in the customer's facility.

The following projects were continued in 2018/2019:

- UniCase Master® – work continued under the grant agreement for Project No. POIR.04.01.04-00-0087/15 'System for highly efficient and precise heat treatment, with reduction of hardening distortion, for direct application in the straight-line production of parts of gears and bearings'. Project implemented under the Smart Growth Operational Programme 2014-2020. Institution: National Centre for Research and Development (NCBiR). Priority axis: Increasing the research potential. Measure: Research and development. Sub-measure: Application projects.
- ZeroFlow® Feedback Control – work continued under the grant agreement for Project No. POIR.04.01.04-00-0010/16 'Development of a new generation of ZeroFlow Feedback Control technology-based nitriding furnaces'. Intermediary institution: National Centre for Research and Development. 2014-2020 Smart Growth Operational Programme. Priority axis: Increasing the research potential. Measure: Research and development. Sub-measure: Application projects.
- SeCoil® Coil Temperature Control System – development of a commercial version of the software interoperating with the Vortex® furnace's superordinate system. The project is financed with the Group's own funds.
- Further development of the FineCarb® and PreNitLPC® vacuum carburising technologies and improvement of the expert system for the design, simulation and optimisation of processes – verification and commercialisation of the new SimVac 3.7 software. Project financed with the Group's own funds under a collaboration agreement with the Łódź University of Technology.
- Development of the vacuum nitrocarburising technology (LPNC). Project financed with the Group's own funds.

28. Environmental protection

Given the scale and type of its operations, the SECO/WARWICK Group is subject to environmental protection regulations in different jurisdictions.

For the purposes of its operations, the Company has secured two required permits: for waste generation and release of gas and dust into the air.

1. In the case of the waste generation permit, the Company holds a renewed permit of June 16th 2017, valid until June 16th 2027. The Company maintains a register of all generated waste. The Company has executed agreements with specialist companies which handle waste disposal, recycling and treatment (the companies hold relevant permits).
2. In the case of the permit to release gas and dust into the air, the Company holds a renewed permit of March 21st 2017, valid until March 21st 2027. Measurements of dust and gas emissions into the air are carried out regularly once a year by a specialist external company in order to monitor the levels of emissions of pollutants.

SECO/WARWICK Corp. and Retech Systems LLC are not obliged to obtain any environmental permits. The companies comply with environmental protection regulations applicable in the United States and submit waste disposal reports to appropriate public administration authorities.

Given the scope of their activities within the Group, the other companies do not need any special environmental permits, and the applicable environmental norms do not affect the use of property, plant and equipment by those companies.

In compliance with applicable laws as well as regulations issued by competent administrative authorities, the SECO/WARWICK Group strives to ensure that neither its operations nor its products have any negative environmental impact. To this end, the Group maintains and upgrades its production plants, in particular the equipment used for production and the equipment used for collection and safe storage of hazardous waste, in accordance with technical guidelines, and conducts research on mitigating the environmental impact of the process lines and furnaces it produces. On principle, the SECO/WARWICK Group companies comply with the terms of their environmental permits and fulfil the applicable disclosure requirements.

In view of the above, the Company is not aware of any circumstances that could give grounds for instigating against the Company or the other SECO/WARWICK Group companies any proceedings based on environmental protection regulations. Furthermore, to the best of the Group's knowledge, no proceedings related to environmental protection are underway or have been instituted against the Company or any other Group members. The SECO/WARWICK Group is not aware of any obligations which may be imposed on the Company or any other SECO/WARWICK Group member in connection with environmental protection regulations.

29. Workforce

For information on the workforce at SECO/WARWICK S.A., see Note 30 to the full-year consolidated financial statements and Section 36 of this Report.

30. Structure of assets and liabilities in the consolidated statement of financial position, including from the perspective of the Group's liquidity

For information on the structure of assets and liabilities in the consolidated statement of financial position, including from the perspective of the SECO/WARWICK Group's liquidity, as well as the key financial and economic data and indicators, see section 11 of this Report.

31. Material off-balance sheet items by entity, type and value

For material off-balance sheet items by entity, type and value, see section 16 of this Report.

32. Group's key capital and equity investments in the financial year

In 2018, the SECO/WARWICK Group made the following equity investments within the Group:

In 2018, the share capital of SECO WARWICK Allied was increased by PLN 2,051 thousand.

33. Major events which had a material impact on the operations and financial performance of the Group in the financial year or which may have a material impact on the operations and performance of the Group in the coming years

Major events with a material bearing on the Group's business which occurred after the reporting date:

For details on material events subsequent to the end of the reporting period, see current reports available on the corporate website at

www.secowarwick.com

34. Development policy

Key objectives of the Group's new development strategy for 2017–2021:

In Current Report No. 26/2016 of October 31st 2016, the Management Board of SECO/WARWICK S.A. announced the decision not to pursue the financial objectives presented in 2012 (Current Report No. 28/2012 of October 23rd 2012) and updated in 2014 (Current Report No. 15/2014 of April 29th 2014). At the same time, the period covered by the strategy was changed to 2017–2021 and the strategy was modified mainly where it

referred to the Group's structure and organisation. The plan to pay 50% or more of the profits as dividend was maintained.

The following measures are proposed to implement the modified strategy for 2017–2021:

- Merger of SW S.A. and SW EUROPE covering their production and distribution activities, organisation, management and legal status,
- Adaptation of the subsidiaries' structure and costs to the current sales capabilities,
- Implementation of a new approach to regional management at the Group, with three areas (Europe, Asia & Pacific and the Americas) distinguished for the purposes of business supervision,
- Continued development of structures, sales and servicing competencies and aftersales services at the subsidiaries,
- Implementation of an integrated management support system (ERP),
- Standardisation of a part of the offering in terms of products, technologies and processes.

These measures are expected to facilitate the achievement of the following principal objectives:

- Implementation of a sustainable growth concept, providing for the merger of SW S.A. and SW EUROPE to create a competence, production and sales centre integrating the management and engineering staff. In line with this concept, the subsidiaries will implement their individual strategies on their local markets with strict supervision and selective support from SW S.A. The Management Board believes that the merger of SW S.A. and SW EUROPE will help to streamline management functions, optimise the asset base, and deliver tangible savings in general and administrative expenses.
- Reaching the break-even point by all the subsidiaries as soon as possible.

It is expected that all the subsidiaries will modify their product and organisational structure to achieve this objective. In addition, the rules of technology transfer to the subsidiaries will be changed.

Successful implementation of the modified business strategy for 2017–2021 will enable the Group to be more effective in pursuing its business objectives thanks to cost savings and creating foundations for further economic growth.

35. Information on:

- a) **Date of the agreement concluded by the Company with an audit firm for the audit or review of financial statements or consolidated financial statements, and the term of such agreement,**
- b) **Whether the issuer has used the services of the selected audit firm before and, if so, when the services were provided and what type of services they were,**
- c) **The body which selected the audit firm,**
- d) **The remuneration of the audit firm, paid or payable for the current and previous financial year, separately for:**
 - **audit of the full-year financial statements,**
 - **other assurance services, including review of financial statements,**
 - **tax advisory services,**
 - **other services,**

The agreement with the qualified auditor was executed on July 26th 2018. Ernst & Young Audyt Polska Sp. z o.o. Sp. K. of Warsaw, Rondo ONZ 1, Warsaw, Poland, is entered in the list of qualified auditors of financial statements maintained by the National Council of Statutory Auditors under Reg. No. 130.

The Company used the services of the selected audit firm in 2016 and 2017 to audit the full-year separate financial statements of SECO/WARWICK S.A., the consolidated financial statements of the SECO/WARWICK Group, and to review the half-year separate and consolidated financial statements.

On April 26th 2018, the Supervisory Board, acting under Art. 29.1.6 of the Articles of Association, which authorises it to appoint the Company's auditor, passed Resolution No. 14/2018 under which Ernst & Young Audyt Polska Sp. z o.o. Sp. K. of Warsaw, Rondo ONZ 1, Warsaw, Poland, audited the full-year separate financial

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statements of SECO/WARWICK S.A. and the consolidated financial statements of the SECO/WARWICK Group and reviewed the half-year separate and consolidated financial statements for 2018.

The table below lists the entities authorised to review half-year and audit full-year consolidation packages of the Group companies for the purposes of consolidation.

Table: Names of entities authorised to review half-year and audit full-year consolidation packages of the SECO/WARWICK Group companies for the purposes of consolidation.

SECO/WARWICK Group company	Entity authorised to audit financial statements
SECO/WARWICK S.A.	Ernst & Young Audyt Polska Sp. z o.o. Sp. K.
SECO/WARWICK Corp.	Ernst & Young Audyt Polska Sp. z o.o. Sp. K.
Retech Systems LLC	Ernst & Young Audyt Polska Sp. z o.o. Sp. K.
SECO/WARWICK Services	Ernst & Young Audyt Polska Sp. z o.o. Sp. K.

The table below presents the total remuneration of the auditors for 2018 and 2017.

Table: Total remuneration of the auditors for 2018 and 2017

Service	Remuneration for 2018 (PLN '000)	Remuneration for 2017 (PLN '000)
Audit of the full-year financial statements	621	778
Review of financial statements	185	208
Tax advisory services	-	-
Other services	116	109
Total	922	1,095

36. Non-financial statement for 2018

INTRODUCTION

Below is presented the SECO/WARWICK Group's non-financial statement for 2018 (the 'Statement'). It constitutes a separate part of the Directors' Report on the operations of the SECO/WARWICK Group (the 'Group', the 'SECO/WARWICK Group') in 2018 and presents the Group's non-financial information for the period January 1st – December 31st 2018. The Statement was prepared on the basis of internal policies, taking account of the provisions of the Accounting Act of September 29th 1994, the European Commission's guidelines on non-financial reporting, Polish Non-Financial Reporting Standards, and the Global Reporting Initiative (GRI) guidelines.

The choice and description of policies and the efficiency ratios presented in the Statement are based on the materiality criterion, taking into account internal and external factors relating to the operations of the SECO/WARWICK Group. The key factors taken into account in the assessment of materiality were: the Group's industry, its business profile and market environment, impact on local communities and environmental footprint, as well as expectations of identified internal stakeholders (employees, shareholders, governing bodies) and external stakeholders (local communities, customers, suppliers, trading partners, local authorities and public administration).

The description of policies and the efficiency ratios in the Statement have been prepared based on the data provided by SECO/WARWICK S.A. ('SECO/WARWICK'), the parent of the SECO/WARWICK Group, and the following Group companies: SECO/WARWICK Corporation, SECO/WARWICK Rus, Retech Systems LLC, SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co. Ltd., SECO/WARWICK Germany GmbH, SECO/WARWICK France, SECO/WARWICK Services Sp. z o.o., SECO VACUUM TECHNOLOGIES LLC, SECO/WARWICK Systems and Services India PVT. Ltd.

The data presented in the Statement will be reviewed and updated annually and regularly published together with annual reports for subsequent financial years.

DESCRIPTION OF THE GROUP AND ITS BUSINESS MODEL

The Group's business and markets

The SECO/WARWICK Group is a technological leader in innovative metal heat treatment solutions sold mainly to business customers (B2B). The Group comprises a number of indirect and direct subsidiaries. The SECO/WARWICK Group has 10 companies operating in three continents, with customers in 70 countries and production facilities located in Poland, United States, and China. The Group also comprises a number of sales and maintenance companies in other countries, including Germany, Russia and India.

Given the nature of the Group's business, highly industrialised economies, including those with access to natural resources and focused on modern technologies, are of strategic importance to the Group's operations. In terms of sales volumes, the SECO/WARWICK Group's key strategic markets are the EU, the USA, and Asia (especially China).

The Group supplies standard or dedicated state-of-the-art heat treatment equipment and technologies to leading companies operating in the automotive, aviation, electronic, machinery, tool, medical, recycling, and power generation (including nuclear, wind, fuel, and solar power) industries, and to manufacturers of steel, titanium and aluminium products.

Approximately 80% of the Group's revenue is generated by services provided to the aerospace industry (approximately 30%), the automotive industry (approximately 30%) and to the power generation industry (approximately 20%).

Main business units

The Group's principal business activity consists in the manufacture of five main product groups: vacuum furnaces, atmosphere furnaces, aluminium heat treatment systems and metallurgy equipment used for melting and vacuum casting of metals and specialty alloys, as well as the aftersales segment.

Vacuum furnaces

Vacuum furnaces have multiple applications in most industries, including machine tool, aviation, power generation, electrical engineering, medical equipment, automotive and special industries. Vacuum furnaces are used in such processes as heat treatment of steel and alloys, brazing, sintering, and degassing.

Melting furnaces

Vacuum melting furnaces are used in the metallurgical industry for consolidation, smelting and refining of specialty metals, including reactive metals (e.g. titanium, zirconium) and heat-resistant metals (e.g. tantalum). Their physical properties require processing in technologically advanced equipment and in high vacuum conditions.

A separate group of melting furnaces are melting and holding furnaces used for the manufacture of special castings (such as components of jet engines, power turbines and medical implants).

Thermal

Atmosphere furnaces are widely used in the process of thermal and thermochemical treatment of steel and metals in protective atmospheres for improved hardness. Atmosphere furnaces designed for thermochemical

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treatment are employed in the gas carburising, gas nitriding and other processes. Such furnaces are used chiefly in the automotive and metallurgical industries, including for the manufacturing of roller bearings, as well as in commercial hardening plants and specialty industries.

Aluminium heat treatment systems (Aluminium Process)

The Aluminium Process solutions offered by the Group are used in the manufacturing of aluminium sheet for the automotive and aviation industries, as well as for the manufacturing of packaging foil for multiple applications. Aluminium Process systems are also used to heat treat aluminium castings. CAB systems are used primarily in the automotive industry for brazing of heat exchangers mounted in passenger cars and heavy goods vehicles (charge air coolers, air conditioning evaporators and condensers, oil coolers, etc.). Outside the automotive industry, CAB processes are used in the manufacture of IC radiators, steam condensers for CHP plants, exhaust gas heat exchangers for power generators, etc.

Aftersales

The Aftersales Segment offers conversion, modernisation and modification of customer-owned equipment, including equipment manufactured by other producers. This segment also includes sale of spare parts and all other aftersales services.

EMPLOYEE-RELATED MATTERS

Employee-related and CSR matters are a vital part of the Group's operations as employees are one of the Group's most important assets essential for long-term and sustainable growth. Considering that the Group operates in a highly specialised industry and the fact that the Group's success is primarily driven by the technical knowledge and practical skills of its employees, optimum employee development and proper working environment are crucial to the long-term and sustainable development of the SECO/WARWICK Group.

As an international business, the Group has no uniform employee policy in place. The Group's HR policy is implemented in accordance with the laws in force in the countries where individual SECO/WARWICK Group companies operate, as well as in line with internal procedures and standards applied in those companies. However, the processes of recruitment, maintenance and professional development of the Group's workforce rely on the same principles designed to promote employee development and build a high productivity culture. Given its leadership role in the Group and the highest number of employees, the description of the policy related to employee matters will apply primarily to SECO/WARWICK S.A.

The principal documents governing employee matters at SECO/WARWICK are the Code of Ethics, the HR Policy, the Staff Rules and the Pay Rules, as well as relevant procedures.

One of the key objectives of SECO/WARWICK Group's HR Policy is to create workplace conditions conducive to meeting the needs and expectations of both the employees and the employer, based on dialogue and cooperation. As a result, employees find it much easier to identify with the Group and build a high productivity culture at work. One example of such activities is the Feedback360 programme launched in 2018, enabling the employees to evaluate the work environment irrespective of their position, based on anonymous surveys.

Employment

The SECO/WARWICK Group hires staff and supports their professional development based on skills and qualifications. The applied recruitment, career development, employee evaluation and promotion processes ensure equal treatment.

The Group's employees are employed primarily based on full-time employment contracts. The Group does not currently have any temporary workforce.

Table 1. Total workforce by gender and employment type

	2017		2018	
	Women	Men	Women	Men
Full-time	125	799	109	728
Part-time	10	6	9	5
Temporary	0	6	0	0

The Group companies support the local communities in their respective locations. They actively engage in CSR activities, creating very strong ties with the region where they operate and with the local community.

Table 2. Total workforce by commuting distance and gender

	2017		2018	
	Women	Men	Women	Men
Local (residing within 80 km of a company's head office)	134	756	114	702
Non-local (residing more than 80 km of a company's head office)	1	55	4	31

The SECCO/WARWICK Group cares for the stability and sense of security among its employees. Most of the staff are employed under permanent contracts.

Table 3. Total number of employees employed under permanent contracts

	2017		2018	
	Women	Men	Women	Men
Permanent contract	80	467	68	401

In addition to their base pay, the SECCO/WARWICK Group employees also receive additional benefits, which reinforces the Company's image as a good and reliable employer. The key additional benefits payable to the Group's employees are presented in the table below:

Table 4. Employee benefits

Benefits	SW S.A.	Retech	SWC	SW China	SW Ger	SVT	SW RUS	SW India
Life insurance	YES	YES	YES	NO	YES	YES	NO	NO
Healthcare	YES	YES	YES	YES	NO	YES	NO	YES

Disability and invalidity insurance	YES	YES	YES	YES	NO	YES	NO	YES
Maternity/paternity leave	YES	YES	YES	YES	NO	YES	NO	YES
Retirement pension	YES	YES	YES	YES	NO	NO	NO	NO
Share-based payment scheme	YES	NO	N/A	NO	NO	N/A	NO	NO
Performance bonuses	YES	YES	YES	YES	NO	YES	YES	YES

All SECO/WARWICK employees are entitled to maternity/paternity leave under the applicable national legislation. In all identified cases, employees who took parental leaves returned to the same work positions. As a result, the retention rate for employees after parental leave is 100%.

Registered cases of parental leaves indicate that men take advantage of leave entitlements to a lesser degree than women. 100% of women entitled to a parental leave exercised that right.

Training and professional development

The Group takes care to ensure professional development of its employees by organising general and individual training programmes. Training courses allow employees to develop their skills and enhance performance at work while contributing to the Group's business objectives.

Because training which helps raise staff expertise is key to retaining and expanding our human capital and grow our business, the SECO/WARWICK Group companies carry out extensive training programmes for their employees. Training intensity varies depending on a company's turnover and profit figures.

Table 5. Average training time in hours, by gender

2017		2018	
Women	Men	Women	Men
26	17	35	43

In 2018, SECO/WARWICK S.A.'s HR policy efforts were noticed and appreciated also outside the Group. The Company was named the Reliable Employer of the Year, joining the group of Poland's best employers. The criteria included attractive HR solutions offered and applied by the Company, namely the working conditions, career paths, training or assistance in personal development. The award confirms that the Company's HR policy is transparent and reliable, and provides an incentive to keep up the good work in that area.

To mitigate material risks inherent in the Company's operations and which may have an adverse effect on employee-related matters, the SECO/WARWICK Group identifies and manages the risks listed below:

1. Risk of loss of the Group's key personnel. This risk applies to most industrial facilities, and is related to fluctuations in the labour market and to economic conditions.
The Group's core business activity, consisting in the manufacture and sale of heat treatment machinery and equipment, requires a qualified and experienced workforce. Knowledge of this kind of industry is unique, specific and highly specialised, therefore a loss of key professionals may undermine the stability of the Group's business. The Group manages this risk by monitoring positions of key importance from the perspective of its operations and by ensuring that its employees are sufficiently motivated. In addition to providing financial incentives, the Group also counters this risk by organising internal training courses as well as succession and mentoring programmes to ensure the transfer of knowledge and skills between key

professionals and less experienced staff. In addition, loyalty agreements are signed with the employees participating in complex development and specialised training programmes.

2. Risk of shortage of staff with appropriate competencies on the labour market.

Similarly to the risk of loss of key personnel, this risk is related to the need for qualified personnel. The Group effectively manages that risk through the SECO/GENERATION programme operated by SECO/WARWICK S.A., which focuses on building the relationship between the Company and schoolchildren and students during their education. The SECO/WARWICK Group also engages in other initiatives fostering integration with local communities and building the Group's image of a stable employer.

CORPORATE SOCIAL RESPONSIBILITY

At the SECO/WARWICK Group, each company is engaged in CSR activities based on its individual budget and the needs of the local community. In 2018, in addition to SECO/WARWICK S.A., also SECO/WARWICK Corp. of the United States engaged in CSR projects, supporting the sports event Wesbury Retirement Community Run/Walk and sponsoring such organisations as Meadville Soup Kitchen, Junior Achievement, and Barco Oncology Center. Given the scale of its business and important role in the local community, SECO/WARWICK S.A. was the Group company which was involved in CSR activities on the largest scale. For this reason, the information presented below concerns the initiatives undertaken by SECO/WARWICK S.A.

SECO/WARWICK S.A. considers CSR efforts to be a key element of its long-term growth strategy. Aware that a responsible approach to social matters is a major driver of competitive advantage, the Company strives to ensure that its activities bring a positive contribution not only to its own organisation, but also to the community in which it is present.

With its CSR efforts, SECO/WARWICK builds an image of a friendly and socially responsible business. To this end, it seeks to develop good relations with the stakeholders, work towards economic prosperity and help to improve public health, with particular focus on local communities. The Company's CSR activities include sponsorship, promotion of sports and healthy lifestyle, as well as initiatives supporting the education of young people.

Sports

Since 2017, SECO/WARWICK S.A. has had its own bicycle team, named SECO/BIKE.

At the end of 2018, the team consisted of nine people who successfully competed in nationwide events. In 2018, the most important events attended by the SECO/BIKE team included the Grand Prix Kaczmarek Electric MTB race, in which the Company's employees competed in the 'Mega' and 'Mini' race distance categories, as well as the DT4YOU MTB race organised in Oborniki near Poznań. The team also took part in other races and events organised all around Poland, visiting many locations in 2018, including: Rigdzyna, Sulechów, Krosno Odrzańskie, Żerków, Strzelce Krajeńskie, Nowa Sól, Dziwnów, Bolesławiec, Zielona Góra, Wolsztyn, and ranking 16 (among 94 teams) in the team event, with the total race distance of 50,000 km.

In addition to the bicycle team, in 2017 a running team was also created, named SECO/RUN, proudly and successfully representing the Company at a number of sports events. Since the beginning of 2018, our runners have competed in such events as: the Galant Race, the 1st Świebody and Sulecha half marathon, the XLV Dębno Marathon, half marathon in Wrocław, the Świebodzin 10-kilometer run, and the 25th Constitution Run No. 1 under the GrandPrix Run celebrating 100 years of Poland's independence. The runners also took part in the global charitable 'Wings for Life' event in Poznań. In total, in 2018 our runners ran a total distance of 752 km in competitions and as many as 6,500 km during their training sessions, which took 590 hours. At the end of 2018, the SECO/RUN team comprised 12 runners.

In addition to SECO/BIKE and SECO/RUN, the Company has also created the SECO/TEAM, which for nearly 20 years has participated in the indoor event organised in Świebodzin. At the beginning of the tournament, only SECO/WARWICK employees could participate, but since then the competition has opened to all participants. Until 2017, the team's name was SECO/WARWICK, and only in the last edition of the tournament it was changed to SECO/TEAM.

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The event is organised by one person, and the team composition changes each year depending on the team members' availability and willingness to participate. The changes are also related to frequent business travel at the Company – the team members are either employees of SECO/WARWICK or have other relations with the Company. The SECO/TEAM's achievements include the first place won by the team in the charity tournament organised by the Fundacja Kibica foundation for family-run group homes for children in Świebodzin in 2017. In 2018, the Company was represented by a 13-strong team. The Company makes every effort to provide the space for training for the SECO/TEAM members, including by renting an indoor hall.

Sponsorship activities

Apart from active participation in international fairs, the key initiative in 2018 was the sponsorship of the event held to celebrate the 100th anniversary of the protection of industrial property in Poland and the establishment of the Patent Office of the Republic of Poland and the profession of the Patent Officer. As part of the anniversary celebrations, the Patent Office organised around 50 various events devoted to industrial property throughout 2018 and prepared many publications promoting the idea of comprehensive legal protection for authors of innovative scientific and technical solutions. This was an important event for the Company as it is one of the innovators on the market and 2018 was very successful for SECO/WARWICK in terms of the number of patents it received. Five patents were granted in total, including three by the Patent Office of the Republic of Poland (UPRP), one by the European Patent Office (EPO), and one by the United States Patent and Trademark Office (USPTO). In addition, UPRP granted protection rights for two utility models.

The second major initiative sponsored by the Company was 'Lubuskie Wawrzyny', a periodic event whose goal is to support talented writers and journalists, who receive awards in three categories: the Literary Laurel, the Scientific Laurel, and the Journalist Laurel. SECO/WARWICK sponsored the Journalist Laurel award, which promotes talented press, radio, TV and online journalists, authors of the best journalist publications, including non-fiction works, opinion journalism, essays, columns, polemics, discussion articles, and other journalist genres relating to the Lubuskie region.

The initiatives described above are only a few selected CSR projects carried out by the Company in 2018. In its CSR activity, the Company focuses on local initiatives which also benefit the Company employees and their family members. Each year, SECO/WARWICK sponsors and actively participates in local events, such as the Świebodzin Days and the MTB Łągów bicycle race, and is committed to meeting the day-to-day and ad hoc needs of the local community. These initiatives included the GalantRace charity running event or support for the Świebodzin Children's Home.

Partnership with high schools and universities

For almost three years, SECO/WARWICK has run the SECO/GENERATION project to show young people the vision of conquering the world with technology, stimulate their imagination, and motivate them to study and to work.

Many companies, particularly new technology firms, work with universities and technical colleges to reach and recruit future employees. SECO/WARWICK goes one step further, forging partnerships also with secondary and vocational schools, which are of key importance from the Company's perspective. At present, SECO/WARWICK cooperates with four secondary schools and five universities. The Company acts as a patron for those fields of study which correspond to the formal requirements for candidates applying for jobs with the Company. The partnership arrangements set out the partnership objectives, mutual declarations of the parties, the rules of marketing activities and the areas of cooperation established individually for each school/educational institution.

The partnership involve various activities, including:

- joint organisation of study groups/science clubs,
- research and development projects,
- Company presentations at secondary schools and universities,
- students' study visits at SECO/WARWICK S.A.,

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- joint organisation of hands-on workshops at schools,
- knowledge competitions in a specific area of study,
- internships and other on-site activities organised for students at the Company,
- practical vocational training,
- participation in job fairs and open days at universities and secondary schools.

The Electronic and Automotive Technical School (ZSEiS) in Zielona Góra is the first school the Company has partnered with under the SECO/GENERATION programme. One element of this collaboration is the SECO/CLASS, a class run under the patronage of SECO/WARWICK. The aim of this project is to make studying more attractive by organising courses and practical classes for students and by conducting joint research and development projects under the supervision of experienced professionals and practitioners from SECO/WARWICK.

SECO/WARWICK has also established a collaborative partnership with the Henryk Sienkiewicz General Secondary School in Świebodzin. The SECO/GENERATION programme promotes mainly the command of foreign languages. Students also develop their skills in the office software suite, discover the world of marketing, and learn how to navigate the world of business and other cultures in which SECO/WARWICK operates. This is possible because SECO/WARWICK has operations in China, India, the United States and in other countries, and has customers in as many as 70 countries.

The Programme also involves the partnership with the University of Zielona Góra. Cooperation with universities includes lectures, workshops, presentations and training courses conducted by SECO/WARWICK experts in various fields of business, management, technology and communication. SECO/WARWICK experts share their diverse knowledge and skills in a practical form, teach self-development skills and motivate students to search for new challenges. They participate in conducting research projects and in establishing and developing science and research clubs.

In 2018, the total number of students participating in the SECO /GENERATION project was 74.

With respect to material risks inherent in the Company's operations which may have an adverse effect on its CSR activity, SECO/WARWICK identifies and manages the risk of stakeholders' dissatisfaction caused by limitation of the Company's CSR efforts.

The Group, and in particular SECO/WARWICK, are engaged in numerous and extensive CSR and sponsorship activities. There is a risk that discontinuation of any of the current initiatives could meet with disapproval from the employees and local communities benefiting from such activities and, consequently, undermine the Group's image. Given the large number of support requests the Company receives each year and the inability to help everyone, a selective approach has been adopted, with particular focus on local initiatives. In addition to its own engagement in CSR efforts, SECO/WARWICK also reminds its employees that they too may become involved as individuals. The weekly SECO/SFERA newsletter for employees often publishes information about social initiatives, such as local charity events, or the option to transfer 1% of personal income tax to support a selected charitable initiative. Decisions related to the Company's CSR activities are reviewed and subsequently approved by the Management Board so that SECO/WARWICK effectively manages the above risk.

Environmental protection

The SECO/WARWICK Group does not have a uniform environmental policy in place, which is due to the international nature of its operations. Due to their various geographical locations, the SECO/WARWICK Group companies are subject to different legislations, and thus different environmental protection requirements. Therefore, adopting a uniform Group-wide environmental policy would be difficult and unviable. Despite the absence of a single environmental policy, the Group companies operate in accordance with the requirements applicable in their respective countries.

The SECO/WARWICK Group strives to ensure compliance with environmental protection standards and make rational use of natural resources. All Group employees are obliged to comply with those standards and the law. The Group acts responsibly when it comes to changes in manufacturing and work organisation. By acquiring

equipment that uses new technology, it reduces its environmental footprint. The SECO/WARWICK Group acknowledges its responsibility for the environment in which it operates, continuously improves the environmental management system, and complies with the applicable legal requirements relating to environmental protection. In addition, the Group takes into account the requirements of its internal and external stakeholders, striving to keep its environmental footprint at a minimum, with due consideration given to the nature of its business.

The environmental policy of the largest Group company, SECO/WARWICK S.A., is included in the Environmental Management System (which is part of the Integrated Management System Manual) developed in keeping with the requirements set out in the Polish Norm EN ISO 14001:2005. The Environmental Management System defines environmental aspects, related legal requirements, operational controls, and procedures to be followed in the event of environmental accidents. The Company also has in place Instruction 50, setting out the rules of cooperation with an external company responsible for some of the environmental protection aspects at SECO/WARWICK. The instruction covers the division and organisation of maintenance work, including in particular keeping shop-floor areas, offices and other Company premises in order (including green areas, pavements, and other locations which, under the applicable laws, must be kept in good condition by the Company), keeping welfare and sanitary facilities in order, and meeting waste management obligations.

One of the key utilities consumed by the Group, which is essential to its manufacturing activities and, by extension, its core business, is electricity. It is consumed by manufacturing and auxiliary equipment, lighting in production halls, repairs of plant and machinery, and is used for administration purposes. In 2018, SECO/WARWICK installed electricity meters on the main electrical busbars located in shop-floor areas. This has enabled it to monitor the consumption of electricity by the production department and by the personnel testing customers' equipment on a monthly basis. These measures allow the Company to flexibly adjust the capacity contracted from the electricity supplier, depending on its future electricity requirement. SECO/WARWICK is thus able to reduce distribution fees charged by the supplier.

Table 8. Total electricity consumption

Electricity consumption in 2017	Electricity consumption in 2018	Change [%]
13,089 MWh	12,335 MWh	- 5.76

Given the nature of its business, the SECO/WARWICK Group is not a major water consumer.

The Group's operations also generate waste, including hazardous waste. All waste is managed in accordance with the legislation in force in a given country. The Group implements measures to minimise waste generation. Agreements have been signed on transferring waste to external companies holding the required permits.

In 2018, the SECO/WARWICK Group complied with all applicable environmental protection laws and regulations and no environmental penalty was imposed on the Company. No grievances about environmental impacts were filed by the Company's internal or external stakeholders.

Among material risks related to the Group's operations which may have an adverse environmental impact, the SECO/WARWICK Group identifies and manages the risk of electrical failure.

As in all large industrial plants, operation of production units requires the supply of electricity, which involves the risk of electrical failure. The Group manages this risk through ongoing monitoring of the performance of plant and equipment, regular repairs and upgrades, as well as by implementing and applying emergency procedures. In addition, the Group closely supervises the work of external companies providing it with electricity services. In addition, safeguards to prevent failures posing an environmental risk are applied where a risk has been identified, and personal protective equipment is provided for employees working within the impact area of potentially dangerous factors.

Human rights policy

The SECO/WARWICK Group carries out all its activities with due respect for human rights and in compliance with international standards of conduct. The Group complies with the provisions of the UN Universal Declaration of Human Rights, the International Labour Organisation's fundamental conventions, and the OECD Guidelines for multinational enterprises. It also strives to align its internal standards and regulations with the guidelines of these organisations. While the Group has not adopted a uniform human rights policy, it complies with the international legal regulations referred to above in each country where it operates.

Apart from the generally applicable laws, the human rights policy is also included in the internal regulations adopted by the Group companies. For example, in January 2018 SECO/WARWICK introduced the Code of Ethics, which provides for collecting data on any possible instances of discrimination and taking steps to prevent, examine and sanction such behaviour.

Under the SECO/WARWICK's policy:

- no form of forced labour is permitted;
- non-discrimination and anti-harassment policies must be followed;
- one's worldview is not imposed on others;
- disseminating slander or false information is prohibited;
- proper work-life balance is promoted.

The Group examines and analyses whether any instances of discrimination might have occurred within the organisation. To the best of the Group's knowledge, in 2018 no case of discrimination was recorded at the SECO/WARWICK Group. There were no cases of disrespect of human rights in the reporting period.

As in the previous year, in 2018, there were no instances of discrimination at the SECO/WARWICK Group.

In addition to ensuring respect for human rights within the Group, its Parent, SECO/WARWICK, also seeks to ensure the same at its business and trading partners. Procedure 7.4 PROCUREMENT AND SUPPLIER SUPERVISION, applicable in supplier selection, has been introduced to verify potential suppliers for compliance with standards concerning:

- child labour,
- discrimination,
- forced or compulsory labour,
- freedom of association and collective bargaining,
- safety practices.

To the best of its knowledge, the Group does not cooperate with suppliers which would breach any of the above standards. Moreover, in 2018, due diligence procedures in supplier selection were introduced, involving initial and ongoing (i.e. during contract performance) assessment of suppliers. Additional verification will take place during periodic audits at the suppliers.

All SECO/WARWICK suppliers are verified for compliance with the principles of respect for human rights. They are classified based on type of performance as providers of services, suppliers of mechanical, electrical and metallurgical materials, trading partners, and suppliers of non-production materials. 40 selected suppliers of mechanical materials have signed separate clauses. The Company also intends to introduce relevant provisions in SWSA's General Terms and Conditions of Procurement.

Given the large scale of the Group's business and, consequently, its complex and extensive organisational structure, there is a risk of human rights violation, especially with respect to diversity. While most of the human rights guaranteed by law are generally respected, there are some areas in which incidental infringements may occur, depending on the behaviour of particular employees. The Company manages this risk by promoting the principles of respect for human rights and taking other preventive measures.

Anti-corruption policy

The SECO/WARWICK Group's anti-corruption policy, adopted in 2017, is applicable at all of the Group's business units. The SECO/WARWICK Group companies operate in a variety of legal, social and cultural environments and, consequently, under various conditions as regards the perception of corruption cases. In accordance with the anti-corruption policy, the SECO/WARWICK Group companies are required to protect the Group's good name and strictly comply with the laws applicable in the countries where they operate.

The Group's anti-corruption policy has been developed based on the United Nations Convention against Corruption of October 31st 2003.

The SECO/WARWICK Group employees are required to act with integrity in relations with colleagues and trading partners. The employees are not allowed to use their business relations for personal advantage or for the benefit of another, or act to the detriment of the organisation. They are also prohibited from giving or accepting any unlawful benefits to influence a decision. The Group takes a zero-tolerance approach to any form of corruption, including accepting and offering money to trading partners, public officials, people associated with public authorities, legal entities and individuals. It is prohibited to solicit, accept, offer or give money or other benefits, except for occasional gifts. Care must be taken to ensure that any gifts and forms of hospitality are of small value and socially acceptable in line with the local customs. SECO/WARWICK S.A. prevents conflicts of interest and respects ownership rights.

The Anti-Corruption Policy strictly prohibits SECO/WARWICK employees from taking part in any activities that show signs of corruption, consisting in particular in soliciting any financial or personal benefits or in offering any financial or personal benefits to any public official or official of a public international organisation. Also, SECO/WARWICK employees may not accept or demand any financial benefits. It is permitted to accept and offer small gifts and company gadgets, provided that they are not intended to influence any business decision and the value of such gifts is appropriate in the circumstances and the action itself is consistent with local customs.

SECO/WARWICK Group employees and associates may not in any circumstances engage in corrupt practices. Any transaction which may result in a breach of law should be reported immediately to the immediate supervisor or to other supervisors if the breach is committed by the immediate supervisor. The SWG Management Board should be immediately notified of any potential abuse.

As in the previous year, in 2018 there were no cases of corruption at the SECO/WARWICK Group.

Given its extensive organisational structure with a relatively broad range of competences at individual organisational units, the Group is exposed to the risk of incidental corruption. Employees of the procurement and sales departments are particularly exposed to the risk of corruption as they directly deal with third parties' representatives who might obtain certain financial benefits thanks to cooperation with the Company. Any corruption incident could have an adverse effect on the Group's image and its future business relations, and could result in direct financial losses if a contract is concluded on non-market terms. The Group manages this risk through appropriate selection of employees for particular jobs, as well as through appropriate monitoring of the relevant internal services. SECO/WARWICK is also actively involved in anti-corruption information and education initiatives, including publications in the Company's SECO/SFERA Newsletter. Additionally, for 2019, internal training on the Company's anti-corruption policy has been planned at the Parent.

37. The Management Board's statement of compliance concerning the full-year consolidated financial statements and the Directors' Report on the SECO/WARWICK Group's operations

We, the undersigned, hereby represent that to the best of our knowledge the full-year consolidated financial statements of the SECO/WARWICK Group for 2018 and the comparative data have been prepared in compliance with the applicable accounting standards and give a true, reliable and fair view of the assets, financial position and financial performance of the SECO/WARWICK Group.

We further represent that the Directors' Report on the SECO/WARWICK Group's operations in 2018 gives a true and fair view of the SECO/WARWICK Group's development, achievements and position, and includes a description of key risks and threats.

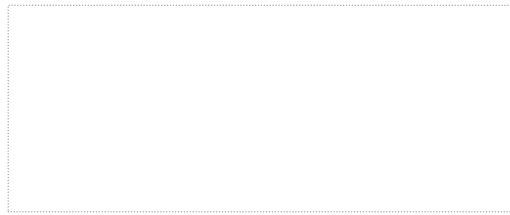
38. The Management Board's information on selection of the audit firm to audit the full-year consolidated financial statements for the financial year 2018

On the basis of the statement issued by the Supervisory Board of SECO/WARWICK S.A., the Management Board represents that:

- a) the audit firm which has audited the full-year consolidated financial statements for the financial year 2018 was appointed in compliance with the applicable laws and regulations, including those concerning the selection of an audit firm, and in compliance with the procedure for selection of an audit firm applicable at the Company;
- b) the audit firm and the auditors who performed the audit met the conditions required to issue an unbiased and independent audit report on the full-year consolidated financial statements, in accordance with the applicable laws and regulations, professional standards, and principles of professional ethics;
- c) the Company and the audit firm comply with the applicable laws and regulations governing the rotation of audit firms and lead auditors and observe the mandatory cooling-off periods;
- d) the Company has in place a policy for selection of an audit firm and a policy governing the provision to the Company by the audit firm, an entity related to the audit firm or a member of the audit firm's network of additional non-audit services, including services conditionally exempt from the prohibition on provision of certain non-audit services by the audit firm.

Date: April 24th 2019

President of the
Management Board



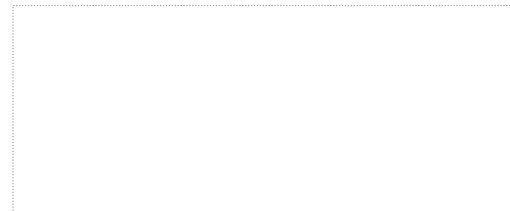
Paweł Wyrzykowski

Vice President of the
Management Board



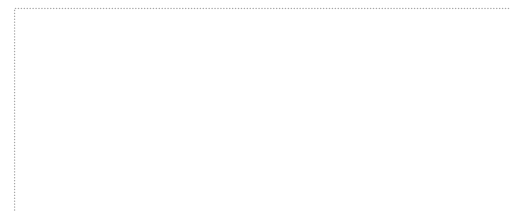
Sławomir Woźniak

Member of the
Management Board



Bartosz Klinowski

Member of the
Management Board



Earl Good