



SECO/WARWICK
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**DIRECTORS' REPORT ON THE SECO/WARWICK GROUP'S OPERATIONS IN THE
YEAR ENDED DECEMBER 31ST 2019**

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 2019, 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 2019 and the comparative period January 1st–December 31st 2018.

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:

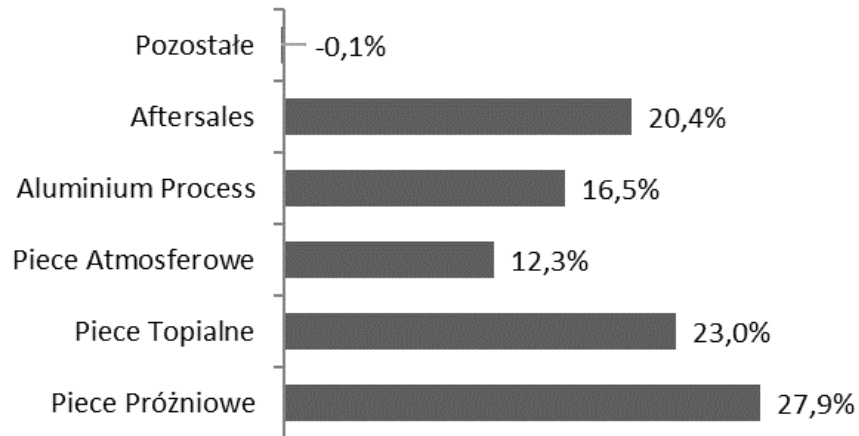
- Vacuum Furnaces,
- aluminium heat treatment systems (Aluminium Process + Controlled Atmosphere Brazing),
- Atmosphere Furnaces (Thermal),
- Melting Furnaces,
- Aftersales.

Information on each operating segment 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 2019) and in Section 36 of this Directors’ Report.

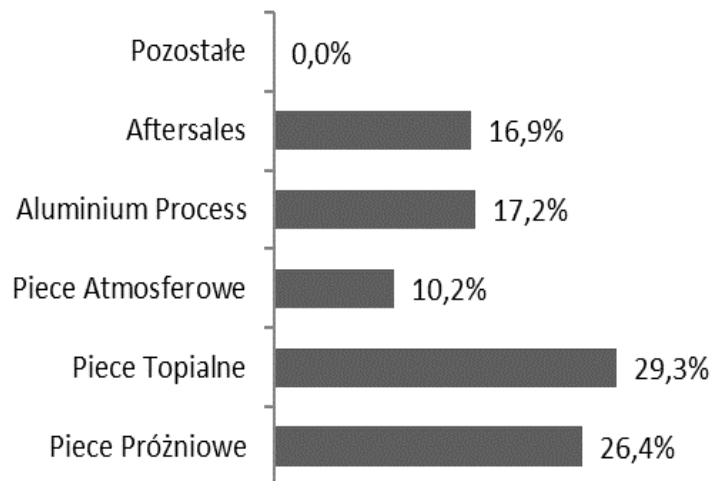
Table: Table: Revenue (PLN '000)

Item	Continuing operations						Total
	Vacuum Furnaces	Melting Furnaces	Atmosphere Furnaces (Thermal)	Aluminium Process	Aftersales	Other	
Jan 1 -Dec 31 2019	126,161	103,218	55,540	74,523	92,018	75	451,536
Jan 1-Dec 31 2018	138,131	153,320	53,417	90,041	88,428	169	523,506

Przychody ze sprzedaży na 2019 w podziale na segmenty operacyjne



Przychody ze sprzedaży na 2018 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 2019

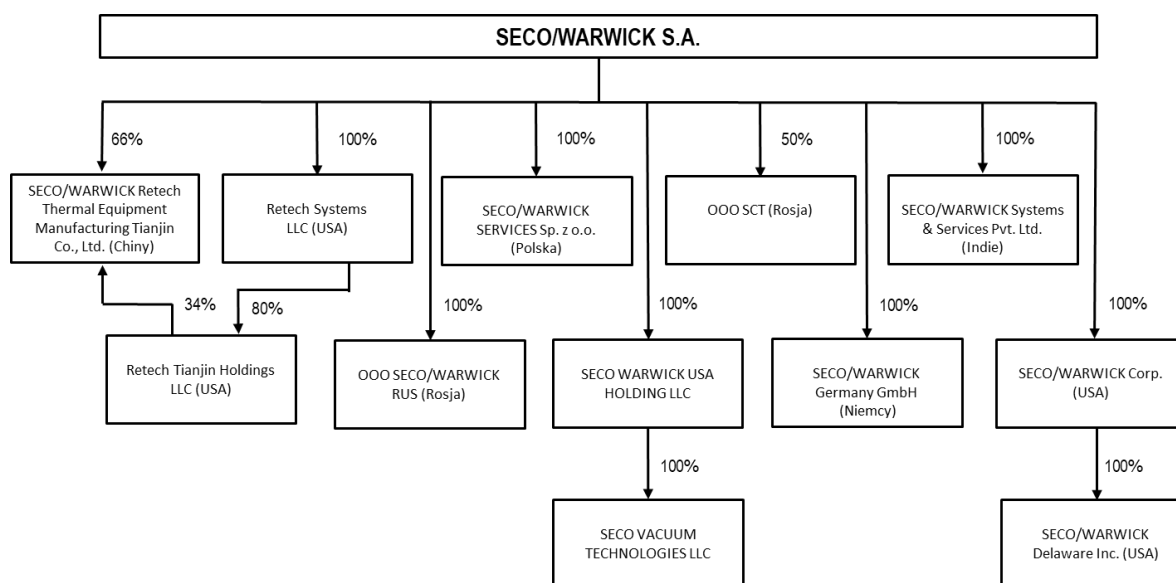
Company	Registered office	Principal business activity	Method of consolidation/accounting for equity interest	Group's ownership interest
Parent				
SECO/WARWICK S.A.	Świebodzin (Poland)	Holding company of the SECO/WARWICK Group; holding equity interests and providing strategic management services; manufacture 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%
OOO 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 Services Sp. z o.o.	Świebodzin (Poland)	Repair and maintenance services	Full	100%
SECO WARWICK USA HOLDING LLC	Wilmington (USA)	Holding company	Full	100%
SECO VACUUM TECHNOLOGIES LLC	Wilmington (USA)	Sale and distribution of vacuum furnaces	Full	100%

SECO/WARWICK Systems and Services India PVT. Ltd.	Mumbai (India)	Sale, repair and maintenance services	Full	100%
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Changes in the composition of the Group:

On December 23rd 2019, the liquidation of SECO/WARWICK France of France was completed.

Structure of the Group as at December 31st 2019



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 2019 and the date of issue of this Report.

For information on key domestic and foreign investments (financial instruments, intangible assets and property), see Notes to the full-year consolidated financial statements of the SECO/WARWICK Group. There were no equity investments outside the group of related entities.

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 2019 (PLN '000)

Name and surname	Base salary for period	Other benefits, including bonuses, awards	Accrued incentive scheme costs	Total remuneration for the period
Dec 31 2019	(PLN '000)	(PLN '000)	(PLN '000)	(PLN '000)
Sławomir Woźniak	444	174	379	997
Paweł Wyrzykowski ⁽¹⁾	181	807	285	1,273
Jarosław Talerzak ⁽²⁾	228	14	20	262
Piotr Walasek ⁽³⁾	210	5	125	339
Earl Good ⁽⁴⁾	1,040	-	74	1,115
Bartosz Klinowski	345	247	618	1,210
Total	2,448	1,248	1,501	5,196

⁽¹⁾ The remuneration amount relates to the term of office on the Management Board: from January 1st 2019 to June 4th 2019.

⁽²⁾ Mr Jarosław Talerzak was appointed Vice President of the Management Board on June 5th 2019.

⁽³⁾ Mr Piotr Walasek was appointed Member of the Management Board on June 5th 2019.

⁽⁴⁾ Under an employment contract between Retech and Mr Earl Good. Mr Earl Good was appointed Member of the Management Board on June 5th 2019.

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 2019 (PLN '000)

Name and surname	(PLN '000)
Andrzej Zawistowski, including:	218
- for his service as Chairman of the Supervisory Board	120
- under contract for advisory services ⁽¹⁾	98
Jeffrey Boswell, including:	165
- under employment contract ⁽²⁾	165
Henryk Pilarski	54
Marcin Murawski	43
Jacek Tucharz	43
Total	523

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- (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.

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 2019:

	Jan 1 2019				Dec 31 2019			
	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 ⁽¹⁾	307,058	2.98%	2.98%	-	-	-	-	-
Sławomir Woźniak	21,506	0.21%	0.21%	22,800	44,306	0.43%	0.43%	8,861
Jarosław Talerzak ⁽²⁾	-	-	-	-	31,141	0.30%	0.30%	6,228
Bartosz Klinowski	84,981	0.83%	0.83%	12,770	97,751	0.95%	0.95%	19,550
Earl Good	-	-	-	6,331	6,331	0.06%	0.06%	1,266
Piotr Walasek ⁽³⁾	21,435	0.21%	0.21%	7,600	29,035	0.28%	0.28%	5,807
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

Marcin Murawski	-	-	-	-	-	-	-	-	-
Jacek Tucharz	-	-	-	-	-	-	-	-	-
Total	509,766	4.96%	4.96%	49,501	283,350	2.75%	2.75%	56,670	

⁽¹⁾ As at the date of issue of this Report, Mr Paweł Wyrzykowski was not a member of the Company's Management Board.

⁽²⁾ Mr Jarosław Talerzak has been Vice President of the Management Board since June 5th 2019.

⁽³⁾ Mr Piotr Walasek has been Vice President of the Management Board since June 5th 2019. As at January 1st 2019, he served as a commercial proxy.

Item	Jan 1 2019	Item	Dec 31 2019
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

In Current Report No. 14/2019, the Company announced the execution, on August 7th 2019, of an annex to the share lock-up agreement of November 8th 2016, announced by the Company in Current Report No. 31/2016.

On October 2nd 2019, pursuant to Resolution No. 21 of the Annual General Meeting and Resolution No. 1/2019 of the Supervisory Board of June 5th 2019, as part of the settlement of the 2018 Incentive Scheme, the Company entered into agreements with persons covered by the Scheme for the acquisition of a total of 132,057 shares in the Company.

The acquired shares represented 1.28% of the Company's share capital and conferred to right to 132,057 votes (1.28% of the total vote) at the General Meeting. Following the acquisition, the Company holds 364,277 treasury shares, representing 3.54% of its share capital and 3.54% of the total voting rights at the General Meeting.

The Company announced the execution of the agreements in Current Report No. 15/2019 of October 2nd 2019.

In Current Report No. 16/2019, the Company announced that on October 3rd 2019 it received notifications given under Article 19(1) of the Market Abuse Regulation by:

- Sławomir Woźniak, President of the Management Board
- Bartosz Klinowski, Member of the Management Board
- Piotr Walasek, Member of the Management Board
- Earl Good, Member of the Management Board

concerning acquisition of SECO/WARWICK S.A. shares as part of the 2018–2020 Incentive Scheme.

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

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

Adoption of the Incentive Scheme for members of the 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

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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 Incentive Scheme includes 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. The assessment parameter is closely linked to the net profit of the SECO/WARWICK Group, the separate net profit, or operating profit of an operating segment. After the end of each financial year, the Company's Supervisory Board and General Meeting determine and approve the achievement of individual targets by the beneficiaries.

On June 5th 2019, the Supervisory Board passed Resolution No. 01/2019 approving the results of the review of the annual targets for the 2018 Incentive Scheme, and indicating the proposed number of shares to be acquired by each of the beneficiaries, subject to the condition that they remain employed with the Company in the period from January 1st 2019 to December 31st 2019. On the same day, the Annual General Meeting approved the resolution passed by the Supervisory Board and decided to extend the list of positions eligible for participation in the Incentive Scheme and to amend the Rules of the Incentive Scheme as previously proposed by the Supervisory Board.

On October 2nd 2019, as part of the settlement of the 2018 Incentive Scheme, the Company entered into agreements with its participants for the acquisition of a total of 132,057 shares in the Company. The shares were sold to the beneficiaries of the Incentive Scheme for PLN 1.50 (one złoty, fifty grosz) per share. The sold shares represent 1.28% of the Company's share capital and confer the right to 132,057 votes, or 1.28% of total voting rights, at the General Meeting. Following the sale, the Company holds 364,277 treasury shares, representing 3.54% of its share capital and 3.54% of total voting rights at its General Meeting.

On December 12th 2019, by Resolution No. 01/2019 the Supervisory Board defined the individual 2020 targets for the participants of the 2018–2020 Incentive Scheme. Achievement of the individual targets is a condition for the award of rights under the Incentive Scheme to its participants, provided that they remain employed with the Company in the period from January 1st to December 31st 2020. The targets cover financial and operating ratios of the individual subsidiaries, the organisational units related to particular technologies, or the entire Group, depending on the position of a participant.

At the Group level, the individual target for the President and two members of the Seco/Warwick S.A. Management Board is the consolidated net profit of the Group, which has been set at PLN 18.0m for 2020.

As at December 31st 2019, the maximum number of options that may be granted to the beneficiaries of the 2018–2020 Incentive Scheme was 361,943 (December 31st 2018: 494,000).

The cost of option vesting recognised in 2019 was PLN 1,688 thousand.

9. Control systems for employee stock option plans

The Company's Incentive Scheme for 2018–2020 is supervised by the Supervisory Board and Management Board of SECO/WARWICK S.A.

10. Share buybacks

In 2019, the Company did not buy back any of its own shares.

On February 12th 2020, the Extraordinary General Meeting passed Resolution No. 5 to authorise the Company's Management Board to repurchase the Company's shares listed on the regulated market operated by the Warsaw Stock Exchange.

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 2019, sales of SECO/WARWICK Retech China grew by 11% (2019: PLN 44.1m; 2018: PLN 39.9m) and of SECO/WARWICK Services by 6% (2019: PLN 30.6m; 2018: PLN 28.8m). At SECO/WARWICK Corp., sales remained relatively unchanged relative to 2018 (2019: PLN 42.9m; 2018: PLN 42.5m). Declines were reported by the two largest companies: at SECO/WARWICK S.A. sales went down by 8% (2019: PLN 278.7m; 2018: PLN 257.7m), and at Retech Systems LLC by 22% (2019: PLN 111.8m; 2018: PLN 143.2m). The Group reported consolidated revenue of PLN 451.5m, down by PLN 72.0m (-13.7%) compared with 2018, mainly because of a high comparative base.

The Group's order book value at the end of 2019 rose to PLN 395m, from PLN 351m at the end of 2018.

Just as in the previous year, the Vacuum Furnaces and Melting Furnace segments had the largest shares in the sales structure (by operating segment) in 2019. The Atmosphere Furnaces and spare parts and maintenance services segments reported a slight increase in sales of 4%.

Geographically, in 2019 the largest contributors to the SECO/WARWICK Group's revenue included the European Union market (40%) and the US market (30%), accounting jointly for 70% of the Group's total sales. At the same time, sales in the European market rose by 6% in 2019 relative to 2018.

In 2019, the Group posted a gross profit of PLN 111.0m, and EBIT of PLN 22.9m

In 2019, there were no material adverse factors with a bearing on net profit. The reported profit was mainly attributable to the performance of SECO/WARWICK S.A. (up PLN 10.6m), SW Retech China (up PLN 7.3m), and Retech Systems LLC (up PLN 1.5m). Taking into account the above factors, as well as finance costs, tax expenses and profit attributable to non-controlling interests, in 2019 the SECO/WARWICK Group posted a net profit attributable to owners of the Parent of PLN 15.3m.

STATEMENT OF FINANCIAL POSITION

Compared with 2018, 2019 saw a 3.8% decrease in total assets (from PLN 473.4m to PLN 455.6m). Non-current assets rose by 1.2% year on year. The rise was mainly due to a 11.5% increase in intangible assets, driven by research and development projects implemented at the Parent. In the same period, current assets decreased by 6.7% following repayment of significant debt amounts.

In 2019, there was a sizable year-on-year increase in equity (up 8.8%) and a decline in current liabilities (down 14.8%), with a 15.0% growth in non-current liabilities. In current liabilities, the largest change occurred in the case of borrowings, which fell by PLN 34.9m (down 51.5%). The change in equity was materially driven by the 2019 profit of PLN 15.3m.

In 2019, the share of equity in total equity and liabilities rose from 36.8% to 41.6% year on year.

The current, quick and cash ratios remained unchanged, at 0.2, 1.0 and 1.2 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 2019. The average collection period was 57 days. Inventory turnover was 70 days, while the average payment period was 50 days. The asset turnover ratio of 2.6 (the non-current asset turnover ratio in particular) confirms the effective use of the Group's production potential.

STATEMENT OF CASH FLOWS

In 2019, the Group generated positive operating cash flows of PLN 36.6m (2018: PLN 34.1m). The largest items of operating cash flows included change in receivables (up PLN 6.1m), depreciation and amortisation (up PLN 12.0m), and change in inventories (up PLN 5.8m).

In 2019, cash flows from investing activities were negative, at PLN -10.1m (2018: PLN -21.8m), a major part of which was spent on intangible assets and property, plant and equipment at SECO/WARWICK SA.

Cash flows from financing activities included mainly repayment of borrowings of PLN 42.4m. At the end of 2019, cash amounted to PLN 36.6m and was lower than in 2018.

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, 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 be waived before that date in certain circumstances agreed by the Parties in the Agreement.

Under an annex of August 7th 2020, the term of the Agreement was extended until December 31st 2023 with respect to the following holdings of shares:

- 3,387,139 Company shares held by SWH,
- 1,123,337 Company shares held by SHLLC,
- 307,058 Company shares held by PW,
- 65,000 Company shares held by AZ, and
- 84,981 Company shares held by BK.

In 2019, 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 2019, 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 loan agreements 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 borrowings as at December 31st 2019

Lender	Amount		Currency	Limit/amount as per agreement	Repayment date	Security
	in PLN ('000)	in foreign currency ('000)				
Citibank	188	345	CNY	CNY 345	Oct 15 2020	SBLC
HSBC Bank	1,091	2,000	CNY	CNY 2,000	Jun 10 2020	SBLC
HSBC Bank	1,091	2,000	CNY	CNY 2,000	Nov 11 2020	SBLC

HSBC Bank	1,091	2,000	CNY	CNY 2,000	Dec 10 2020	SBLC
HSBC Bank	49	12	EUR	EUR 90	Dec 3 2020	
Toyota Kreditbank	27	6	EUR	-	May 15 2021	-
Toyota Kreditbank	29	7	EUR	-	Jun 15 2021	-
Huntington National Bank	119	31	USD	-	Dec 31 2022	
SANTANDER	1,866	-	PLN	2,000	Jan 31 2020	
mBank	20	-	PLN	-	-	-
mBank	24	6	EUR	-	-	-
mBank	88	-	PLN	-	-	-
mBank	20	5	USD	-	-	-
mBank	93	22	EUR	-	-	-
BNP Paribas	2,786	-	PLN	20,000	Aug 28 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure
PEKAO	22,867	-	PLN	25,000	Sep 30 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure
mBank	1,565	-	PLN	26,845	Jan 31 2020	Mortgage, surety provided by SWE, hold on securities account
Santander	-	-	PLN	19,000	Jan 31 2020	Representation on voluntary submission to enforcement under Art. 777.1 of the Code of Civil Procedure
Total:	33,013					

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

Contingent liabilities under guarantees and sureties issued were PLN 44,563 thousand as at the end of 2019, and PLN 51,508 thousand as at the end of 2018. The following guarantees were issued:

Item	Dec 31 2019	Dec 31 2018
advance payment guarantee	37,974	42,588
performance bond	1,519	1,475
bid bond	5,070	4,679
loan guarantee	-	2,766
Total	44,563	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

In 2019, SECO/WARWICK S.A. granted its subsidiary SECO/WARWICK Services Sp. z o.o. a loan of PLN 2m, with an interest rate of 3% per annum, repayable in December 2020.

No loans were advanced by SECO/WARWICK S.A. to members of the Management or the Supervisory Board, or any non-related parties in 2019.

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 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 2019, the SECO/WARWICK Group's outstanding debt under investment credit facilities and overdraft facilities was PLN 33,013 thousand, down from PLN 69,513 thousand at the end of 2018.

The funds and credit facilities available to the Group were sufficient to finance investments and capital expenditure planned for and executed in 2019.

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 2019	Dec 31 2018
Current ratio	0.2	0.2
Quick ratio	1.0	0.9
Cash ratio	1.2	1.1

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

No such events occurred in 2019.







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 2019.





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 OF THE RISK	RISK MITIGATION / HANDLING	POTENTIAL ADVERSE IMPACT	RISK LEVEL	TREND
FINANCIAL RISKS					
1.	SARS-CoV-2 Risk related to the spread of the SARS-CoV-2 virus	<ul style="list-style-type: none"> establishment of a coronavirus containment team implementation of a rotational work system, remote work, and procedures mitigating the risk of infection reduction of working hours to 4/5 FTE at SECO/WARWICK S.A. reduction of indirect costs at the Group's major companies application for employee 	<ul style="list-style-type: none"> risk of employee infection, downtimes at some or all of the Company departments risk of reduction in order volumes and revenue, crisis in industries of key importance to the SECO/WARWICK Group, i.e. the 		

			<p>compensation co-financing as part of the 'anti-crisis shield' package in connection with the reduced working hours at the Polish companies: SECO/WARWICK S.A. and SECO/WARWICK Services</p> <ul style="list-style-type: none"> • maintenance of the available credit limits 	<p>automotive, aviation and energy sectors</p> <ul style="list-style-type: none"> • impediments in the cooperation with key suppliers of raw materials • liquidity risk related to lower sales volumes and late payments of amounts receivables from customers 		
2.	Risk related to R&D projects	Risk of delays in research and development projects, risk of cost overruns, and risk of return of project grants received	<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 		
3.	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 		

4.	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 		
5.	Credit risk	Insolvent trading partners	<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 		
6.	Retech Systems LLC goodwill	Risk of impairment of Retech Systems LLC goodwill caused by the company's unsatisfying performance	<ul style="list-style-type: none"> monitoring of the company's performance preparation of annual impairment tests 	<ul style="list-style-type: none"> deterioration of financial performance deterioration of liquidity 		
OPERATIONAL RISKS						
7.	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 		
8.	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 raising employees' awareness of cyber security issues (training, information, 	<ul style="list-style-type: none"> loss of data confidentiality revenue reduction and financial loss 		

			tests)			
9.	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						

10.	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 		
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23. Statement of compliance with corporate governance principles by the SECO/WARWICK Group in 2019

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.

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 2019 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.

SECO/WARWICK S.A. holds 364,277 treasury shares, representing 3.54% 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,
- 35,000 Company shares held by BK.

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

Under an annex of August 7th 2020, the term of the Agreement was extended until December 31st 2023 with respect to the following holdings of shares:

- 3,387,139 Company shares held by SWH,
- 1,123,337 Company shares held by SHLLC,
- 307,058 Company shares held by PW,
- 65,000 Company shares held by AZ,
- 84,981 Company shares held by BK.

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 (two hundred thousand). Assuming an obligation or disposing of a right in excess of PLN 200,000 (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 2019, the Annual General Meeting of SECO/WARWICK S.A., formally convened, was held on June 5th 2019. The General Meeting was convened at the request of the Management Board. No requests to convene a General Meeting were submitted by shareholders in 2019.

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. 6/2019 of May 9th 2019 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 2019, 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 2018, allocation of profit for the financial year 2018, approval of the Directors' Report on the Group's operations and the consolidated financial statements of the SECO/WARWICK Group for the financial year 2018, and granting discharge in respect of performance of duties to members of the Company's governing bodies. The General Meeting also passed resolutions on the 2018–2020 Incentive Scheme.

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.

All the resolutions adopted in 2019 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**

As at the date of issue of these financial statements and as at December 31st 2019, the Management Board of SECO/WARWICK S.A. was composed of:

- Sławomir Woźniak – President of the Management Board
- Jarosław Talerzak – Vice President of the Management Board
- Bartosz Klinowski – Member of the Management Board
- Earl Good – Member of the Management Board
- Piotr Walasek – Member of the Management Board

As at December 31st 2018, the Management Board of SECO/WARWICK S.A. was composed of:

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

On May 24th 2019, the Company was notified that Paweł Wyrzykowski, President of the Management Board, decided not to stand for re-election to the Management Board.

On June 5th 2019, the following members of the Management Board were appointed for a new joint term of office:

- Sławomir Woźniak – President of the Management Board
- Jarosław Talerzak – Vice President of the Management Board
- Bartosz Klinowski – Member of the Management Board
- Earl Good – Member of the Management Board
- Piotr Walasek – Member of the Management Board

• **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 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 (two hundred thousand). Assuming an obligation or disposing of a right in excess of PLN 200,000 (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 December 31st 2018, the SECO/WARWICK S.A. Supervisory Board consisted 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.

As at December 31st 2019 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.

In 2019, there were no changes in the composition of the Supervisory Board.

- **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 2019, 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 2019, members of the Supervisory Board informed the Company's Management Board of their trades in SECO/WARWICK S.A. shares.

In 2019, 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 2019, 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.

In 2019, 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:

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. implementation of IFRS 16,
6. the 2018-2020 Incentive Scheme,
7. monitoring of the operating risks of the Group's foreign companies (SWC, Retech, SWGe, and SWRus),
8. monitoring of the performance by the Company and the Group companies of the activities requested by the statutory auditor,

9. checking the independence of the statutory auditor;
10. monitoring of the information intended for publication on the financial reporting process of the Company and the Group,
11. monitoring the company's performance with regard to compliance regulations and legal risks;
12. the Company has implemented the principles of best practice with respect to maintaining
13. effective internal control, risk management and
14. 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. 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,
16. monitoring of changes in the business model of the Seco/Warwick Group's US-based subsidiaries,
17. regular monitoring of disputes regarding exposure to asbestos – Seco/Warwick Corp.,
18. adoption of the presented internal audit plan for 2020 by the Audit Committee.

As at December 31st 2019, the Audit Committee was composed of:

1. Marcin Murawski – Chairman
2. Henryk Pilarski – Secretary
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: 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 2019 SECO/WARWICK S.A. undertook the following activities and incurred the following expenses connected with sponsorship and charitable activities:

- Lubuskie Journalists Association of Zielona Góra – PLN 5.0 thousand
- State Fire Service of Świebodzin – PLN 5.0 thousand
- Municipality of Lubrza (village of Bucze) - PLN 0.5 thousand
- Roman Catholic Parish of St. Michael the Archangel in Świebodzin - PLN 0.5 thousand
- Duplicate Bridge Association of Międzyrzecze – PLN 2.0 thousand

The expenses connected with sponsorship and charitable activities totalled PLN 13.0 thousand.

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 (2017–2019), 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, 759 Asbestos Claims had been filed against SWC, of which 330 Claims were dismissed, 41 Claims ended in settlement with the insurers for a total amount of USD 4,460 thousand, and with respect to 388 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 Company's and Group's growth strategy and measures taken as part of its implementation in the reporting period, including information on the Company's growth prospects in at least the next financial year

On March 5th 2020, the Company's Management Board adopted the 'SECO/WARWICK Strategy for 2020-2022'.

Key objectives of the Group's new development strategy for 2020–2022:

The mission and vision for the activities of the SECO/WARWICK Group (the "Group") are defined in the Strategy as follows:

- Mission of the SECO/WARWICK Group:

"Thanks to the experience and expertise of our employees as well as cooperation with our business partners, we create innovative products that provide customers with reliable, safe, and environmentally friendly solutions for heat treatment and metallurgy and ensure economic viability of their businesses."

- Vision of the SECO/WARWICK Group:

"We want to be the company of first choice in the provision of heat treatment and metallurgy solutions. Innovation and reliability are evident in the way we think and create – everywhere in the world."

The Strategy is based on tasks for individual segments as well as certain centralised strategic tasks for some or all of the Group's segments.

The key objectives of the Strategy include:

- Financials: predictability and stability of key financial parameters, focus on high-margin products, steady growth of net profit to 4% in 2022, reduction of capital expenditure (replacement and growth projects) to an average annual rate of approximately PLN 11m, focus on commercialisation of technologies developed in recent years, and organic growth without acquisitions,

- Customers: focus on key industries throughout the Group (i.e. aviation, energy, automotive and commercial heat treatment companies), on key products in the four main segments (VME, ATM, VAC, ALU/CAB), and on improving services (aftermarket segment),

- Processes: improvement of the commercialisation process for new products and technologies (including establishment of the New Technology Implementation Unit), optimisation of key centralised processes, cooperation between segments and companies (cross selling, key customers and implementation rules for multi-discipline projects), standardisation of materials and improvements in the production area,

- Employees: putting in place an effective incentive system for employees to retain valuable staff and support delivery of the Group's strategic objectives.

Implementation of the Strategy will be monitored on a regular basis.

The above strategic objectives are a goal that SECO/WARWICK will seek to achieve and are not a forecast of expected financial results within the meaning of applicable laws.

27. Major R&D achievements

In 2019, the Research and Development division of the SECO/WARWICK Group worked on the following projects:

In 2019, the Company continued the following projects financed with grants:

- 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. Action: Research and development Sub-action: Application projects.
- DeepCaseMaster Evolution 4.0 – continuation of activities under an agreement for partial funding of project No. POIR.04.01.02-00-0064/17, "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". Project implemented under the Smart Growth Operational Programme 2014-2020.

Institution: National Centre for Research and Development (NCBiR). Priority axis: Increasing the research potential. Action: Research and development Sub-action: Sub-measure: Regional scientific and research agendas.

- JetCaster® – continuation of activities under an agreement for partial funding of project No. POIR.04.01.04-00-0044/17: “Development of an innovative device for multi-option and high-volume casting of gas turbine blades with monocrystalline microstructure for the aviation industry”. Project implemented under the Smart Growth Operational Programme 2014-2020. Institution: National Centre for Research and Development (NCBiR). Priority axis: Increasing the research potential. Action: Research and development Sub-action: Application projects.
- ZeroFlow® Feedback Control – continuation of activities under an agreement for partial funding of 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 (NCBiR). 2014–2020 Smart Growth Operational Programme. Priority axis: Increasing the research potential. Action: Research and development Sub-action: Application projects.

In 2019, a total of ten development contracts (SWSA) were successfully completed:

- EFDS Early Failure Detection System (one development contract),
- Standardisation of VRXx and HRXx furnaces (six development contracts),
- Creation of a 3D model database (one development contract),
- 5 S (one development contract),
- Seco/Predictive (one development contract).

In 2019/2020, the following annual reports on subsidised projects were prepared and approved:

- Report on the implementation of the 2019 projects/phases, including a description of the project milestones for “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.
- Report on the implementation of the 2019 projects/phases, including a description of the project milestones for “Development of an innovative device for multi-option and high-volume casting of gas turbine blades with monocrystalline microstructure for the aviation industry” – JetCaster®. A patent application has also been filed with the Patent Office of the Republic of Poland.
- Report on the implementation of the 2019 projects/phases, including a description of the project milestones for “Development of a new generation of ZeroFlow Feedback Control technology-based nitriding furnaces”.

In 2019/2020, milestones were reached in the following non-subsidised projects

- SeCoil® Coil Temperature Control System and Vortex 2.0 – development of a commercial version of the software interoperating with the Vortex 2.0® furnace’s superordinate system (contract No. 307053). The project is financed with the Group’s own funds. The SeCoil® system was implemented on an industrial furnace and the first tests were carried out with positive results. Prototypes of new solutions for the gas blowing system have been developed and tested. Based on the research carried out to date, it is estimated that by applying a new gas blowing system solution (Vortex 2.0), the furnace’s efficiency will increase by approximately 30%.

- Development of low-pressure carbonitriding (LPCN) technology (contract No. 400151). Project financed with the Group's own funds. The low-pressure carbonitriding (LPCN) technology was tested in an industrial furnace and the initial assumptions were revised. Work began on the patent application.

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). In accordance with the applicable regulations, the Company is registered in the database on products and packaging and on waste management (BDO) under No. 00025175.
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 29 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 17 of this Report.

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

In 2019, the SECO/WARWICK Group made the following equity investments within the Group:

the share capitals of SECO WARWICK Services and SECO/WARWICK Germany were increased by PLN 1,000 thousand and PLN 737 thousand, respectively.

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

Events that occurred after the reporting date are described in detail in Note 36 to the consolidated financial statements of the SECO/WARWICK Group.

34. Development policy

Key objectives of the Group's new development strategy for 2020–2022:

The mission and vision for the activities of the SECO/WARWICK Group (the "Group") are defined in the Strategy as follows:

- Mission of the SECO/WARWICK Group:

"Thanks to the experience and expertise of our employees as well as cooperation with our business partners, we create innovative products that provide customers with reliable, safe, and environmentally friendly solutions for heat treatment and metallurgy and ensure economic viability of their businesses."

- Vision of the SECO/WARWICK Group:

"We want to be the company of first choice in the provision of heat treatment and metallurgy solutions. Innovation and reliability are evident in the way we think and create – everywhere in the world."

The Strategy is based on tasks for individual segments as well as certain centralised strategic tasks for some or all of the Group's segments.

The key objectives of the Strategy include:

- Financials: predictability and stability of key financial parameters, focus on high-margin products, steady growth of net profit to 4% in 2022, reduction of capital expenditure (replacement and growth projects) to an average annual rate of approximately PLN 11m, focus on commercialisation of technologies developed in recent years, and organic growth without acquisitions,

- Customers: focus on key industries throughout the Group (i.e. aviation, energy, automotive and commercial heat treatment companies), on key products in the four main segments (VME, ATM, VAC, ALU/CAB), and on improving services (aftermarket segment),

- Processes: improvement of the commercialisation process for new products and technologies (including establishment of the New Technology Implementation Unit), optimisation of key centralised processes, cooperation between segments and companies (cross selling, key customers and implementation rules for multi-discipline projects), standardisation of materials and improvements in the production area,
- Employees: putting in place an effective incentive system for employees to retain valuable staff and support delivery of the Group's strategic objectives.

Implementation of the Strategy will be monitored on a regular basis.

The above strategic objectives are a goal that SECO/WARWICK will seek to achieve and are not a forecast of expected financial results within the meaning of applicable laws.

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 Company 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, 2017 and 2018 with respect to the audit of the full-year separate financial statements of SECO/WARWICK S.A., the consolidated financial statements of the SECO/WARWICK Group, and the review of 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 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 total auditors' fees for 2019 and 2018.

Table: Total auditors' fees for 2019 and 2018

Service	Fees for 2019 (PLN '000)	Fees for 2018 (PLN '000)
Audit of the full-year financial statements	699	620
Review of financial statements	191	185
Other services	132	116
Total	1,023	921

36. Non-financial statement for 2019

INTRODUCTION

Below is presented the SECO/WARWICK Group's non-financial statement for 2019 (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 2019 and presents the Group's non-financial information for the period January 1st – December 31st 2019. 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 SERVICES Sp. z o.o., 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 nine companies operating in three continents, with customers in 70 countries and

The SECO/WARWICK Group

Directors' Report on the Group's operations
for the year ended December 31st 2019

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, degassing, and other.

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 precision castings (such as components of jet engines, power turbines and medical implants).

Atmosphere Furnaces (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 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 Process (aluminium heat treatment systems)

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.

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. In its relations with customers and employees, SECO/WARWICK is guided by the win-win principle, and seeks to balance its staff's needs and customer expectations. It measures employee satisfaction, listens and responds to their opinions. As a result of this dialogue, a number of solutions have been put in place to improve work comfort.

Understanding and accommodating the employees' needs through multi-stage experience management translates into greater employee engagement and satisfaction. Comfortable working conditions have an effect on the personnel's well-being, and thus increase their efficiency at work, which drives sound operation of the entire company.

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.

Employment

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

The Group's employees are employed primarily based on full-time employment contracts.

Table 1. Total workforce by gender and employment type

	2018		2019	
	Women	Men	Women	Men
Full-time	109	728	118	641
Part-time	9	5	6	3
Temporary	-	-	1	2

The SECO/WARWICK Group

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for the year ended December 31st 2019

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

	2018		2019	
	Women	Men	Women	Men
Local (residing within 80 km of a company's head office)	114	702	121	610
Non-local (residing more than 80 km of a company's head office)	4	31	4	36

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, fixed-term contracts, and for a trial period

	2018		2019	
	Women	Men	Women	Men
Permanent contract	109	728	70	454
Fixed-term contract and employment for trial period	9	5	40	207

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.	SWS	Retech	SWC	SW China	SW GER	SVT	SW RUS	SW India
Life insurance	YES	YES	YES	YES	NO	YES	YES	NO	YES
Healthcare	YES	YES	YES	YES	YES	NO	YES	NO	YES

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

In 2019, the above benefits were supplemented by SECO/WARWICK with the home office option, flexible working time, and an additional day off after a long business trip.

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

2018		2019	
Women	Men	Women	Men
35	43	28	25

Table 6 Average training time in hours in 2019, by employee category

	Senior management	Lower-level management	Engineers	Administration	Production
2019	7	26	46	16	12

SECO/WARWICK S.A.'s HR policy efforts were noticed and appreciated also outside the Group. In 2019, the Company was again awarded the title of *Reliable Employer of the Year*, placing it in the group of best employers in Poland. The judging panel selects the best employers, especially those who share their experience and promote interesting HR solutions.

The working conditions, attractive career paths, employee training and assistance in personal development are only some of the criteria underlying the title and repute of a Reliable Employer. 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 Group's operations, 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 in Poland, 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 Company'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. 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 these activities on the largest scale. For this reason, the information presented below describes the initiatives undertaken by SECO/WARWICK S.A.

The Group considers CSR activities as a key component of its long-term development strategy and as a major driver of its competitive advantage. Therefore, it seeks to ensure that its practices have a positive impact not only on the organisation itself, but also on its external environment.

Through its activities, SECO/WARWICK creates its image of a friendly and socially responsible business by building appropriate relations with stakeholders, growing prosperity, and improving the health of people, especially those living in the Group's immediate vicinity.

The Group's CSR activities include sponsorship, promotion of sports and healthy lifestyles, as well as initiatives supporting the education of young people.

Sports

SECO/WARWICK promotes sports and active lifestyles by creating different activity groups for its employees. The Group has established three sports teams: the SECO/BIKE cycling group, the SECO/RUN running group and the SECO/TEAM football group. The Company co-finances and support sports teams, as this helps its employees to combine their work with their passion and strengthens their mutual relations.

Since 2017, SECO/WARWICK has had its own bicycle team, named SECO/BIKE. The team consists of 10 Company employees, who take part in biking competitions and charity projects. The purpose behind creating the team was to promote and popularise cycling and bicycle tourism as well as promote healthy and sober lifestyle and active leisure and recreation.

In 2019, the team successfully competed in nationwide events. As in the previous year, in 2019 the most important sporting events in which the SECO/BIKE team took part included: Grand Prix Kaczmarek Electric MTB (a series of 10 races in the Province of Zielona Góra/Gorzów Wielkopolski) and the DT4YOU MTB race, organised in Oborniki near Poznań. The team also took part in events such as: BIKE ADVENTURE (a four-day stage race), UP Hill Race Śnieżka, the Łagów 2019 Amateur MTB Marathon for the silver cross of the Sovereign Military Order of Malta, SCOTT MTB Challenge (a series of races in the Province of Zielona Góra/Gorzów Wielkopolski) and BIKE MARATON (a nationwide series of races).

In parallel to SECO/BIKE's activity, the 'Commuting by Bike' competition was organised in 2019 for the Company employees. Its purpose was to encourage employees to commute by bike rather than by car, which would increase the use of cycle parking areas and reduce the number of cars in car parks, and which would, above all, be healthy and good fun. The competition was held under the slogan 'Riding to Win' and the participants competed in three categories: the longest covered distance, the most interesting photo account, the largest documented benefits of participating in the competition. The total distance covered by all the participants was 2,000 km. The rules were simple: participants were to describe or recount their summer biking adventure (e.g. boast of the longest travelled distance, an interesting photo or the effects of the cycling challenge). The winners received awards sponsored by the Company.

In addition to the cycling initiative, a running team named SECO/RUN has been active at the Company since 2017, proudly and successfully representing SECO/WARWICK at a number of sporting events. The distance covered in 2019 by the strong team totalled 837 km. Our runners have competed in such events as: Team Run for the Gazeta Lubuska Cup, New Borders – Zielona Góra, the Ślęza Half-Marathon and the 25th Łągów Summer Run. The team also took part in the global charitable 'Wings for Life' event, the proceeds from which are donated for the purpose of doing research into spinal cord injuries.

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 football 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. In 2019, SECO/TEAM also took part in the charity tournament organised by the Fundacja Kibica foundation for family-run group homes for children. The team encourages Company employees and their families to join it in its activities. It acts locally and through its enthusiasm it wants to emphasise the importance of physical activity in everyday life. SECO/WARWICK makes every effort to provide the space for training for the SECO/TEAM members, including by renting an indoor hall.

Sponsorship activities

The Company is aware that running a business these days is not only about selling products or services, but also lending support to initiatives taken by local residents and social organisations. SECO/WARWICK provides financial support for social initiatives it considers right and in line with the values it promotes. The Company carries out its sponsorship activities not only in response to requests from NGOs, but also from individuals and non-profit organisations. The Company responds to the needs of its stakeholders, including in particular local government authorities, non-government organisations, Company employees and local communities.

The Company's heart is in Świebodzin, which is why local initiatives receive particular support from SECO/WARWICK. In 2019, three of them deserved a special mention:

The first one, related to the town of Świebodzin and organisation of the Świebodzin Days, sponsored by SECO/WARWICK for the third time. This June event is particularly close to Company's heart as Świebodzin is the home town of SECO/WARWICK and most of its employees, and is also the place where metal heat treatment technologies are developed.

Another initiative is the Team Run for the Gazeta Lubuska Cup, held in September. This is a sponsorship initiative intended to mark the Company's presence in the region of Zielona Góra and Gorzów Wielkopolski, as well as to support the run and promote this type of activity. The Company not only provided financial support, but also entered four SECO/WARWICK teams in the run. A SECO/BIKE and SECO/RUN combined team managed to win despite the rain and awful weather, securing a place on the podium out of two hundred three-member teams.

The third sponsorship initiative involved providing financial support for the State Fire Service. The funds were applied towards purchasing a light minibus to carry rescue teams during rescue and firefighting operations, as part of a project involving the purchase of additional equipment for the Świebodzin County Command of the State Fire Service.

In addition to the initiatives mentioned above, in 2019 SECO/WARWICK S.A. provided support for the Roman Catholic Parish of St. Michael the Archangel in Świebodzin. The funds were used to finance the organisation of summer holidays for altar boys in reward for their engagement in numerous parish events. The financial support enabled more participants to go on holidays.

The village of Bucze in the Lubrza commune also received financial support. The funds were donated for the organisation of Children's Day, and more specifically to make the attractions accessible to all the children, regardless of the financial status of their parents.

The Company employees' bottom-up initiative to take part in the *Noble Gift* campaign also deserves special attention. The collected funds were donated to a selected family participating in the programme. Next year, the Company intends to expand its social sponsorship by doubling the amount collected in cans by its employees.

The initiatives described above are only a few selected CSR projects carried out by the Company in 2019. In its CSR activities, SECO/WARWICK 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.

In addition to the Company's main CSR initiatives referred to above, SECO/WARWICK also pursues activities aimed at educating its employees and building social conscience through the corporate SECO/WARWICK Bulletin and weekly newsletters (SECO/SFERA). Using these two means of internal communication, the Company reports matters of material relevance to the local community, i.e. environmental protection, events with a significant impact on the employees and their environment, legislative changes, as well as current initiatives, such as the purchase of a defibrillator, being another step towards improving safety.

SECO/WARWICK, together with the Humanites Institute, the originator of the *Two Hours for the Family* campaign, supports the observance of the International Day of Families. On that day, employees are free to leave two hours early and spend this time with their families.

Partnership with high schools and universities

For almost four 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.,
- 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 2019, the total number of students participating in the SECO /GENERATION project was 81.

Another noteworthy achievement was that two apprentices trained by the Company's specialists at SECO/WARWICK took part in a competition and won the title of *Best Locksmith* in the Province of Zielona Góra and Gorzów Wielkopolski. At the same time, students of another school supported by SECO/WARWICK became Polish Champions in the programming of PLC controllers, which they had learned at SECO/CLASS and the PLC club.

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 14001:20015-09. 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. The Company 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.

In 2019, SECO/WARWICK purchased new items of equipment (turning machines, milling machines) to replace old and energy-intensive ones. Currently, the Company is analysing the possibility of installing solar PV panels to further reduce environmental impacts and generate potential related savings.

Table 8. Total electricity consumption

Electricity consumption in 2018	Electricity consumption in 2019	Change
5,024 MWh	4,026 MWh	-19.9%

Given the nature of its business, SECO/WARWICK 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 2019, 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 Group'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 any large industrial plant, 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 companies closely supervise the work of external providers of power-related 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. The Group 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 SECO/WARWICK Management Board's knowledge, in 2019 no cases of discrimination were recorded at the SECO/WARWICK Group. There were no cases of disrespect of human rights in the reporting period.

In addition to ensuring respect for human rights at the Group, SECO/WARWICK also seeks to ensure the same at its business and trading partners' companies. 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.

In 2018, due diligence procedures in supplier selection were implemented, involving initial and ongoing (i.e. during contract performance) assessment of suppliers. In addition, in 2019 relevant provisions were introduced to the General Terms and Conditions of Procurement at SECO/WARWICK. 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. In the case of each executed contract, the supplier is bound by the General Terms and Conditions of Procurement at SECO/WARWICK, which are available on the Company's website and which include a clause guaranteeing that the Company's trading partners respect human rights.

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's 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, in particular in soliciting or offering any financial or personal benefits from or 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 2019 no cases of corruption were identified at the SECO/WARWICK Group and no corruption-related court actions were initiated against it.

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-arm's length 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. In addition, the risk is mitigated by establishing relations only with trusted partners and representatives, verifying any potential partner/representative in terms of their qualifications or authority to perform their function, contacts (both personal and professional) with the government, the number of customers, and their opinion and reputation with local banks, customers and business organisations. SECO/WARWICK is also actively involved in anti-corruption information and education initiatives, including publications in the Company's SECO/SFERA Newsletter.

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 2019 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 2019 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 2019

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 2019 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 22nd 2020

President of the Management Board



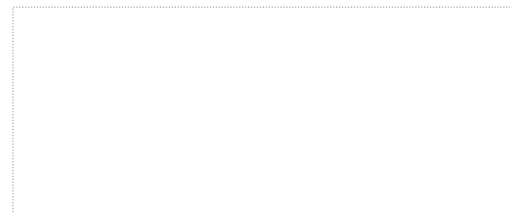
Sławomir Woźniak

Vice President of the Management Board



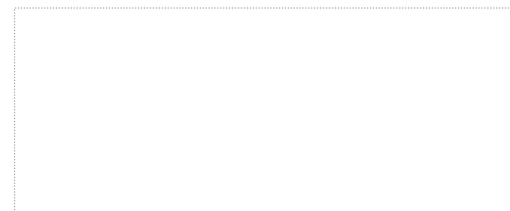
Jarosław Talerzak

Member of the Management Board



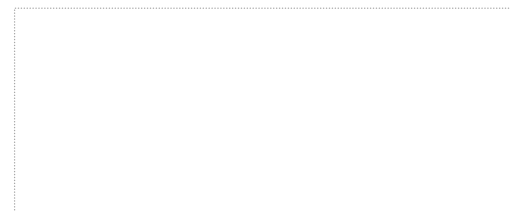
Bartosz Klinowski

Member of the Management Board



Earl Good

Member of the Management Board



Piotr Walasek