

THE SECO/WARWICK GROUP

DIRECTORS' REPORT
ON THE SECO/WARWICK GROUP'S OPERATIONS
IN THE SIX MONTHS ENDED
JUNE 30TH 2010

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 2010), prepared in accordance with Par. 92 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz. U. of 2009, No. 33, item 259). The interim condensed consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) and the IFRSs endorsed by the European Union.

1. Information on the SECO/WARWICK Group

1.1 General Information

SECO/WARWICK S.A. of Świebodzin is the Parent Undertaking of the SECO/WARWICK Group. SECO/WARWICK S.A. was incorporated through transformation of a limited liability company (spółka z ograniczoną odpowiedzialnością – Sp. z o.o.) into a joint-stock company (spółka akcyjna – S.A.) under the name of SECO/WARWICK S.A. with registered office in Świebodzin. The transformation was effected in accordance with the provisions of the Polish Commercial Companies Code. On December 14th 2006, the General Shareholders Meeting of SECO/WARWICK Sp. z o.o. of Świebodzin adopted a resolution approving the transformation. In the same notarial deed all Shareholders of SECO/WARWICK z o.o. submitted a representation on joining a joint-stock company under the name of SECO/WARWICK S.A. of Świebodzin and on acquisition of Series A Shares.

SECO/WARWICK S.A. was entered in the register of entrepreneurs of the National Court Register on January 2nd 2007 by virtue of the decision issued by the District Court of Zielona Góra, VIII Commercial Division of the National Court Register, on January 2nd 2007, under entry No. KRS 0000271014.

SECO/WARWICK S.A. is the direct Parent Undertaking of three subsidiaries in the SECO/WARWICK Group:

- Lubuskie Zakłady Termotechniczne Elterma S.A.
- SECO/WARWICK Corporation, and
- OOO SECO/WARWICK Group Moscow,

The following undertakings also belong to the Group:

- Przedsiębiorstwo Handlowo-Uslugowe Eltus Sp. z o.o. w likwidacji (in liquidation)
- SECO/WARWICK of Delaware Inc.
- SECO/WARWICK Industrial Furnace Co. Ltd. (Tianjin), China
- SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.
- SECO/WARWICK Allied Pvt. Ltd. (Mumbai), India
- Retech Systems LLC

The aforementioned companies are described in detail in Section 1.2 of this Report.

The product range of the SECO/WARWICK Group comprises five main product categories:

- vacuum furnaces
- aluminium heat exchanger brazing systems
- aluminium heat treatment facilities
- atmosphere furnaces
- metallurgy equipment used for melting and vacuum casting of metals and specialty alloys.

The Group's operations are divided into five business segments based on product groups:

- vacuum furnaces (Vacuum),
- aluminium heat exchanger brazing systems (Controlled Atmosphere Brazing),
- aluminium heat treatment facilities (Aluminium Process),
- atmosphere furnaces (Thermal),
- metallurgy equipment used for melting and vacuum casting of metals and specialty alloys (Melting Furnaces).

1.2 Group Structure as at June 30th 2010

Table: SECO/WARWICK Group's Structure as at June 30th 2010

Company	Registered office	Business profile	Consolidation method/ valuation of equity holding	% of share capital held by SECO/WARWICK S.A.
Parent undertaking				
SECO/WARWICK S.A.	Świebodzin	Manufacture of vacuum furnaces, aluminium heat exchanger brazing systems and aluminium heat treatment systems	N/A	N/A
Direct and indirect subsidiaries				
Lubuskie Zakłady Termotechniczne Elterma S.A.	Świebodzin	Manufacture of metal heat treatment equipment	Full	100%
SECO/WARWICK Corp.	Meadville (US)	Manufacture of metal heat treatment equipment	Full	100%
SECO/WARWICK of Delaware, Inc ⁽¹⁾	Wilmington (US)	Management of holding companies; registration of trademarks and patents, and granting licences for use of trademarks and patents by SECO/WARWICK Corp.	Full	100%
OOO SECO/WARWICK Group Moscow	Moscow(Russia)	Distribution of the SECO/WARWICK Group's products	Full	100%
Przedsiębiorstwo Handlowo-Usługowe Eltus Sp. z o.o. w likwidacji (pending liquidation) ⁽²⁾	Świebodzin	Trade and services connected with recreation in holiday houses	Full	100%
SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd. ⁽³⁾	Tianjin (China)	Manufacture of metal heat treatment equipment	Full	75%
SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. ⁽⁴⁾	Tianjin (China)	Manufacture of metal heat treatment equipment	Proportional	50%
Retech Systems LLC ⁽⁵⁾	Ukiah(US)	Trade and services; manufacture of metallurgy equipment used for melting and vacuum casting of metals and specialty alloys	Equity	50%

SECO/WARWICK Allied Pvt. Ltd. ⁽⁶⁾	Mumbai(India)	Manufacture of metal heat treatment equipment	Equity	50%
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⁽¹⁾ SECO/WARWICK of Delaware, Inc is an indirect subsidiary owned through SECO/WARWICK Corp., which holds 100% of shares in the share capital of SECO/WARWICK of Delaware, Inc

⁽²⁾ Przedsiębiorstwo Handlowo-Uslugowe Eltus Sp. z o.o. w likwidacji (pending liquidation) is an indirect subsidiary owned through Lubuskie Zakłady Termotechniczne Elterma S.A., which holds 100% of the share capital in Przedsiębiorstwo Handlowo-Uslugowe Eltus Sp. z o.o.

⁽³⁾ SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd. with registered office in China, is located in a special economic zone in Tianjin. SECO/WARWICK Retech is a joint venture of SECO/WARWICK S.A. and Retech Systems LLC. SECO/WARWICK Retech promotes equipment related to vacuum furnaces, CAB, atmosphere furnaces and equipment based on Retech technology.

⁽⁴⁾ SECO/WARWICK S.A., SECO/WARWICK Corp. and Tianjin Kama Electric hold, respectively, 25%, 25% and 50% of the share capital in SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. SECO/WARWICK S.A and SECO/WARWICK Corp are entitled to appoint two thirds of the members of the Chinese company's supervisory board.

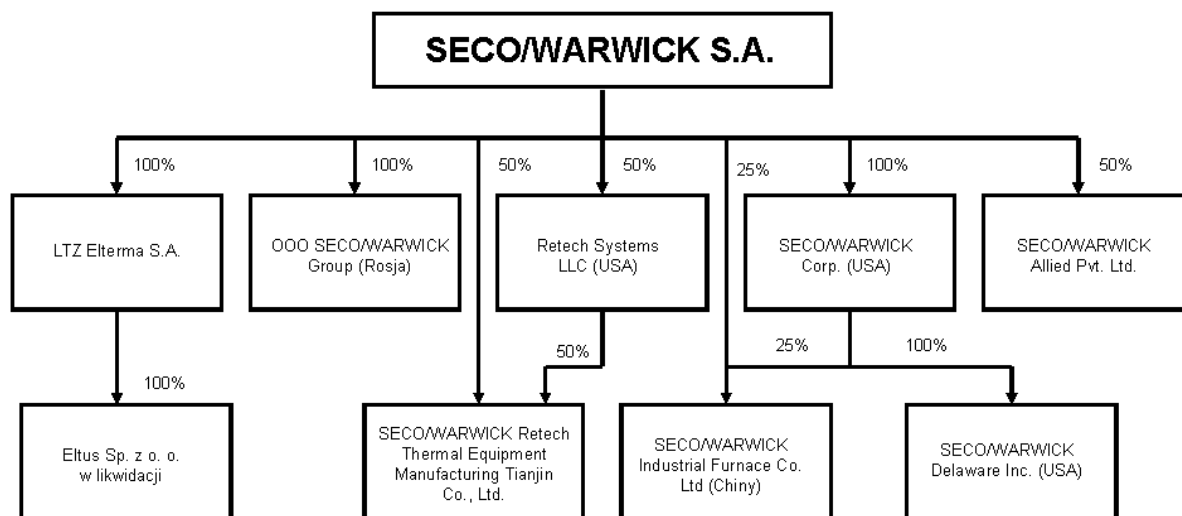
⁽⁵⁾ 50% of the share capital in Retech Systems LLC is owned by SECO/WARWICK S.A., with the remainder held by Mr James A.Goltz, who is not party to any agreements or contracts with SECO/WARWICK S.A.

⁽⁶⁾ The shares held by SECO/WARWICK S.A. represent 50% of SECO/WARWICK Allied Pvt. Ltd.'s share capital and confer the right to 50% of the total vote at the company's general shareholders meeting.

The SECO/WARWICK Group's Structure as at this Report's Release Date

In the analysed period, SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd. of China became a member of the Group. In the period after June 30th 2010 to the release date of this Report no changes occurred in the SECO/WARWICK Group's structure.

The diagram below presents the SECO/WARWICK Group's structure as at June 30th 2010 and as at this Report's release date:



2. Additional Information

1. Effect of Changes in the Group's Structure, Including Changes Resulting from Mergers, Acquisitions or Disposals of the Group Undertakings, Long-Term Investments, Demergers, Restructuring or Discontinuation of Operations

On July 21st 2010, the Board of Directors of SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. adopted a resolution to resale to the Chinese shareholder Tianjin Kama Electric Thermal Equipment Manufacturing Co., Ltd. a 25% equity interest in SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. held by SECO/WARWICK Corp. for USD 300 thousand and a 25% equity interest held by SECO/WARWICK S.A., also for USD 300 thousand. It was determined that the share purchase agreement should be finalised by September 30th 2010. The President of SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. was put under the obligation to change the Company's name by October 31st 2010. If the share purchase agreement is not finalised by September 30th 2010, the Board of Directors will renegotiate its terms in accordance with the Company's articles of association. If the company's name is not changed by October 31st 2010, the Board of Directors will dissolve SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. As at June 30th 2010, the Company recognised an impairment loss on the net assets in order to bring their value to the resale price of the shares, i.e. USD 600 thousand. As at the balance-sheet date, the impairment loss stood at PLN -373 thousand. The impairment loss may change, depending on how the resale of shares in SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. shares proceeds.

On May 6th 2010, the SECO/WARWICK Group registered SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd. of China. As of June 30th 2010, the company's share capital amounted to USD 1m (PLN 3,395 thousand). The company is located in a special economic zone in Tianjin. SECO/WARWICK Retech is a joint venture of SECO/WARWICK S.A. and Retech Systems LLC. The business results of the new undertaking will be recognised in the consolidated financial statements with the full method. SECO/WARWICK Retech will promote vacuum furnaces, CAB, atmosphere furnaces and equipment based on Retech technology.

The changes in the SECO/WARWICK Group's structure will improve the efficiency of its operations on the Chinese market.

H1 2010 saw no other changes in the Group's operations (i.e. changes resulting from mergers, acquisitions or disposals of the Group undertakings, long-term investments, demergers, or restructuring).

2. Management Board's Position on the Possibility of Meeting the Forecasts for 2010 in the Context of Results Presented in the Report for the Six Months Ended June 30th 2010

SECO/WARWICK S.A. did not publish any financial forecasts for 2010 concerning the Company or the SECO/WARWICK Group.

3. Shareholders Holding, Directly or Indirectly, 5% or More of the Total Vote at the General Shareholders Meeting as at the Release Date of This Report, Including Information on Any Changes after the Release of the Q1 Report of the SECO/WARWICK Group

Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total vote at the General Shareholders Meeting as at December 31st 2009

	Number of shares	% of share capital held	Number of votes at GM	% of total vote
SW Poland Holding B.V. (Netherlands)	4 119 508	43,04%	4 119 508	43,04%
Spruce Holding Limited Liability Company (USA)	1 726 174	18,03%	1 726 174	18,03%
ING NN OFE	723 199	7,56%	723 199	7,56%
PKO TFI S.A.	577 716	6,04%	577 716	6,04%
PZU Asset Management S.A.	513 000	5,36%	513 000	5,36%

-share capital	1,914,400.60
-number of shares	9,572,003
-par value per share	PLN 0.2

Data presented in the above table reflect the number of shares covered by share certificates submitted by shareholders participating in the Annual General Shareholders Meeting held on April 29th 2009. As at the date of release of the consolidated report for 2009, the SECO/WARWICK Group had no knowledge of any reduction or increase in the number of shares held by the shareholders participating in the Annual General Shareholders Meeting of April 29th 2009.

Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total vote at the General Shareholders Meeting as at August 31st 2010.

	Number of shares	% of share capital held	Number of votes at GM	% of total vote
SW Poland Holding B.V. (the Netherlands)	4,119,508	43.04%	4,119,508	43.04%
Spruce Holding Limited Liability Company (the USA)	1,726,174	18.03%	1,726,174	18.03%
ING NN OFE	723,199	7.56%	723,199	7.56%
Otwarty Fundusz Emerytalny Polsat	485,974	5.08%	485,974	5.08%
PZU Asset Management S.A.	484,692	5.06%	484,692	5.06%
PKO TFI S.A.	478,601	5.00%	478,601	5.00%

-share capital	1,914,400.60
-number of shares	9,572,003
-par value per share	0.2

On April 14th 2010, Otwarty Fundusz Emerytalny Polsat (hereinafter referred to as OFE POLSAT SA) notified the Company that its shareholding exceeded 5% of the total vote at the General Shareholders Meeting of SECO/WARWICK S.A. and reached 485,974 shares representing 5.08% of the total vote.

Data presented in the above table reflect the number of shares notified on the record date by the shareholders present at the Annual General Shareholders Meeting held on April 29th 2010. As at the date of release of the report for H1 2009, the SECO/WARWICK Group had no knowledge of any reduction or increase in the number of shares held by the shareholders participating in the Annual General Shareholders Meeting of April 29th 2010.

In the period after the release date of the consolidated report for 2009 the following changes occurred in the holdings of significant blocks of the Company shares:

- reduction in PKO TFI S.A.'s equity interest in the Company by 99,115 shares, from 577,716 to 478,601 shares
- reduction in PZU Asset Management S.A.'s equity interest in the Company by 28,308 shares, from 513,000 to 484,692 shares

In the period from the release date of the Q1 2010 report to the release date of the report for the six months ended June 30th 2010 the SECO/WARWICK Group did not become aware of any reduction or increase in the number of shares.

4. Shares of SECO/WARWICK Held by the Members of the Management Board and Supervisory Board as at the Release Date of This Report, Including Information on Any Changes after the Publication Date of the Q1 2010 Report

The Members of the Management Board and Supervisory Board of SECO/WARWICK S.A. hold no shares in any related undertakings.

	May14 2010				Reduction -	Jun 30 2010			
	Number of SECO/WARWICK S.A. shares held	% of share capital held	% of total vote			Number of SECO/WARWICK S.A. shares held	% of share capital held	% of total vote	Total par value of shares (PLN)
Management Board									
Leszek Przybysz	-	-	-	-	-	-	-	-	-
Andrzej Zawistowski	307,100	3.21%	3.21%	0	307,100	3.21%	3.21%	61,420	
Witold Klinowski	58,100	0.61%	0.61%	0	58,100	0.61%	0.61%	11,620	
Józef Olejnik	58,100	0.61%	0.61%	0	58,100	0.61%	0.61%	11,620	
Wojciech Modrzyk	400	0.004%	0.00%	0	400	0.004%	0.00%	80	
Supervisory Board									
Jeffrey Boswell	311,250	3.25%	3.25%	0	311,250	3.25%	3.25%	62,250	
Henryk Pilarski	-	-	-	-	-	-	-	-	
Piotr Kowalewski	-	-	-	-	-	-	-	-	
Artur Grygiel ⁽¹⁾	-	-	-	-	-	-	-	-	

Piotr Kula	8,500	0.09%	0.09%	0	8,500	0.09%	0.09%	1,700
Mariusz Czaplicki ⁽²⁾	-	-	-	-	-	-	-	-
Artur Rusiecki ⁽³⁾	-	-	-	-	-	-	-	-
Commercial proxies								
Dorota Subsar	-	-	-	-	-	-	-	-
Total	743,450	7.77%	7.77%	-	743,450	7.77%	7.77%	148,690

⁽¹⁾ On April 29th 2010, Mr Grygiel ceased to be a member of the Supervisory Board.

⁽²⁾ On April 29th 2010, Mr Czaplicki became a member of the Supervisory Board.

⁽³⁾ On April 29th 2010, Mr Rusiecki became a member of the Supervisory Board.

Item	Jun 30 2010
Number of shares	9,572,003
Par value of shares	PLN 0.2
Share capital	PLN 1,914,400.60

After the end of the analysed period, that is June 30th 2010, the Members of the Management Board and Supervisory Board of SECO/WARWICK S.A executed the following transactions involving their shares in SECO/WARWICK S.A.

On July 22nd 2010, SECO/WARWICK S.A. received a notification required under Art. 160 of the Act on Trading in Financial Instruments from Jeffrey Boswell, Chairman of the Supervisory Board. According to the notification, from July 13th to July 20th 2010 the Chairman of the Supervisory Board sold 15,754 Company shares at an average price of PLN 30.89 per share. The shares were sold on the regulated market (the WSE) at regular trading sessions.

On July 23rd 2010, SECO/WARWICK S.A. received a notification required under Art. 160 of the Act on Trading in Financial Instruments, from Henryk Pilarski, Deputy Chairman of the Supervisory Board. According to the notification, on July 22nd 2010 the Deputy Chairman of the Supervisory Board bought 1,000 Company shares at an average price of PLN 30.00 per share. The shares were acquired on the regulated market (the WSE) at a regular trading session.

On July 28th 2010, SECO/WARWICK S.A. received a notification required under Art. 160 of the Act on Trading in Financial Instruments from Jeffrey Boswell, Chairman of the Supervisory Board. According to the notification, between July 21st and July 27th 2010 the Chairman of the Supervisory Board sold 2,092 Company shares at an average price of PLN 30.10 per share. The shares were sold on the regulated market (the WSE) at regular trading sessions.

	Jun 30 2010				Reduction/ Increase	Aug 31 2010			
	Number of SECO/WARW ICK S.A. shares held	% of share capital held	% of total vote			Number of SECO/WAR WICK S.A. shares held	% of share capital held	% of total vote	Total par value of shares (PLN)
Management Board									
Leszek Przybysz	-	-	-	-	-	-	-	-	-
Andrzej Zawistowski	307,100	3.21%	3.21%	0	307,100	3.21%	3.21%	61,420	
Witold Klinowski	58,100	0.61%	0.61%	0	58,100	0.61%	0.61%	11,620	

Józef Olejnik	58,100	0.61%	0.61%	0	58,100	0.61%	0.61%	11,620
Wojciech Modrzyk	400	0.004%	0.00%	0	400	0.004%	0.00%	80
Supervisory Board								
Jeffrey Boswell	311,250	3.25%	3.25%	-17,846	293,404	3.07%	3.07%	58,680.8
Henryk Pilarski	0	0%	0%	+1,000	1,000	0.01%	0.01%	200
Piotr Kowalewski	-	-	-	-	-	-	-	-
Artur Grygiel ⁽¹⁾	-	-	-	-	-	-	-	-
Piotr Kula	8,500	0.09%	0.09%	0	8,500	0.09%	0.09%	1,700
Mariusz Czaplicki ⁽²⁾	-	-	-	-	-	-	-	-
Artur Rusiecki ⁽³⁾	-	-	-	-	-	-	-	-
Commercial proxies	,	,	,	,	,	,	,	,
Dorota Subsar	-	-	-	-	-	-	-	-
Total	743,450	7.77%	7.77%	-16,846	726,604	7.59%	7.59%	145,320.8

⁽¹⁾ On April 29th 2010, Mr Artur Grygiel ceased to be a member of the Supervisory Board.

⁽²⁾ On April 29th 2010, Mr Mariusz Czaplicki became a member of the Supervisory Board.

⁽³⁾ On April 29th 2010, Mr Artur Rusiecki became a member of the Supervisory Board.

Item	Jun 30 .2010
Number of shares	9,572,003
Par value of shares	PLN 0.2
Share capital	PLN 1,914,400.60

5. Information on Court, Arbitration or Administrative Proceedings

In H1 2010, the individual or aggregate value of liabilities or receivables of SECO/WARWICK S.A or the Group's undertakings disputed in court, arbitration or administrative proceedings did not represent 10% or more of SECO/WARWICK S.A's equity.

6. Information on the Conclusion by the Company or Its Subsidiary Undertaking of a Single Transaction or a Series of Transactions with Related Parties Where the Value of a Single Transaction or All Transactions is Material and the Transactions Are Not Typical or Routine Transactions Concluded at Arm's Length

In the period from the beginning of the financial year to the publication date of this report, SECO/WARWICK S.A. and its subsidiary undertakings did not enter into any transactions with related parties whose terms would differ from arm's length terms and where the value of a single transaction or all transactions would be material.

7. Sureties for Loans or Guarantees Issued by SECO/WARWICK S.A. or Its Subsidiary Undertakings, Jointly to One Entity or Its Subsidiary, if the Total Amount of Outstanding Sureties or Guarantees Exceeds 10% of SECO/WARWICK S.A.'s Equity

In H1 2010 SECO/WARWICK S.A. or its subsidiary undertakings did not issue any sureties for loans or any guarantees exceeding 10% of the Company's equity.

8. Other Information Which Is, According to the Company, Material for the Assessment of the Staffing Levels, Assets, Financial Standing and Financial Performance, as well as Their Changes, and Information Material for Assessment of the Company's Ability to Fulfil its Obligations

According to the SECO/WARWICK Group, an observed improvement in the economic situation of industrial sectors may have a bearing on the assessment of the Group's staffing levels, assets, financial standing and financial performance, as well as their changes. Endeavours to obtain new orders started to produce results already in Q1 2011. In that quarter the Group developed a significant order portfolio, whose value at the end of H1 2011 approximated to PLN 131.5m. Most of the contracts provide for the delivery by the Company of specialised atmosphere furnaces and vacuum furnaces. This allows us to expect a marked improvement in our financial performance in 2011.

On May 6th 2010, SECO/WARWICK registered SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd of China, which is an important event potentially benefiting future financial performance of the Group. The company is located in a special economic zone in Tianjin. SECO/WARWICK Retech is a joint venture of SECO/WARWICK S.A. and Retech Systems LLC. The financial performance of the new undertaking is recognised in the consolidated financial statements with the full method. SECO/WARWICK Retech will promote equipment related to vacuum furnaces, CAB, atmosphere furnaces and equipment based on Retech technology.

On April 29th 2010, the Annual General Shareholders Meeting adopted resolutions appointing Mr Artur Rusiecki and Mr Mariusz Czaplicki as members of the Supervisory Board of SECO/WARWICK S.A. The decision may improve the Group's operations and financial results in the current financial year and in the coming years, as the new members have extensive expertise in finance and accountancy. Their knowledge and professional experience gained in control and supervision departments will undoubtedly strengthen the Supervisory Board.

On June 21st 2010, the SECO/WARWICK Group launched a new production facility of SECO/WARWICK Allied, the Group's Indian undertaking. The new production plant, located near Mumbai, has the production area of 4,000m² (comprising two assembly rooms). Given the size of the investment plot the company owns, a further enlargement to reach the target total production area of 8,000m² is possible. The total capital expenditure on the construction of the new plant exceeded USD 3m. SECO/WARWICK Allied will focus on the manufacture of the following products: vacuum furnaces, aluminium heat exchanger brazing systems, aluminium heat treatment facilities, and bell type furnaces. Given the current volume of orders, the company will use its production capacities in full already from the opening day. At present, the company employs 220 workers. SECO/WARWICK Allied is a very promising member of the SECO/WARWICK Group, which attaches great importance to the development of its Indian undertaking because of the potential and growth rate of the Indian market. Following the purchase of 50% of shares in Allied by the SECO/WARWICK Group in 2008, the product offering was gradually expanded, which significantly enlarged the customer base. The SECO/WARWICK Allied's performance in H1 2011 and the number of orders won since the end of the previous year give us grounds for optimism about the possibility of tapping the potential of the Indian market by the SECO/WARWICK Group, for example thanks to the achieved increase in the production capacities on this market.

On July 21st 2010, the Board of Directors of SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. adopted a resolution to resale to the Chinese shareholder Tianjin Kama Electric Thermal Equipment Manufacturing Co., Ltd. a 25% equity interest in SECO/WARWICK (Tianjin)

Industrial Furnace Co. Ltd. held by SECO/WARWICK Corp. for USD 300 thousand and a 25% equity interest held by SECO/WARWICK S.A., also for USD 300 thousand. It was determined that the share purchase agreement should be finalised by September 30th 2010. The President of SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. was put under the obligation to change the Company's name by October 31st 2010. If the share purchase agreement is not finalised by September 30th 2010, the Board of Directors will renegotiate its terms in accordance with the Company's articles of association. If the company's name is not changed by October 31st 2010, the Board of Directors will dissolve SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. As at June 30th 2010, the Company recognised an impairment loss on the net assets in order to bring their value to the resale price of the shares, i.e. USD 600 thousand. As at the balance-sheet date, the impairment loss stood at PLN -373 thousand. The impairment loss may change, depending on how the resale of shares in SECO/WARWICK (Tianjin) Industrial Furnace Co. Ltd. shares proceeds.

The information presented above may be important for assessing the Company's ability to fulfil its obligations. As at the release date of the report for the six months ended June 30th 2010, the Company's standing was sound. All liabilities related to its operations were paid on a timely basis.

9. Factors Which in the Group's Opinion Will Affect Its Results in a Period Covering at least the Next Half Year

1. Significant Agreements Concluded between January 1st and June 30th 2010

On January 13th 2010, two contracts with a European counterparty were signed. Due to their combined value, they meet the criteria to be considered significant. The first contract, dated January 13th 2010, was concluded between LZT ELTERMA S.A. of Świebodzin (a subsidiary of the Company) and the European counterparty (the Customer) and provided for the production and delivery of a piece of heat treatment equipment. The second contract, dated February 24th 2010, was concluded between SECO/WARWICK S.A. of Świebodzin and the European counterparty (the Customer) and provided for the production and delivery of three pieces of heat treatment equipment. The first contract was signed for the period January 13th 2010 – September 22nd 2011 and its value totals EUR 3,200 thousand (PLN 12,997 thousand). The second contract was signed for the period February 24th 2010 – October 31st 2011 and its value totals EUR 8,483 thousand (PLN 33,945 thousand).

Between December 10th 2009 and February 25th 2010, SECO/WARWICK S.A. and its subsidiary, LTZ Elterma S.A. concluded with BRE Bank S.A. of Warsaw four forward contracts for the sale of euro with a total value of EUR 836 thousand (PLN 3,382 thousand), two forward contracts for the sale of US dollars, with a total value of USD 590 thousand (PLN 1,676 thousand), one forward contract for the sale of pound sterling, with a value of GBP 200 thousand (PLN 811 thousand) and a symmetric zero-cost collar contract comprising a long PUT option and short CALL option with a total value of EUR 2,000 thousand (PLN 8,184 thousand). The total value of these contracts amounts to PLN 14,053 thousand.

On February 26th 2010, SECO/WARWICK S.A. concluded with BRE Bank S.A. of Warsaw four forward contracts for the sale of euro, with a total value of EUR 3,185 thousand (PLN 12,666 thousand), and four symmetric zero-cost collar contracts comprising long PUT options and short CALL options with a total value of EUR 3,150 thousand (PLN 12,527 thousand). The total value of these contracts amounts to PLN 25,193 thousand.

On May 20th 2010, LZT ELTERMA S.A. of Świebodzin (a subsidiary of the Company) and SANDVIK CHOMUTOV PRECISION TUBES spo. s r.o. of Chomutov, Czech Republic (the Customer) signed an agreement providing for the manufacturing and delivery of equipment for bright annealing of tubes. The agreement was concluded for the period from May 20th 2010 to July 10th 2011 and its value amounts to EUR 3,725 thousand (PLN 15,331 thousand).

Between February 5th 2009 and June 4th 2010, LZT ELTERMA S.A. of Świebodzin (a subsidiary of the Company) concluded with Bank Zachodni WBK S.A. of Wrocław six symmetric zero-cost collar contracts comprising long PUT options and short CALL options with a total value of EUR 4,700 thousand. The total value of these contracts amounts to PLN 19,244 thousand translated at the mid exchange rates quoted by the National Bank of Poland (NBP) for each transaction date.

2. The SECO/WARWICK Group's Management Stock Options

On April 29th 2009, the General Shareholders Meeting approved the key assumptions of the Incentive Scheme of SECO/WARWICK S.A. ("the Incentive Scheme"). The Rules of the Incentive Scheme were adopted by way of the Supervisory Board's resolution on July 27th 2009. The Company plans to implement the Incentive Scheme in the years 2009–2011, while the subscription warrants distributed among the eligible scheme participants may be exercised on or after January 2nd 2012, but no later than on June 30th 2017.

Cost of the Incentive Scheme in H1 2010

The Company assumes that it is not possible to reliably measure the fair value of the management stock option scheme as at the grant date, i.e. April 29th 2009. In accordance with IFRS 2.24, in such cases an entity is required to adopt an accounting approach based on intrinsic value of the instruments (the price of the underlying stock less the exercise price). Under the intrinsic value model:

- a) intrinsic value is remeasured at each reporting date from the grant date until final settlement,
- b) at each reporting date during the vesting period, the cumulative expense is measured as the product of the instrument's intrinsic value as at that date and the portion of the vesting period lapsed; any changes in the cumulative expense are recognised in profit or loss,
- c) any changes in the intrinsic value of the options from the vesting date until final settlement should be recognised in profit or loss.

Based on the foregoing, the cost of the management stock option scheme as at June 30th 2010 has been estimated as follows:

Market price per share as at Jun 30 2010	PLN 33.01
Exercise price in 2010	PLN 27.55
Intrinsic value per option	PLN 5.46

Number of management stock options granted in 2010	100,000
Vesting period	1 year
Estimated proportion of options granted	25%
Intrinsic value per option	PLN 5.46
Cost in periodⁱ	PLN 68,300

10. Types and Amounts of Items Affecting Assets, Equity and Liabilities, Share Capital, Net Profit/(Loss), or Cash Flows which Are Unusual Due to Their Type, Size or Effect

ⁱ Cost in period: 100,000 options x 5.46 (intrinsic value) x 25% (estimated proportion of options granted) x 1 x 0.5.

In the business activities of SECO/WARWICK S.A. and its Group, there do not occur any material types or amounts of items that would affect assets, equity and liabilities, share capital, net profit/(loss) or cash flows and that would be unusual due to their type, size or effect.

11. Types and Amounts of Changes in Estimates Disclosed in Previous Interim Periods of the Financial Year 2010 or Changes in Estimates Disclosed in Previous Financial Years if They Have a Material Bearing on H1 2010

In the business activities of SECO/WARWICK S.A. and its Group, there occurred no changes in the disclosed estimates that would, due to their type or amount, have a material bearing on the results of H1 2010.

12. Issues, Redemptions and Repayments of Debt and Equity Securities

No debt or equity securities were issued, redeemed or repurchased in H1 2010.

SECO/WARWICK fully used the net proceeds of PLN 40.2m from the issue carried out on December 5th 2007.

13. Description of Key Threats and Risks Connected with the Remaining Months of the Financial Year

The Company is exposed to market risk, comprising currency risk, interest-rate risk, liquidity risk and credit risk. As part of the risk management process, an expert management accounting system has been developed and implemented. The key risk parameters at the level of the Company's operating and financing activities are monitored through monthly reports. The Finance Division of the Company identifies, measures, manages and monitors the risks on an ongoing basis.

The Company has in place a system of internal regulations (including procedures, orders, commands, rules and instructions) designed to ensure correct operation of the Company and mitigate the risks.

The Company's effective internal control and risk management system applied to financial reporting was established based on:

1. A clear division of responsibilities and organisation of work in the financial reporting process;
2. Precise definition of the scope of financial reporting applied by the Company;
3. Regular reviews of the results recorded by the Company based on the financial reporting system applied by the Company;
4. Requirement to submit financial statements for approval before publication;
5. Verification of financial statements by an independent qualified auditor;
6. Inclusion of the Company's internal audit in the process of evaluation of control mechanisms applied by the Company.

In the Management Board's opinion, the risk management system implemented at the Company significantly mitigates the risks to which the Company is exposed.

14. Material Events after H1 2010, Not Disclosed in the Report for H1 2010, but Potentially with a Material Bearing on Future Performance of the SECO/WARWICK Group

In the business activities of SECO/WARWICK S.A. and its subsidiaries there occurred no material events that might have a material bearing on the future performance of SECO/WARWICK S.A. and its Group but were not disclosed in the semi-annual report.

Date: August 30th 2010

Leszek Przybysz
*President
of the Management Board*

Andrzej Zawistowski
*Vice-President
of the Management Board*

Wojciech Modrzyk
*Vice-President
of the Management Board*

Józef Olejnik
*Member
of the Management Board*

Witold Klinowski
*Member
of the Management Board*