



***SECO/WARWICK***  
[www.secowarwick.com](http://www.secowarwick.com)

**DIRECTORS' REPORT**  
**ON THE SECO/WARWICK GROUP'S OPERATIONS**  
**FOR THE SIX MONTHS ENDED**  
**JUNE 30TH 2020**

The Management Board of SECO/WARWICK S.A. presents the Directors' Report on the SECO/WARWICK Group's operations in the period January 1st–June 30th 2020, 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 interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IFRS"), as endorsed by the EU, and the Regulation. The financial statements are presented in the zloty ("PLN") and, unless specified otherwise, all amounts are given in thousands of PLN. The interim condensed consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern for the 12 months after the end of the most recent reporting period, i.e. June 30th 2020.

## 1. The SECO/WARWICK Group

### 1.1 General information

SECO/WARWICK S.A. (the "Company" or the "Parent") was entered in the Business Register of the National Court Register on January 2nd 2007, by virtue of a decision issued by the District Court of Zielona Góra, 8th Commercial Division of the National Court Register, on January 2nd 2007 under No. KRS 0000271014.

SECO/WARWICK S.A. is the parent of the following subsidiaries:

- SECO/WARWICK Corporation,
- SECO/WARWICK Rus,
- Retech Systems LLC,
- SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.
- SECO/WARWICK Germany GmbH,
- SECO/WARWICK Services Sp. z o.o.
- SECO/WARWICK of Delaware, Inc.,
- Retech Tianjin Holdings LLC,
- SECO/WARWICK USA HOLDING LLC,
- SECO VACUUM TECHNOLOGIES LLC,
- SECO/WARWICK Systems and Services India PVT. Ltd.

The Group includes a jointly controlled entity:

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

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

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

## 1.2 Composition of the SECO/WARWICK Group as at June 30th 2020

Table: Composition of the SECO/WARWICK Group as at June 30th 2020 is presented below:

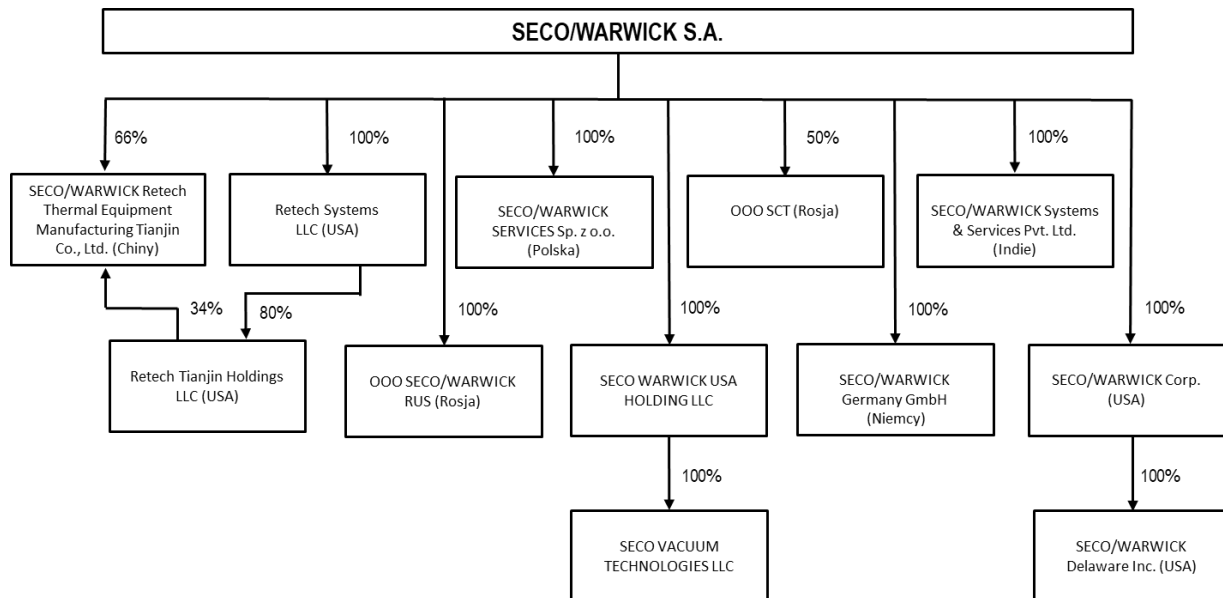
Company	Registered office	Principal business activity	Method of consolidation/accounting for equity interest	Group's ownership interest
<b>Parent</b>				
SECO/WARWICK S.A.	Świebodzin (Poland)	Holding company of the SECO/WARWICK Group; holding equity interests and providing strategic management services; manufacture of equipment for metal heat treatment.	N.A.	N.A.
<b>Direct and indirect subsidiaries</b>				
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 %

### The SECO/WARWICK Group

Directors' Report on the Group's operations in the six months ended June 30th 2020

SECO/WARWICK Systems and Services India (India) PVT. Ltd.	Mumbai (India)	Sale, repair and maintenance services	Full	100 %
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**Organisational chart of the Group as at June 30th 2020**



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

There were no changes in the composition of the SECO/WARWICK Group between June 30th 2020 and the date of issue of this Report.

**2. Other supplementary information.**

**2.1. Material achievements and failures of SECO/WARWICK S.A. and the SECO/WARWICK Group in H1 2020 and key related events**

In the first half of 2020, the SECO/WARWICK Group companies secured a backlog of orders worth PLN 118m (including approximately PLN 76.7m in Q2 2020), down by PLN 61.3m year on year. Including the orders secured in the first half of 2020, the value of order book at the end of June 2020 totalled PLN 320m, up by PLN 21m on the first half of 2019.

As regards sales by geographical segments, there was an increase in sales in the CIS market, which went up by 440% year on year. Sales in the other markets decreased year on year: by 30% in the United States and 25% in Europe. In these regions, the Group is facing a significant slowdown related to the COVID19 pandemic. Consolidated sales of the SECO/WARWICK Group went down by 17%, to PLN 193m, from PLN 231m in the first half of 2019.

Almost all Group companies saw a decline in sales: the Asian subsidiary SECO/WARWICK Retch (China) – down 61%, the US-based companies SECO/WARWICK Corp., SECO/VACUUM Technologies LLC and Retech Systems LLC – down 53%, 32% and 26%, respectively, the Polish service company SECO/WARWICK Service – up 9%, and SECO/WARWICK S.A. – down 7%.

In the first half of 2020, almost all of the Group's operating segments saw a decrease in sales. The Aftersales segment reported an increase of 14%, while the largest declines occurred in the atmosphere furnace (-51%), aluminium process (-31%), and vacuum furnaces (-22%) segments.

As at the date of issue of the H1 2020 report, the Company's and the Group's business was stable. The Group and the Company pay all their liabilities when due.

## **2.2. Factors and events, including of a non-recurring nature, with a significant bearing on the Company's financial performance in H1 2020 and with potential bearing, in the Company's opinion, on its performance in the next half year or a longer term**

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.

On February 27th 2020, an annex to the overdraft facility agreement with Santander Bank Polska Spółka Akcyjna was signed, extending the facility repayment deadline until February 28th 2021.

At the end of 2019, the first news was received of the spread of the SARS-CoV-2 virus, causing the COVID-19 disease, in China. In the first months of 2020, the virus spread across the world, and its adverse impacts are being felt in many countries.

In connection with the spread of SARS-CoV-2 in Poland, the Polish government announced a state of epidemic threat as of March 14th 2020, and then a state of epidemic as of March 20th 2020, and introduced far-reaching restrictions aimed at limiting the pace and extent of the epidemic. Similar precautionary measures were implemented in most of the affected countries, including in the world's largest economies. The restrictions have strongly affected business organisations' ability to operate and have a material bearing on the current economic situation. It should also be pointed out that the epidemic threat is driving a strong volatility on stock exchange and currency markets, unavailability of certain goods and services, as well as the risk of disruption to global supply chains of key importance to specialised industrial production activities.

The Company has identified the following as the main risks that may affect the Group's operations and financial performance in the coming periods:

- (i) the risk of reduced order volumes (including a marked decline in major contracts, postponement of deliveries, and partial or complete cancellation of certain orders) and, as a result, of reduced or considerably deferred sales;
- (ii) discontinuation of capital expenditures by the Group's key customers;
- (iii) reintroduction of labour and travel restrictions in China, Europe and the United States, which delayed the performance of contracts concluded by the Group companies by hampering selling efforts and the ability to put equipment into operation and perform maintenance services;
- (iv) aggravation of the crisis in the automotive and aviation sectors,
- (v) difficulties in the performance of contracts resulting from the introduction of a remote work system to protect employees' health and life against COVID-19;
- (vi) potential impediments in the Group's cooperation with its key suppliers of raw materials and components.

With respect to the Company and other Group companies, the negative impact of the epidemic to date has involved primarily a reduction in the number and value of new orders placed by the Company's trading partners. The Company's Management Board is closely monitoring the global business environment to identify trends that may potentially lead to suspension of delivery (i.e. deferral of income) or, in extreme cases, partial or complete cancellation of certain orders in the backlog as at the reporting date. This may result in a significant deferral or loss of all or some revenue from contracts (partly offset by liquidated damages, if any, paid to Group companies) and in lower cash flows than expected.

The Company's Management Board took steps to mitigate the adverse effect of the situation on the Company's and the Group's operations and financial performance, while taking steps to ensure safety of the employees and trading partners.

On April 1st 2020, in consultation with trade unions, the Company reduced employees' working hours to 80%, with pro rata cuts of the pay amounts. The Company's employees confirmed their readiness to work reduced hours and to accept the proportionate pay reductions. Full working time was reinstated on August 1st 2020. A Covid19 team has been established to mitigate the effects and risks of the epidemic. Procedures and policies have been put in place, including a rotational work system with a home office option for most of the Company's employees, to minimise the risk of infection among staff. In the case of the departments in which remote work is not possible, an equivalent working time has been introduced.

The Company also decided to apply for aid under various financial assistance and business support programmes as introduced on some of the Group's markets. In the first half of 2020, SECO/WARWICK S.A. and SECO/WARWICK Services received three tranches of employee compensation subsidies totalling PLN 3.4m as part of the anti-crisis shield package in connection with reduced working hours. SWR in China received tax credits of PLN 1.1m and the Group companies based in the US received almost USD 1.6m under the PayCheck Protection Program for small and medium-sized companies. Loans granted under the PayCheck Protection Program may qualify for full or partial forgiveness subject to certain terms and conditions. At present, the companies are preparing forgiveness requests.

Based on its best knowledge, the Company's Management Board does not expect any rise in the number of court disputes, any penalties imposed for contract performance delays, contract terminations, or insolvencies of the Company's customers. The Management Board monitors and analyses on an ongoing basis the situation, the value of orders, and the stage of completion of contracts, to undertake activities to secure the Company's operations if necessary. The Management Board analysed indications of goodwill impairment regarding Retch and, based on the analysis, impairment tests were carried out.

So far, the Group has not experienced any significant problems with the availability of feedstocks, materials or goods. The Company's Management Board will continue to monitor the potential impact of the epidemic and take all reasonable steps to mitigate its negative effects on the Company and other Group companies.

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

Other than those described above and in Section 2.1, there were no factors or events in the Group's business, especially of a non-recurring nature, that would have a significant bearing on its financial performance in H1 2020.

### **2.3. Changes in the Group structure in H1 2020, including changes resulting from merger, acquisition or loss of control of subsidiaries and long-term investments, demerger, restructuring or discontinued operations**

In the first half of 2020, no organisational changes took place in the Group's business, including changes resulting from merger, acquisition or loss of control of subsidiaries and long-term investments, demerger, restructuring or discontinued operations.

### **2.4. Management Board's position on the feasibility of meeting any previously published forecasts for 2019 in light of the results presented in the H1 2020 report**

The SECO/WARWICK Management Board did not publish any forecasts of the Company's or the Group's financial results in 2020.



**2.5. Shareholders holding, directly or indirectly, 5% of the total voting rights at the General Meeting as at the date of issue of this Report, including information on any changes subsequent to the issue of the SECO/WARWICK Group's interim report for Q1 2019**

**Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total voting rights at the General Meeting as at the issue date of the Q1 2020 report, that is May 15th 2020**

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 information presented in the table is based on notifications received by the Group from the shareholders under Art. 69 of the Public Offering Act.

**Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total voting rights at the General Meeting as at the issue date of the H1 2020 report, that is September 11th 2020**

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 information presented in the table is based on notifications received by the Group from the shareholders under Art. 69 of the Public Offering Act.

From the issue date of the Q1 2020 report, i.e. May 15th 2020, to the issue date of the H1 2020 report, there were no changes in the list of shareholders holding more than 5% of voting rights at the Company's General Meeting.

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.

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. Pursuant to the resolution, the Company will be able to repurchase up to one million shares by December 31st 2021. Shares repurchased by the Company may be cancelled on the basis of a separate resolution of the General Meeting or, upon prior approval by the Company's Supervisory Board, may

be held for the purposes of existing or future incentive schemes at the Company or its subsidiaries, for further resale or for any other purpose defined in a resolution of the Company's Management Board.

**2.6. SECO/WARWICK shares held by members of the Management Board and Supervisory Board as at the date of issue of this Report, including information on any changes subsequent to the issue date of the Q1 2020 report**

**Table: Members of the Company's Management Board and Supervisory Board holding SECO/WARWICK S.A. shares as at the date of issue of the Q1 2020 and H1 2020 reports.**

	May 15 2020				Sep 11 2020			
	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)
<b>Management Board</b>								
Sławomir Woźniak	44,306	0.43%	0.43%	-	44,306	0.43%	0.43%	8,861
Jarosław Talerzak	31,141	0.30%	0.30%	-	31,141	0.30%	0.30%	6,228
Bartosz Klinowski	97,751	0.95%	0.95%	-	97,751	0.95%	0.95%	19,550
Earl Good	6,331	0.06%	0.06%	-	6,331	0.06%	0.06%	1,266
Piotr Walasek	29,035	0.28%	0.28%	-	29,035	0.28%	0.28%	5,807
<b>Supervisory Board</b>								
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	1060	0.0001%	0.0001%	-	1,060	0.0103%	0.0103%	212
Marcin Murawski	-	-	-	-	-	-	-	-
Jacek Tucharz	-	-	-	-	-	-	-	-
<b>Total</b>	<b>284,400</b>	<b>2.76%</b>	<b>2.76%</b>	<b>-</b>	<b>284,400</b>	<b>2.76%</b>	<b>2.76%</b>	<b>56,880</b>

Item	May 15 2020	Sep 11 2020
Number of shares	10,298,554	10,298,554
Par value per share	0.20	0.20
<b>Share capital</b>	<b>2,059,710.80</b>	<b>2,059,710.80</b>

In the period specified above, members of SECO/WARWICK S.A.'s Management and Supervisory Boards did not enter into any transactions involving SECO/WARWICK S.A. shares.

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



## **2.7. Material court, arbitration and administrative proceedings**

In H1 2020, neither the Company nor any other SECO/WARWICK Group company was party (whether jointly or individually) to any material court, arbitration or administrative proceedings.

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

In H1 2020, SECO/WARWICK S.A. and its subsidiaries did not enter into any non-arm's length transactions with related parties.

## **2.9. Loan sureties or guarantees provided by SECO/WARWICK S.A. or its subsidiaries, jointly to one entity or its subsidiary, where the total outstanding amount of such sureties or guarantees is material**

In H1 2020, SECO/WARWICK S.A. and its subsidiaries did not provide any loan sureties or guarantees the amount of which would be material.

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

In H1 2020, no events other than those discussed in Section 2.2 above occurred in the SECO/WARWICK Group's business which in the Company's opinion would be material for the assessment of its personnel, assets, financial condition and financial result or changes therein, or for the assessment of the Company's ability to meet its obligations.

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

## **2.11. Factors which in the Company's opinion will affect the Group's performance in H2 2020 or in a longer term**

### **SECO/WARWICK S.A. Incentive Scheme**

On April 11th 2018, an Extraordinary General Meeting of SECO/WARWICK S.A. passed Resolution No. 20 to approve the 2018–2020 Incentive Scheme, approve the Rules of the Incentive Scheme, and allocate the Company's treasury shares for the purposes of the Incentive Scheme. The Meeting also passed Resolution No. 21 approving the list of participants of the 2018–2020 Incentive Scheme. The Incentive Scheme beneficiaries are the Group's senior management staff. The 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. 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 H1 2020 was PLN 505 thousand.

### **Strategy of SECO/WARWICK for 2020–2022**

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.

In view of the ongoing SARS-CoV-2 virus pandemic, the Management Board has been reviewing and updating the strategic assumptions and is also prepared to change certain strategic objectives if required.

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

For information on the impact of the COVID-19 pandemic on the Group's position, see Section 2.2. of this Report.

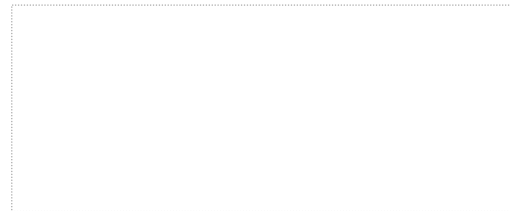
Date: September 11th 2020

President of the Management Board



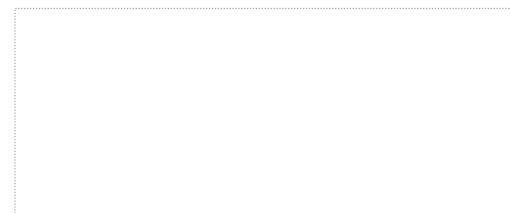
Sławomir Woźniak

Vice President of the Management Board



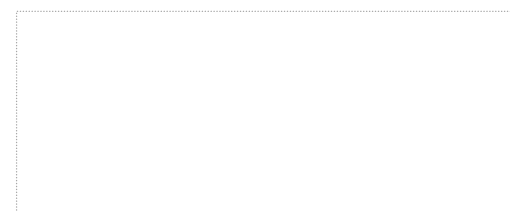
Jarosław Talerzak

Member of the Management Board



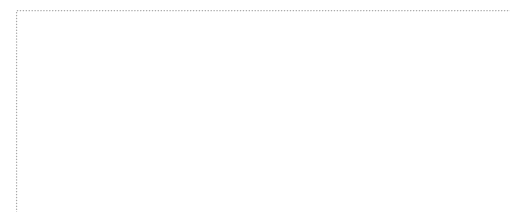
Bartosz Klinowski

Member of the Management Board



Earl Good

Member of the Management Board



Piotr Walasek

