

**SECO/WARWICK S.A.**  
DIRECTORS' REPORT  
ON THE COMPANY'S OPERATIONS  
IN THE YEAR ENDED  
DECEMBER 31ST 2012

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The Management Board of SECO/WARWICK S.A. presents the Directors' Report on the Company's operations in the period January 1st–December 31st 2012, prepared in accordance with Par. 91.1.4 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, as amended).

The financial statements of SECO/WARWICK S.A. were prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the EU, and their scope is compliant with the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities, dated February 19th 2009 (Dz. U. No. 33, item 259, as amended). The financial statements cover the period January 1st–December 31st 2012 and the comparative period January 1st–December 31st 2011.

The presented financial statements are compliant with all the requirements of the International Financial Reporting Standards endorsed by the European Union and give a fair view of the Company's financial position and assets as at December 31st 2012 and December 31st 2011, as well as of its results and cash flows in the years ended December 31st 2012 and December 31st 2011.

## 1. Introduction

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

The Company's core business consists in manufacture of four key groups of products: vacuum furnaces, aluminium heat exchanger brazing systems, aluminium heat treatment systems and metallurgy equipment used for melting and vacuum casting of metals and speciality alloys. The SECO/WARWICK S.A.'s operations are divided into five business segments corresponding to the product groups, i.e. vacuum furnaces (Vacuum), aluminium heat exchanger brazing systems (Controlled Atmosphere Brazing), aluminium heat treatment systems (Aluminium Process), metallurgy equipment used for melting and vacuum casting of metals and speciality alloys (Melting Furnaces), and other.

The table below presents the Company's revenue.

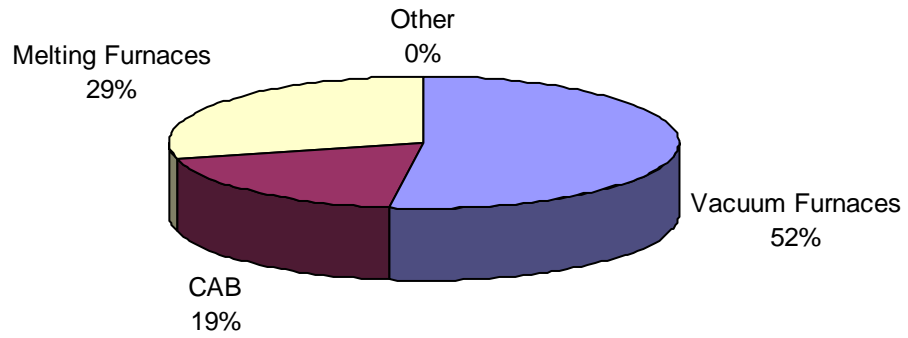
**Table: Revenue (PLN '000)**

Item	Continuing operations					Total
	Vacuum Furnaces	CAB	Aluminium Process	Melting Furnaces	Other	
<b>Jan 1–Dec 31 2012</b>	78,651	28,422	-	43,785	5,134*	<b>155,992</b>
Volume of products sold	37	9	-	5	3	<b>54</b>
<b>Jan 1–Dec 31 2011</b>	78,655	22,309	5,567	14,132	6,155	<b>126,818</b>
Volume of products sold	28	13	3	5	2**	<b>51</b>

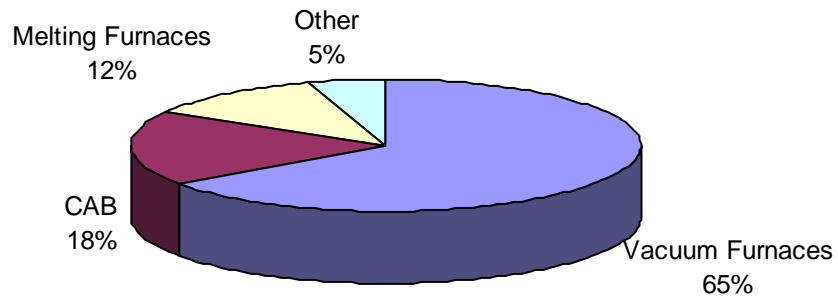
(\*) The "Other" column presents revenue from sale of Aluminium Process which was moved to SECO/WARWICK EUROPE S.A.

(\*\*) The "Other" column presents revenue from sale the furnaces of Electrical Division, with the balance representing payments for maintenance services and gain on sale of spare parts. VOC Division furnaces were included in "Vacuum Furnaces".

### 2012 revenue by operating segments



### 2011 revenue by operating segments



## 2. Organisational and equity links between SECO/WARWICK S.A. and other entities; information on the Company's key domestic and foreign equity investments, including equity investments outside of its group of related entities; financing of the investments

**Table: As at December 31st 2012, the structure of the SECO/WARWICK Group was as follows:**

Company	Registered office	Business profile	Method of consolidation / accounting for equity interest	Group's ownership interest
<b>Parent</b>				
SECO/WARWICK S.A.	Świebodzin	Manufacture of vacuum furnaces, aluminium heat exchanger brazing systems and aluminium heat treatment systems	N.A.	N.A.
<b>Direct and indirect subsidiaries</b>				
SECO/WARWICK EUROPE S.A. (1)	Świebodzin	Manufacture of metal heat treatment equipment	Full	100%
SECO/WARWICK Corp.	Meadville (USA)	Manufacture of metal heat treatment equipment	Full	100%
SECO/WARWICK of Delaware, Inc (2)	Wilmington (USA)	Management of holding companies; registration of trademarks and patents, and granting licences for use of the 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%
Retech Systems LLC (3)	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. (4)	Tianjin (China)	Manufacture of metal heat treatment equipment	Full	90%
Retech Tianjin Holdings LLC (5)	(USA)	Management of holding companies	Full	80%
SECO/WARWICK Allied Pvt., Ltd. (6)	Mumbai (India)	Manufacture of metal heat treatment equipment	Equity method	50%
SECO/WARWICK GmbH (7)	Stuttgart, Germany	Intermediation in the sale of furnaces manufactured by SECO/WARWICK S.A. and SECO/WARWICK EUROPE S.A., and provision of technical support to customers in Germany, Austria, the Netherlands, Switzerland, Liechtenstein and Slovenia	Full	100%

OOO SCT (8)	Solnechnogorsk (Russia)	Provision of metal heat treatment services in Russia	Full	50%
SECO/WARWICK Service GmbH (9)	Bedburg-Hau (Germany)	Provision of metal heat treatment services in Germany	Full	100%

<sup>(1)</sup> As part of the continued implementation of the Group's strategy, SECO/WARWICK Thermal S.A. was renamed as SECO/WARWICK EUROPE S.A. on October 19th 2012.

<sup>(2)</sup> SECO/WARWICK of Delaware, Inc is an indirect subsidiary owned through SECO/WARWICK Corp., which holds a 100% interest in SECO/WARWICK of Delaware, Inc.

<sup>(3)</sup> On November 16th 2010, SECO/WARWICK S.A. and James A. Goltz, a co-owner of Retech Systems LLC (USA), executed an agreement concerning acquisition by SECO/WARWICK S.A. of a 50% equity interest in Retech Systems LLC. As a result of the transaction, SECO/WARWICK S.A. came to hold 100% of the shares in Retech Systems LLC.

<sup>(4)</sup> SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd. of China. SECO/WARWICK Retech is a joint venture of SECO/WARWICK S.A. and Retech Systems LLC. SECO/WARWICK S.A. directly holds a 50% and indirectly a 40% interest in SECO/WARWICK Retech.

<sup>(5)</sup> Retech Tianjin Holdings LLC is an indirect subsidiary owned through Retech Systems LLC of USA, which holds an 80% interest in Retech Tianjin Holdings LLC.

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

<sup>(7)</sup> In December 2012, SECO/WARWICK S.A. acquired the remaining 49% of shares held by the German partner. As at the balance-sheet position date, SECO/WARWICK S.A. held 100% of shares in SECO/WARWICK GmbH.

<sup>(8)</sup> OOO SCT (Solnechnogorskiy Centr Termoobrabotky) of Russia was registered on August 17th 2012. The company's business consists in the provision of metal heat treatment services in Russia. SECO/WARWICK S.A. holds 50% of the shares in the company, while a Russian partner holds the remaining shares.

<sup>(9)</sup> On December 4th 2012, SECO/WARWICK Service GmbH of Germany joined the SECO/WARWICK Group. SECO/WARWICK Service GmbH is an indirect subsidiary owned through SECO/WARWICK GmbH, which holds a 100% interest in SECO/WARWICK Service GmbH.

### **Changes in the composition of the SECO/WARWICK Group in the analysed period**

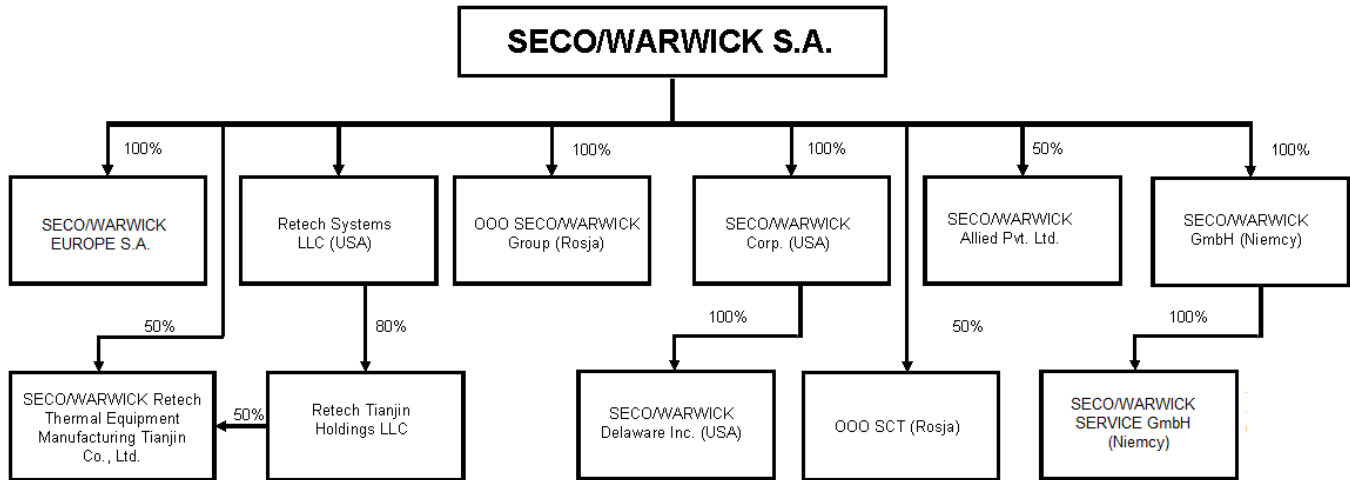
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As part of continued implementation of the Group's strategy, SECO/WARWICK Thermal S.A. was renamed as SECO/WARWICK EUROPE S.A. on October 19th 2012.

In December 2012, SECO/WARWICK S.A. acquired the remaining 49% of SECO/WARWICK GmbH shares held by the German partner. SECO/WARWICK S.A. holds 100% of shares in SECO/WARWICK GmbH.

In December 2012, SECO/WARWICK Service GmbH of Germany joined the SECO/WARWICK Group. SECO/WARWICK Service GmbH is an indirect subsidiary owned through SECO/WARWICK GmbH, which holds a 100% interest in SECO/WARWICK Service GmbH.

### SECO/WARWICK Group's structure as at December 31st 2012:



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

After December 31st 2012 and until the release of this Report, there were no changes in the composition of the SECO/WARWICK Group.

On January 2nd 2013, an agreement was executed for the disposal of an organised part of business of SECO/WARWICK S.A. comprising tangible and intangible assets used in manufacturing and distribution activities, liabilities related to the manufacturing and distribution activities, and the Company's employees involved in the manufacturing and distribution activities, to be effected through contribution of the organised part of business to a subsidiary of the SECO/WARWICK Group, i.e. SECO/WARWICK EUROPE S.A. ("Subsidiary") of Świebodzin, in exchange for shares in the increased share capital of the Subsidiary.

The transfer of the organised part of business was a part of the Group's New Growth Strategy presented in Current Report No. 28/2012. The disposal will allow the Group to consolidate its Polish operations within a single entity, SECO/WARWICK EUROPE S.A.

The Parent (SECO/WARWICK S.A.) will focus on the strategic and financial management of the SECO/WARWICK Group. SECO/WARWICK S.A., acting as the holding company, will exercise corporate supervision and provide strategic management services to the subsidiaries of the SECO/WARWICK Group.

On March 22nd 2013, in Current Report No. 04/2013 the Management Board of SECO/WARWICK S.A. reported that the Company and shareholders (hereinafter jointly referred to as the "Selling Shareholders") of Seco/Warwick Allied Private Limited of Maharashtra, India ("SWAPL"), in which the Company holds a 50% interest, representing 50% of SWAPL's equity and carrying the right to 50% of the total vote at the General Meeting of SWAPL, entered into a conditional agreement on purchase by the Company of [27,339] SWAPL shares, representing 25% of SWAPL's equity and carrying the right to 25% of the total vote at its General Meeting (the "Sale Shares") (the "Agreement"). Pursuant to the Agreement, the acquisition of Sale Shares by the Company depends on fulfilment - to the Company's satisfaction - of certain conditions precedent, listed in the Current Report. Under the Agreement, the total selling price for the Sale Shares is 161,000,000 Indian rupees (PLN 9,590,609, translated at the mid-exchange rate quoted by the National Bank of Poland for March 22nd 2013) (the "Selling Price"), and the total Selling Price is to be paid by the Company in three instalments, upon fulfilment of conditions precedent to each payment.

On March 25th 2013, in Current Report No. 05/2013 the Management Board of Seco/Warwick S.A. with registered office in Świebodzin, at ul. Sobieskiego 8, (the “Company”), reported that on March 25th 2013 the conditions precedent were fulfilled for purchase of 9,090 Sale Shares and payment of the first instalment of the Selling Price of 53,529,280 Indian rupees (PLN [3,156,996], translated at the mid-exchange rate quoted by the National Bank of Poland for March 25th 2013), as defined in the agreement for purchase of shares in Seco/Warwick Allied Private Limited of Maharashtra, India (“SWAPL”), made between the Company and SWAPL shareholders. Following the acquisition of 9,090 Sale Shares, the Company will hold 63,765 shares, representing 58.3% of the SWAPL's equity and carrying the right to 58.3% of the total vote at the General Meeting of SWAPL.

For information on key domestic and foreign investments (financial instruments, intangible assets and property), see Notes to the annual separate financial statements of SECO/WARWICK S.A. The Company made no equity investments outside its group of related entities.

### **3. Changes in significant management policies at SECO/WARWICK S.A. and its Group**

On January 2nd 2013, an agreement was executed for the disposal of an organised part of business of SECO/WARWICK S.A. comprising tangible and intangible assets used in manufacturing and distribution activities, liabilities related to the manufacturing and distribution activities, and the Company's employees involved in the manufacturing and distribution activities, to be effected through contribution of the organised part of business to a subsidiary of the SECO/WARWICK Group, i.e. SECO/WARWICK EUROPE S.A. (“Subsidiary”) of Świebodzin, in exchange for shares in the increased share capital of the Subsidiary.

The transfer of the organised part of business was a part of the Group's New Growth Strategy presented in Current Report No. 28/2012. The disposal will allow the Group to consolidate its Polish operations within a single entity, SECO/WARWICK EUROPE S.A.

The Parent (SECO/WARWICK S.A.) will focus on the strategic and financial management of the SECO/WARWICK Group. SECO/WARWICK S.A., acting as the holding company, will exercise corporate supervision and provide strategic management services to the subsidiaries of the SECO/WARWICK 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**

#### **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 payable to the Management Board members was defined in resolutions adopted by the Company's Supervisory Board on February 1st 2007, April 28th 2008 and January 12th 2012.



**Table: Remuneration to members of the Management Board of SECO/WARWICK S.A. for 2012 (PLN '000)**

<u>MANAGEMENT BOARD</u>	Remuneration
Paweł Wyrzykowski – President of the Management Board (since February 1st 2012)	1,578
Andrzej Zawistowski – Vice-President of the Management Board (until May 25th 2012)	80
Wojciech Modrzyk – Vice-President of the Management Board	685
Witold Klinowski – member of the Management Board (until December 31st 2012)	755
Józef Olejnik – member of the Management Board (until December 31st 2012)	483
<b>Total</b>	<b>3,581</b>

After the end of 2012 and until the date of release of this Report, the composition of the Company's Management Board was as follows:

Paweł Wyrzykowski – President of the Management Board  
 Wojciech Modrzyk – Vice-President of the Management Board  
 Jarosław Talerzak – Vice-President of the Management Board

Paweł Wyrzykowski was appointed as member of the Supervisory Board of SECO/WARWICK EUROPE S.A. (a wholly-owned subsidiary of the Company) as of January 1st 2013 by virtue of Resolution No. 7/2012 of the Extraordinary General Meeting of SECO/WARWICK EUROPE S.A.

Józef Olejnik is a member of the Supervisory Board of SECO/WARWICK EUROPE S.A. (a wholly-owned subsidiary of the Company).

Witold Klinowski served as a member of the Supervisory Board of SECO/WARWICK EUROPE S.A. (a wholly-owned subsidiary of the Company). He was removed from this position as of January 1st 2013 by virtue of Resolution No. 6/2012 of the Extraordinary General Meeting of SECO/WARWICK EUROPE S.A.

None of the persons specified above receives any remuneration for serving on the Supervisory Board of SECO/WARWICK EUROPE S.A. (subsidiary of SECO/WARWICK S.A.).

## **SUPERVISORY BOARD**

The Supervisory Board members are entitled to monthly remuneration in the amount specified by the General Meeting, payable on or before the 15th 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 Supervisory Board member. Supervisory Board members are not entitled to severance payments.



**Table: Remuneration to members of the Supervisory Board of SECO/WARWICK S.A. for 2012 (PLN '000)**

<b>Name and surname</b>	<b>Remuneration</b>
Andrzej Zawistowski – Chairman of the Supervisory Board (since May 28th 2012)	206
- for his work as Chairman of the Supervisory Board	76
- under agreement for advisory services	130*
Henryk Pilarski – Deputy Chairman of the Supervisory Board	47
Jeffrey Boswell <sup>(1)</sup> – member of the Supervisory Board	-
James A.Goltz <sup>(2)</sup> – member of the Supervisory Board (since May 28th 2012)	-
Piotr Kowalewski – member of the Supervisory Board (until November 28th 2012)	33
Piotr Kula – member of the Supervisory Board (until September 1st 2012)	21
Mariusz Czaplicki – member of the Supervisory Board (until November 28th 2012)	31
Artur Rusiecki – member of the Supervisory Board (until May 17th 2012)	10
Zbigniew Rogóż – member of the Supervisory Board (since November 28th 2012)	4
Gutmann Habig – member of the Supervisory Board (since November 28th 2012)	-
<b>Total</b>	<b>352</b>

\* Under a service agreement between SECO/WARWICK S.A. and Mr Andrzej Zawistowski, who conducts business activities under the name USŁUGI DORADCZE Andrzej Zawistowski. The agreement of July 2nd 2012 is for the provision of technical and product development advisory services.

<sup>(1)</sup> No remuneration is paid by the Company to Jeffrey Boswell, but the Company covers all costs related to his stay in Poland while performing the duties of member of the Supervisory Board, including costs of hotel accommodation (board and lodging), as well as costs of travel in the territory of Poland. These are the only financial benefits received by Mr Boswell from the Company in respect of his duties. In 2012, the costs amounted to PLN 3 thousand.

<sup>(2)</sup> No remuneration is paid by the Company to James A. Goltz, but the Company covers all costs related to his stay in Poland while performing the duties of member of the Supervisory Board, including costs of hotel accommodation (board and lodging), as well as costs of travel in the territory of Poland. These are the only financial benefits received by Mr Goltz from the Company for in respect of his duties. In 2012, the costs amounted to PLN 1 thousand.

After the end of 2012 and until the date of release of this Report, the composition of the Company's Supervisory Board was as follows:

Andrzej Zawistowski – Chairman of the Supervisory Board  
 Henryk Pilarski – Deputy Chairman of the Supervisory Board  
 Jeffrey Boswell – member of the Supervisory Board  
 James A.Goltz – member of the Supervisory Board  
 Zbigniew Rogóż – member of the Supervisory Board  
 Gutmann Habig – member of the Supervisory Board  
 Witold Klinowski – member of the Supervisory Board

Henryk Pilarski was a member of the Supervisory Board of SECO/WARWICK EUROPE S.A. (subsidiary of SECO/WARWICK S.A.) and received remuneration for his services, as set forth in a relevant resolution of the company's General Meeting. The resolution does not provide for any severance payments. In addition, Mr Pilarski is not party to any agreement with any SECO/WARWICK Group company that would contain any provisions on severance payments. Henryk Pilarski was removed from his position as of January 1st 2013 by virtue of Resolution No. 5/2012 of the Extraordinary General Meeting of SECO/WARWICK EUROPE S.A.

In 2012, Mr Pilarski received PLN 46 thousand as remuneration for serving on the Supervisory Board of SECO/WARWICK EUROPE S.A.

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

Employment contracts between the Company and its management staff do not provide for any compensation in the event of resignation or removal from office. 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 caused by acquisition of SECO/WARWICK S.A. by another company.

### 6. Par value and number of SECO/WARWICK shares and shares in related entities held by the management and supervisory staff

	Jan 1 2012			Decrease/inc rease	Dec 31 2012			
	Number of SECO/WAR WICK shares held	Ownership interest (%)	% of total vote		Number of SECO/WAR WICK shares held	Ownership interest (%)	% of total vote	Total par value of shares (PLN)
<b>Management Board</b>								
Paweł Wyrzykowski	-	-	-	-	13,541	0.13%	0.13%	2,708
Wojciech Modrzyk	400	0.004%	0.004%	0	400	0.004%	0.004%	80
Witold Klinowski	58,100	0.55%	0.55%	-58,100	0	0	0	0
Józef Olejnik	58,100	0.55%	0.55%	-58,100	0	0	0	0
Andrzej Zawistowski*	307 100	2,93%	2,93%	-307 100	-	-	-	-
<b>Supervisory Board</b>								
Andrzej Zawistowski*	-	-	-	-	0	0	0	0
Jeffrey Boswell	229,633	2.19%	2.19%	-219,857	9,776	0.09%	0.09%	1,955
Henryk Pilarski	100	0.001%	0.001%	0	100	0.001%	0.001%	20
Piotr Kowalewski	0	0	0	0	-	-	-	-
Piotr Kula	8,500	0.08%	0.08%	-	-	-	-	-
Mariusz Czaplicki	0	0	0	0	-	-	-	-
Artur Rusiecki	0	0	0	0	-	-	-	-
Zbigniew Rogóż	-	-	-	-	0	0	0	0
Gutmann Habig	-	-	-	-	0	0	0	0
<b>Commercial proxies</b>								
Dorota Subsar	0	0	0	0	0	0	0	0
<b>Total</b>	<b>661,933</b>	<b>6.32%</b>	<b>6.32%</b>	<b>-643,157</b>	<b>23,817</b>	<b>0.23%</b>	<b>0.23%</b>	<b>4,763</b>

\* On May 25th 2012, the SECO/WARWICK Management Board was notified of a decision of Mr Andrzej Zawistowski, one of the Company founders, to resign as Vice-President and Member of the SECO/WARWICK Management Board. Mr Andrzej Zawistowski has served as Chairman of the SECO/WARWICK Supervisory Board since May 28th 2012.

Item	Jan 1 2012	Item	Dec 31 2012
Number of shares	10,476,210	Number of shares	10,476,210
Par value per share	0.2	Par value per share	0.2
<b>Share capital</b>	2,095,242.00	<b>Share capital</b>	2,095,242.00

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

On November 8th 2012, SECO/WARWICK S.A. received notifications under Art. 160 of the Act on Trading in Financial Instruments from two Management Board members and two Supervisory Board members. Based on the notifications:

Details of the transactions:

1. Sale by a Management Board member of 58,100 shares at PLN 33.50 per share on November 5th 2012;
2. Sale by a Management Board member of 58,100 shares at PLN 33.50 per share on November 5th 2012;
3. Sale by a Supervisory Board member of 307,100 shares at PLN 33.50 per share on November 5th 2012;
4. Sale by a Supervisory Board member of 219,857 shares at PLN 33.50 per share on November 5th 2012;

The shares were sold on the regulated market (the WSE), during its regular trading sessions. See Current Report No. 30/2012.

## **7. Agreements (including agreements executed after the balance-sheet date) known to SECO/WARWICK S.A., which may result in changes in the proportions of shares held by the current shareholders and bondholders**

Key terms of the 2012–2016 Incentive Scheme:

1. The person serving as President of the Management Board as at the date of the Resolution (“**President of the Management Board**”) and the key company employees indicated by the President of the Management Board in consultation with the Supervisory Board (jointly with the President of the Management Board - the “**Eligible Persons**”) shall be eligible for participation in the 2012–2016 Incentive Scheme. With respect to each Eligible Person other than the President of the Management Board, an  $a_i$  ratio, referred to in Par. 2.11 below, shall be determined along with the indication of the person. The list of Eligible Persons shall be prepared by the Supervisory Board in consultation with the President of the Management Board within three months from the date of the Resolution.
2. The 2012–2016 Incentive Scheme shall include up to 500,000 (five hundred thousand) of Company Series E shares (“**Series E Shares**”). The President of the Management Board shall be entitled to acquire up to 250,000 (two hundred and fifty thousand) Series E Shares, and the other

Eligible Persons shall have the right to acquire the maximum of the remaining 250,000 (two hundred and fifty thousand) Series E Shares.

3. Under the 2012–2016 Incentive Scheme, Eligible Persons shall be entitled to acquire Series B subscription warrants (“**Series B Warrants**”) free of charge. Series B Warrants shall confer the right to acquire Series E Shares at their par value of PLN 0.20 (twenty grosz) per share.

4. One Series B Warrant shall confer the right to acquire one Series E Share.

5. The 2012–2016 Incentive Scheme shall be implemented by way of resolutions adopted by the General Meeting on conditional share capital increase by up to PLN 100,000 (one hundred thousand zloty), through an issue of up to 500,000 (five hundred thousand) Series E Shares and an issue of up to 500,000 (five hundred thousand) Series B Warrants, with full waiver of the existing shareholders’ pre-emptive rights to all Series E Shares and Series B Warrants.

6. The 2012–2016 Incentive Scheme is planned to cover a period of four years starting from the date of its approval by the General Meeting. The duration of the 2012–2016 Incentive Scheme may be extended by the Supervisory Board making relevant changes in the Rules of the Incentive Scheme.

7. The number of Series B Warrants issued to Eligible Persons will depend on:

(i) the price of the Company shares on the Warsaw Stock Exchange (“**WSE**”), or

(ii) the selling price of shares, whether sold in one or more transactions (including as part of a tender offer), conferring the rights to at least 33% (thirty-three per cent) of the total vote at the General Meeting, by a shareholder or shareholders acting jointly under a memorandum of understanding, agreement, arrangement, or as part of any other relationship in fact or in law, holding in aggregate, directly or indirectly, Company shares conferring the right to at least 33% (thirty-three per cent) of the total vote at the General Meeting (“**Major Shareholder**”; the term may refer to one or more shareholders acting jointly), to a third party (other than a Major Shareholder or a related party of any of the Major Shareholders). If the shares are sold by a Major Shareholder in more than one transaction, then the number of Series B Warrants to be issued to Eligible Persons shall be calculated on the basis of the arithmetic mean of the selling prices in all the transactions, weighted by the number of the Company shares sold in a given transaction.

8. An Eligible Person shall be entitled to acquire Series B Warrants a number of times during the term of the Incentive Scheme, however, not more frequently than twice in a calendar year. The limited frequency with which the right to acquire Series B Warrants may be exercised does not apply when the exercise of the right by an Eligible Person is based on the sale of the Company shares by a Major Shareholder.

9. An Eligible Person shall be entitled to acquire Series B Warrants if:

(i) the average price of the Company shares from the 6 (six) months immediately preceding the date of acquiring Series B Warrants by the Eligible Person is at least PLN 35 (thirty-five zloty) per share, or

(ii) a Major Shareholder decides to sell at least 33% (thirty-three per cent) of all Company shares to an entity other than a Major Shareholder or a related party of a Major Shareholder, at a price of at least PLN 35 (thirty-five zloty) per share. An Eligible Person may acquire Series B Warrants no sooner than 3 (three) months from the date of notifying the Company of his or her intention to acquire Series B Warrants. The Company shall procure that Series B Warrants are issued to Eligible Persons no later than within 4 (four) months following the receipt of the notification. Series B Warrants may be issued through an investment firm, acting as a custodian.

10. The maximum number of Series B Warrants which may be acquired by the President of the Management Board shall be calculated based on the following formula:

$$Q = 6.666 P - 183.310$$

provided that:

$$dla P < 35 PLN \Rightarrow Q = 0$$

$$dla P \geq 65 PLN \Rightarrow Q = 250.000$$

where:

$Q$  shall mean the number of Series B Warrants;

$P$  shall mean, as the case may be (i) the average price of the Company shares in the 6 (six) months immediately preceding the date of acquiring Series B Warrants by the President of the Management Board, or (ii) the price of one Company share sold in a transaction between a Major Shareholder and a buyer.

If the number of Series B Warrants which may be acquired by the President of the Management Board as determined based on the above formula is not an integer, such number shall be rounded down to the nearest integer.

Each time the President of the Management Board exercises his or her right to acquire Series B Warrants, the number of Series B Warrants to which he or she is entitled shall be reduced, in accordance with the above formula, by the number of Series B Warrants previously issued to the President of the Management Board under the 2012–2016 Incentive Scheme.

11. The maximum number of Series B Warrants which may be acquired by an Eligible Person other than the President of the Management Board shall be calculated based on the following formula:

$$Q = a_i \times (6.666 P - 183.310)$$

provided that:

$$dla P < 35 PLN \Rightarrow Q = 0$$

$$dla P \geq 65 PLN \Rightarrow Q = a_i \times 250.000$$

where:

$Q$  shall mean the number of Series B Warrants;

$P$  shall mean, as the case may be (i) the average price of the Company shares in the 6 (six) months immediately preceding the date of acquiring Series B Warrants by the given Eligible Person, or (ii) the price of one Company share sold in a transaction between a Major Shareholder and a buyer.

$a_i$  shall mean a ratio determined individually for each Eligible Person, provided that:

$$a_i \in (0,1) \text{ oraz } \sum_{i=1}^n a_i \leq 1$$

If the number of Series B Warrants which may be acquired by an Eligible Person as determined based on the above formula is not an integer, such number shall be rounded down to the nearest integer.

Each time an Eligible Person exercises his or her right to acquire Series B Warrants, the number of Series B Warrants to which he or she is entitled shall be reduced, in accordance with the above formula, by the number of Series B Warrants previously issued to the Eligible Person under the 2012–2016 Incentive Scheme.

12. The number of Series B Warrants acquired by each Eligible Person shall in no event be higher than: (i) 250,000 (two hundred and fifty thousand) in the case of Series B Warrants acquired by the President of the Management Board; and (ii)  $a_i \times 250,000$  (two hundred and fifty thousand) in the case of an Eligible Person other than the President of the Management Board.

13. An Eligible Person who has acquired Series B Warrants under the 2012–2016 Incentive Scheme shall be entitled to acquire Series E Shares at any time, however, no later than by December 31st 2016.

## **8. Control systems for employee stock option plans**

With a view to providing additional incentives to the Company's management staff to continue work on the development and consolidation of the SECO/WARWICK Group, and to further increase the value of SECO/WARWICK shares, on May 28th 2012 the Annual General Meeting approved the key objectives of the 2012–2016 Incentive Scheme for members of the SECO/WARWICK Group's management staff (the "2012–2016 Incentive Scheme"). For a detailed description of the key objectives of the Incentive Scheme see Section 7.

The scheme is supervised by the Supervisory Board and the Management Board of SECO/WARWICK S.A. The Rules of the Incentive Scheme were approved by the Supervisory Board on January 12th 2012.

## **9. Share buy-backs**

In 2012, the Company did not acquire its own shares.

## **10. Discussion of key financial and economic data contained in the annual financial statements and of factors and events, including non-recurring ones, with a material effect on the Company'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**

### **STATEMENT OF COMPREHENSIVE INCOME**

2012 was another year of growth in sales and improved financial results for SECO/WARWICK S.A. The following segments proved to be the "flagships" in 2012: Vacuum Furnaces (another year with the highest share in sales and sales margin), Melting Furnaces (spectacular sales increase, second largest in value and generated margin, margin above average), and CAB Furnaces (27% sales increase, most profitable segment).

The value of the Company's contracts increased by 46% year on year (PLN 211m, relative to PLN 144m in 2011). As at the end of 2012, the value of the order book was PLN 117m. The average order book value in 2012 was PLN 113m, i.e. 96% higher year on year. The growth of business translated into a 23% increase in sales (PLN 155,992 thousand, relative to PLN 126,818 thousand in 2011).

The Melting Furnaces segment saw the highest increase in orders and revenue in 2012, as its sales more than tripled (up by 210%), and the value of contracts exceeded PLN 50m.

The CAB segment reported a 27% improvement in sales, and its order book as at the end of 2012 was twice as large as at the end of 2011 (2011: PLN 24m, 2012: PLN 43m). The high number of contracts and growing value of the order book as at the end of 2012 should also drive up sales in the Vacuum Furnaces segment in 2013.

In the period under review, the EBIT margin was 5.7% (change in value terms from PLN 9,168 thousand to PLN 8,898 thousand).

The net profit earned in 2012 was PLN 5,689 thousand, relative to PLN 4,169 thousand in the prior year. The net profit margin improved from 3.3% to 3.6%. The relatively low increase in the net profit despite the growth in revenue was due to the decrease in the first margin of the Company's largest segment, i.e. Vacuum Furnaces (down from 28% to 24%), the loss on sales in the Aluminium segment (manufacture of equipment transferred to SW Thermal, with SWSA completing the contracts that were



under way) and loss on other sales, as well as higher administrative expenses. In 2012, the ROE ratio was 3.2% (2011: 2.5%).

## STATEMENT OF FINANCIAL POSITION

There were no significant changes to the majority of the Company's ratios, despite the higher number of orders and improved sales.

A slight (3%) year-on-year increase in the balance-sheet total was seen in 2012. In the reporting period, the Company adhered to the "golden balance-sheet rule", i.e. its non-current assets were fully covered with equity (the share of equity in total equity and liabilities was 76%, while the share of non-current assets in total assets was 57%). In view of the above, the Company may be considered financially independent. The Company has at its disposal sufficient working capital, which reduces the risk resulting from the freezing of some of its current assets.

In 2012, the Company's inventories went down slightly, by 2.2%, while its trade receivables decreased by 22%, which had a positive effect on the inventory turnover period and average collection period (change from 49 to 45 days, and from 128 to 104 days respectively). However, as a result of the significant increase in cash and other current receivables, which brought about a 9.7% growth in current assets, combined with non-current assets remaining fairly unchanged relative to the prior year, the asset structure ratio went down to 1.4 (1.5 as at the end of 2011).

The equity and liabilities structure ratio did not change relative to 2011. The long-term and short-term debt was significantly reduced (from PLN 13.4m to PLN 4.65m in 2012), however due to a higher amount of accruals and deferred income the total amount of liabilities and provisions for liabilities grew slightly (approximately 3%). Consequently, the equity to liabilities ratio remained at 3.1 in 2012.

Equity was the main source of financing of assets in 2012. Its share of 76% remained unchanged relative to 2011 (2011: PLN 171,331 thousand; 2012: PLN 179,106 thousand). The Company's debt ratios remained fairly stable - the total debt ratio of 24% was the same as the year before.

Current and quick ratios increased slightly on 2011, and were 2.3 and 2.0, respectively (2011: 2.2 and 1.8), staying within a range considered sound (the base values of the ratios are 1.5–2.0 and 1.0, respectively). The cash ratio improved significantly on the back of large amounts of available cash, and was up from 0.04 to 0.57 at year end.

In the reporting period, the Company saw its efficiency ratios improve. The turnover ratios improved, in particular: the average collection period (from 114 to 89 days), the inventory turnover period (from 49 to 45 days), and the average payment period (from 48 to 32 days). The asset turnover ratios also improved. The non-current asset turnover changed from 5.5 to 7.7, which attests to a much better utilisation of the Company's current production capacities.

Looking at the Company's order book at the end of the year, its budget, and cash position, as well as the market outlook, the Management Board is optimistic about SECO/WARWICK's future.

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

In 2012, there were no non-recurring events with a bearing on SECO/WARWICK S.A.'s results for the financial year. For an analysis of factors driving the Company's results, see Section 10 of this Report.

### 12. Information on the Company's markets, broken down into domestic and foreign markets, on the Company's 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 based on the Company's markets The Company has identified the following segments:

- domestic market (Poland),
- the EU market (excluding Poland),
- the Russian market and markets of other former members of the Soviet Union (Russia, Belarus, Ukraine),
- the US market,
- the Asian market,
- other countries.

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

The largest market from which SECO/WARWICK S.A. sources the materials is the domestic market, whose share in SECO/WARWICK S.A.'s total supplies is 70%. It is followed by the EU (where Germany is the largest supplier). The US market is the third supply market for SECO/WARWICK S.A. in terms of both importance and volume.

In addition to these three main supply markets, SECO/WARWICK S.A. also purchases production materials from China and Japan.

With such a broad supplier base and access to numerous markets, SECO/WARWICK S.A. does not depend on any single supplier (there is no single supplier whose share in total revenue exceeds 10%). Thus the Company has secured uninterrupted production of heat treatment equipment.

The markets in which the customers buying SECO/WARWICK S.A.'s products operate include 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 Company supplies its products both to manufacturers from the abovementioned industries and to their suppliers. The Company's customers are both manufacturers of cars and planes, and producers of individual components and machine spare parts. The machine-building industry as a group of SECO/WARWICK S.A.'s customers represents a major part of the economy and its development follows the development of the GDP. In 2012, no single customer represented 10% or more of SECO/WARWICK S.A.'s total revenue.

### **13. Agreements significant to the Company's business, including shareholder agreements known to the Company, insurance, partnership or cooperation agreements**

In 2012, SECO/WARWICK S.A. and other SECO/WARWICK Group companies signed the following significant agreements:

Between January 26th and February 2nd 2012, SECO/WARWICK S.A. and SECO/WARWICK ThermAL S.A., a subsidiary, executed with BRE Bank S.A. of Warsaw nine forward contracts to sell the euro for a total amount of EUR 2,788,000 (PLN 11,708,206), two forward contracts to sell the U.S. dollars for a total amount of USD 3,650,000 (PLN 11,663,575), eleven zero-cost collar contracts comprising a long put option and a short call option with a total value of EUR 2,220,000 (PLN 9,373,506), and one zero-cost collar contract comprising a long put option and a short call option with a total value of USD 800,000 (PLN 2,578,640). The total value of the contracts is PLN 35,323,927.

On February 2nd 2012, the Company's Management Board was notified of a contract concluded between its subsidiary, Retech Systems LLC. of Ukiah, the U.S., and Qinghai Supower Titanium Co.

Ltd of China, concerning the construction and delivery of titanium melting and refining equipment. The contract was executed on February 2nd 2012 for a period of 12 months and its value amounts to USD 21,531,600 (PLN 68,804,228).

On April 16th 2012, the Company's Management Board was notified that its subsidiary Retech Systems LLC (US) and Titanium Metals Corporation (US) had signed a contract for the manufacture and delivery of titanium melting and refining equipment. The contract was signed on April 12th 2012, its term runs from April 12th 2012 to November 30th 2013, and its value is USD 16,884,192 (PLN 53,722,122).

Between February 16th 2012 and May 18th 2012, four forward contracts to sell a total of EUR 1,455,000 (PLN 6,103,889), three forward contracts to sell a total of USD 4,210,000 (PLN 14,222,331), one forward contract to sell a total of CZK 15,600,000 (PLN 2,613,000), and a zero-cost collar comprising long put options and short call options with a total value of EUR 220,000 (PLN 930,072) were executed by SECO/WARWICK S.A. and its subsidiary SECO/WARWICK Thermal S.A. with BRE Bank S.A. of Warsaw. The value of the forward contracts totals PLN 23,869,292. The highest-value contract was the forward contract to sell USD 1,985,000 (PLN 6,834,554), entered into by SECO/WARWICK S.A. and BRE Bank S.A. of Warsaw on May 18th 2012.

Between February 2nd and May 18th 2012, SECO/WARWICK S.A. and SECO/WARWICK Thermal S.A., a subsidiary, executed with Bank Zachodni WBK S.A. of Wrocław five forward contracts to sell the euro for a total amount of EUR 2,650,000 (PLN 11,333,345), seven zero-cost collar contracts comprising long put options and short call options with a total value of EUR 1,405,000 (PLN 5,898,608), and nine zero-cost collar contracts comprising long put options and short call options with a total value of USD 1,640,000 (PLN 5,479,262). The value of the forward contracts totals PLN 22,711,215. The forward contract to sell a total of EUR 1,100,000 (PLN 4,805,130) concluded between SECO/WARWICK Thermal S.A. and Bank Zachodni WBK of Wrocław on May 18th 2012 was the contract with the highest value.

On June 11th 2012, the Company's Management Board was notified that its subsidiary Retech Systems LLC of Ukiah, the U.S., and China Aluminum International Engineering Corporation Limited of China had signed a contract for the manufacture and delivery of titanium melting and refining equipment. The contract, with a value of USD 15,862,000 (PLN 55,045,899), was executed on June 6th 2012 for a period of 25 months.

On July 6th 2012, the SECO/WARWICK Management Board provided a surety for the liabilities of RETECH SYSTEMS LLC of the U.S. (a wholly-owned subsidiary of SECO/WARWICK S.A.). The surety is to secure repayment of credit facilities which are to be granted to RETECH SYSTEMS LLC by HSBC BANK USA, N.A. The surety was provided for up to USD 3,500,000 (three million, five hundred thousand US dollar) and up to USD 25,000,000 (twenty five million US dollar), and secures repayment of the principal amount with interest, commission fees, charges and costs under the credit facility agreement in the period from the agreement date to June 30th 2015.

On July 6th 2012, further to Current Report No. 5/2012 of February 3rd 2012, the SECO/WARWICK Management Board reported that on July 5th 2012 all conditions precedent under the contract for manufacture and delivery of equipment for melting and refining of titanium, executed between its subsidiary – Retech Systems LLC. of Ukiah, USA, and Qinghai Supower Titanium Co. Ltd of China had been fulfilled.

Between May 22nd 2012 and August 31st 2012, SECO/WARWICK S.A. and SECO Thermal S.A. (its subsidiary) executed with BRE Bank S.A. of Warsaw nine forward contracts to sell a total of EUR 3,780,000 (PLN 15,944,878) and one forward contract to sell a total of USD 800,000 (PLN 2,668,240). The total value of the contracts is PLN 18,613,118. The contract with the highest value is the forward contract to sell a total of EUR 1,000,000 (PLN 4,320,500), concluded between subsidiary SECO/WARWICK Thermal S.A. and BRE Bank S.A. of Warsaw on May 22nd 2012.

Between September 6th 2012 and November 8th 2012, six forward contracts to sell a total of EUR 4,070,000 (PLN 16,871,042), one forward contract to sell a total of USD 200,000 (PLN 637,040), one

forward contract to sell a total of CZK 8,625,000 (PLN 1,449,863) and two zero-cost collars comprising long put options and short call options with a total value of USD 950,000 (PLN 3,057,955) were entered into by the Company and its subsidiary SECO/WARWICK EUROPE S.A. with BRE Bank S.A. of Warsaw. The value of the forward contracts totals PLN 22,015,900. The forward contract to sell a total of EUR 1,050,000 (PLN 4,367,265) concluded between the Company and BRE Bank S.A. of Warsaw on November 8th 2012 was the contract with the highest value.

Between May 8th 2012 and November 22nd 2012, seven forward contracts to sell a total of EUR 3,110,000 (PLN 12,944,933), four forward contracts to sell a total of USD 1,353,000 (PLN 4,584,278), and two forward contracts to sell a total of GBP 400,000 (PLN 2,056,840) were entered into by the Company and its subsidiary SECO/WARWICK EUROPE S.A. with Bank Handlowy w Warszawie S.A. of Warsaw. The value of the forward contracts totals PLN 19,586,051. The forward contract to sell a total of EUR 820,000 (PLN 3,405,214) concluded between the Company and Bank Handlowy w Warszawie S.A. of Warsaw on November 9th 2012 was the contract with the highest value.

In 2012, SECO/WARWICK S.A. did not enter into any significant insurance, partnership or cooperation agreements. Likewise, the Company has no knowledge of any significant shareholder agreements.

#### 14. Related-party transactions concluded by SECO/WARWICK S.A. or its subsidiaries other than arm's length transactions

In 2012, SECO/WARWICK S.A. and its subsidiaries did not enter into any transactions with related parties other than routine transactions or transactions executed on an arms' length basis.

#### 15. Information on agreements on borrowings and other debt instruments 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

Lender	Borrowing/instrument amount		Repayment date	Security	Interest rate	Type
	PLN '000	Foreign currency (USD) ('000)				
BRE BANK S.A. Zielona Góra Branch	4,649	1,500	Dec 31 2015	Ordinary mortgage for USD 2,500,000 Security mortgage for USD 250,000 Submission to enforcement for up to USD 2,750,000	1M LIBOR + 1.55%	Investment overdraft facility
<b>Total:</b>	<b>4,649</b>	<b>1,500</b>	<b>x</b>			

For more detailed information on SECO/WARWICK S.A.'s liabilities under bank borrowings see Note 22 to the Separate Financial Statements of SECO/WARWICK S.A. As at the end of 2012, SECO/WARWICK S.A. disclosed no liabilities under other debt instruments. In 2012, no agreement concerning bank borrowings or other debt instruments was terminated.

## 16. Sureties and guarantees issued and received in the financial year, including in particular sureties and guaranties issued to related entities

**Table: Contingent liabilities under guarantees and sureties:**

<b>Dec 31 2012</b>	<b>Bank</b>	<b>Surety in respect of</b>	<b>Currency</b>	<b>IN FOREIGN CURRENCY</b>	<b>IN PLN '000*</b>
Guarantee 1	BRE	PBG	EUR	184	753
Guarantee 2	BH	SBLC	USD	500	1,550
Guarantee 3	BH	SBLC	USD	506	1,568
Guarantee 4	BRE	PBG	EUR	80	327
Guarantee 5	BRE	PBG	PLN	45	45
Guarantee 6	BRE	PBG	EUR	58	236
Guarantee 7	BRE	PBG	USD	70	215
Guarantee 8	BRE	PBG	EUR	12	49
Guarantee 9	BRE	PBG	RUB	37,500	3,814
Guarantee 10	BRE	PBG	RUB	1,050	107
Guarantee 11	HSBC	APG	EUR	150	612
Guarantee 12	HSBC	SBLC	USD	1,100	3,410
Guarantee 13	BRE	bid bond	USD	34	106
Guarantee 14	BRE	APG	EUR	105	429
Guarantee 15	BH	APG	PLN	948	948
Guarantee 16	BRE	PBG	RUB	6,960	708
Guarantee 17	BH	APG	GBP	208	1,042
Guarantee 18	BH	APG	GBP	69	344
Guarantee 19	BRE	PBG	RUB	1,100	112
Guarantee 20	BH	PBG	EUR	54	223
Guarantee 21	BRE	APG	EUR	525	2,146
Guarantee 22	BRE	PBG	RUB	2,500	254
Guarantee 23	HSBC	APG	EUR	600	2,453
Guarantee 24	HSBC	APG	EUR	450	1,839
<b>TOTAL</b>					<b>23,290</b>

\* The guarantees were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2012.

Including PLN 10,814 thousand in contingent liabilities under guarantees issued to related entities as at December 31st 2012.

**Table: Sureties advanced by SECO/WARWICK S.A.**

Company	Bank	Surety in respect of	Currency	Dec 31 2012	AMOUNT (PLN '000)
S/W ALLIED Pvt. Ltd.	Union Bank of India	Guarantee and credit facility	INR	225,000	12,753
RETECH Systems	East West Bank	Credit guarantee	USD	1,000	3,100
RETECH Systems	HSBC BANK USA	Guarantee and credit facility	USD	25,000*	77,490
RETECH Systems	HSBC BANK USA	Guarantee and credit facility	USD	3,500*	10,849
S/W Corp.	HSBC BANK USA	Guarantee and credit facility	USD	1,800	5,579
S/W EUROPE S.A.	Bank Handlowy	Guarantee and credit facility	PLN	6,000	6,000
<b>TOTAL</b>					<b>115,771</b>

\* As at December 31st 2012, Retech Systems drew USD 2,450 thousand under the available credit facilities.

**Table: Guarantees received as at December 31st 2011:**

	Dec 31 2012 (PLN '000)	as at Dec 31 2011 (PLN '000)
Contingent receivables	0	639
from related entities	0	0
from other entities (including)	0	639
- guarantees and sureties	0	639

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

On February 22nd 2010, SECO/WARWICK S.A. advanced a PLN 4,000 thousand loan to its subsidiary, SECO/WARWICK ThermAL S.A. (currently: SECO/WARWICK EUROPE S.A.) The loan bears interest at the rate of 6% per annum. The loan was partially (PLN 2,000 thousand) repaid on December 29th 2011. Pursuant to the annex to the loan agreement, dated December 31st 2011, the borrower agreed to repay the loan by April 30th 2012. On April 27th 2012, the borrower repaid the entire outstanding balance of the loan.

On July 1st 2011, SECO/WARWICK S.A. advanced a EUR 100 thousand loan to its subsidiary, SECO/WARWICK GmbH. The loan bears interest at the rate of 5% per annum. On September 30th 2012, the Company recognised an impairment loss of PLN 407 thousand on the loan.

On August 16th 2012, SECO/WARWICK S.A. advanced a RUB 1,500 thousand loan to its subsidiary, OOO SECO/WARWICK Moscow. The loan bears interest at the rate of 10% per annum. The borrower agreed to repay the loan by December 31st 2012. The loan was repaid on October 1st 2012.

On December 17th 2012, SECO/WARWICK S.A. advanced a EUR 600 thousand loan to its subsidiary, SECO/WARWICK GmbH. The loan bears interest at the rate of 3% per annum. The borrower agreed to repay the loan by December 31st 2013.

In 2012, SECO/WARWICK S.A. did not advance loans to any non-related entities.

**18. Assessment (and grounds for the assessment) of financial resources management, including in particular an assessment of the Company'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 Company to mitigate such threats; feasibility of planned investments, including equity investments, in view of the funds available to the Company; possible changes in the financing of the investments**

In 2012, the Company advanced loans to two related entities, of RUB 1,500 thousand and EUR 600 thousand.

In 2012, the Company repaid its liabilities under the credit facility contracted to finance investing activities in a timely manner.

As at December 31st 2012, the outstanding debt under the investment facility was PLN 4,649 thousand. As at the same date, the Company had no debt outstanding under overdraft facility. As at the end of 2011, the debt outstanding under the investment facility was PLN 6,835 thousand, and liabilities under overdraft facility amounted to PLN 6,560 thousand.

Current and quick ratios increased slightly on 2011, and were 2.3 and 2.0, respectively (2011: 2.2 and 1.8), staying within a range considered sound (the base values of the ratios are 1.5–2.0 and 1.0, respectively). The cash ratio improved significantly on the back of large amounts of available cash, and was up from 0.04 to 0.57 at year end.

The funds and credit facilities available to the Company were sufficient to finance investments and capital expenditure planned for and executed in 2012 (for more information, see Section 10 of this Report).

In the Management Board's opinion, as at the balance-sheet date there was no threat of the Company's failure to meet its liabilities.

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

<b>LIQUIDITY RATIOS</b>		
	<b>Dec 31 2012</b>	<b>Dec 31 2011</b>
Current ratio	2.3	2.2
Quick ratio	2.0	1.8
Cash ratio	0.57	0.04

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

No debt or equity securities were redeemed or repurchased in 2012.

**20. Explanation of discrepancies between the financial results disclosed in the annual report and the previously released forecasts for the year, if any**

The SECO/WARWICK Management Board did not publish any forecasts for 2012 concerning the Company's or the Group's financial performance.

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

The Company is exposed to market risk, comprising currency risk, interest rate risk, liquidity risk and credit risk. The objective behind the Company's financial risk management is to mitigate any adverse



movements in foreign exchange and interest rates, stabilise cash flows and ensure an adequate level of liquidity and financial flexibility. The rules of financial risk management at the Company are determined by the Management Board. 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 operating and financing activities are monitored through monthly reports. The Company's Finance Department, as the organisational unit responsible for implementation of the Group's financial risk policy, identifies, measures, manages and monitors the risks on an ongoing basis. The Management Board receives regular update reports on the type and degree of exposure to a given risk. For a detailed description of Company's exposure to risks, see Note 32 to the financial statements of SECO/WARWICK S.A.

## **22. Statement of compliance with corporate governance rules by SECO/WARWICK S.A. in 2012**

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

In 2012, SECO/WARWICK S.A. complied with the Code of Best Practice for WSE-Listed Companies.

The text of the Best Practices for WSE-Listed Companies is available at: [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl) and [www.secowarwick.com](http://www.secowarwick.com).

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

### **b. Scope of non-compliance with the set of 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**

SECO/WARWICK S.A. followed all of the corporate governance rules set forth in the Code of Best Practice for WSE-Listed Companies.

### **c. Main characteristics of SECO/WARWICK S.A.'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 on current and periodic information to be published by issuers of securities of February 19th 2009.

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 effective 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 – subsection 1;
- Precise definition of the scope of the Group's financial reporting – subsection 2;
- Regular reviews of the Group's performance, based on the financial reporting system used by the Group – subsection 3;



- Requirement to submit financial statements for approval prior to their publication – subsection 4;
- Audit/review of financial statements by an external auditor – subsection 5;
- Engaging the Parent’s internal audit functions in the assessment of the control mechanisms in place at the SECO/WARWICK Group – subsection 6;

### **1. 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 from 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.

### **2. 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.

### **3. 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 each calendar month, 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 previously adopted assumptions.

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.

#### **4. 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 Parent'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.

#### **5. 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.

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

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

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

In 2012, the following processes in place at the Parent were subjected to an audit:

1. Technical preparation of the manufacturing process and Cooperation
2. Measurements, analysis, improvement
3. Disassembly and transport
4. Analysis of the Refusal List and Classification of Goods
5. Infrastructure management
6. Installation work and technological start-up
7. Management of work environment and infrastructure
8. Management's responsibilities
9. Negotiations with clients and preliminary design
10. Human resources management
11. Technical design of the product Electricity Division
12. Purchases and supervision of suppliers based on the criteria of Internal Control System

#### **d. Shareholders holding, directly or indirectly, major holdings of shares**

**Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total vote at the General Meeting as at December 31st 2012:**

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of total vote at the General Meeting
SW Poland Holding B.V. (Netherlands)	4,119,508	39.32%	4,119,508	39.32%

Spruce Holding Limited Liability Company	1,726,174	16.48%	1,726,174	16.48%
Bleauhard Holdings LLC	904,207	8.63%	904,207	8.63%
ING NN OFE	600,000	5.73%	600,000	5.73%
AMPLICO	577,470	5.51%	577,470	5.51%
OFE POLSAT S.A.	485,974	4.64%	485,974	4.64%

- share capital 2,095,242

- number of shares 10,476,210

- par value per share 0.2

The data presented in the table is based on notifications received from the shareholders.

**Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total vote at the General Meeting as at the date of release of this Report:**

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of total vote at the General Meeting
SW Poland Holding B.V. (Holandia)	4 119 508	39,32%	4 119 508	39,32%
Spruce Holding Limited Liability Company (USA)	1 726 174	16,48%	1 726 174	16,48%
Fundusze reprezentowane przez PKO BP BANKOWY PTE S.A.	1 026 675	9,80%	1 026 675	9,80%
Bleauhard Holdings LLC	904 207	8,63%	904 207	8,63%
ING NN OFE	600 000	5,73%	600 000	5,73%
AMPLICO	577 470	5,51%	577 470	5,51%

-kapitał zakładowy 2 095 242

-ilość akcji 10 476 210

-wartość nominalna jednej akcji 0,2

The data presented in the table is based on notifications received from the shareholders.

**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 at the Parent 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**

On July 31st 2008, the Management Board of SECO/WARWICK S.A. was notified of lock-up agreements relating to the Company shares between the following shareholders: SW Poland Holding B.V. of Amsterdam (The Netherlands) and Spruce Holding Limited Liability Company of Wilmington (USA).

The shares subject to those agreements comprise 55.8% of the Company's share capital and confer the right to 55.8% of votes at the General Meeting.

Based on the agreements, the shareholders mentioned above agreed not to dispose of their holdings of the Company shares until 2015.

On November 16th 2010, the Company concluded an investment agreement with James A. Goltz, concerning sale of 50% of shares in Retech Systems LLC of Ukiah (the U.S.). In consequence, SECO/WARWICK S.A. is now a holder of 100% of shares in Retech Systems LLC. Following contribution of 40% of shares in Retech Systems LLC to SECO/WARWICK S.A. by Mr James A. Goltz, the SECO/WARWICK S.A.'s share capital was increased. In exchange for the contribution, the Company issued shares to James A. Goltz, with the pre-emptive rights of existing shareholders waived. James A. Goltz executed a lock-up agreement concerning the new issue shares for the period from the subscription date to December 31st 2014.

**h. Description of the 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 buy-back of shares**

The Parent's Management Board consists of two to seven 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 member of the Management Board expires on the date of the General Meeting approving the report on the Management Board's operations, the statement of financial position and the statement of comprehensive income for the last full financial year in which the member held the office. Members of the Management Board may be re-appointed for another term of office. The Management Board may appoint one or more commercial proxies

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

The Company shares may be retired upon the shareholder's consent through the acquisition of the shares by the Company ("voluntary retirement") or without the shareholder's consent ("compulsory retirement"), in compliance with the provisions of the Commercial Companies Code. Shares may be retired 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 retirement 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 retire all or part of a shareholder's shares at the shareholder's written request. In such a case, the value of the retired shares shall be determined by a resolution of the Company's General Meeting, with a proviso that the resolution is valid only if the shareholder requesting the retirement 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. Any amendments to the Articles of Associations are submitted to the registry court by SECO/WARWICK S.A. Management Board. The General Meeting may authorise the Supervisory Board to prepare the consolidated text of the amended Articles of Association or to make other wording amendments, as specified in a resolution of the General Meeting.

#### **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.26 of the SECO/WARWICK S.A. General Meeting of May 28th 2012. The General Meeting may be attended only by the persons who are the Company shareholders sixteen days prior to the General Meeting date. 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. During the discussion of each item on the agenda, each shareholder is entitled to 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.19 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. 17 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. 8 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 (Par. 16 of the Rules of Procedure for the General Meeting).

In 2012, the formally convened SECO/WARWICK S.A. General Meeting was held on May 28th 2012. The General Meeting was convened at the request of the Management Board. In 2012, the Company shareholders did not request convening of the General Meeting.

The General Meeting was held pursuant to the regulations of the Commercial Companies Code, in accordance with the Rules of Procedure for the General Meeting of SECO/WARWICK S.A., and in compliance with the Best Practices for WSE-Listed Companies. The shareholders had an opportunity to get acquainted with the draft resolutions which had been published on the Company's website and in Current Report No. 10/2012, dated April 30th 2012, at least 26 days prior to the General Meeting. The Company approved the documents submitted by the shareholders and their proxies, and recognised the validity of the powers of proxy, right to represent and participate in the General Meeting.

Within its powers, the General Meetings adopted resolutions essential to proper operation of the Company, including a resolution on the approval of the Directors' Report on the Company's operations and the financial statements, the distribution of profit for the financial year 2011, approval of the Directors' Report on the Group's operations and the consolidated financial statements of the SECO/WARWICK Group for the financial year 2011, granting discharge in respect of duties to members of the Company's governing bodies, implementation of the 2012–2016 Incentive Scheme at the Company, approval of amendments to the Company's Articles of Associations, and adoption of the Rules of Procedure for the General Meeting. Changes were also introduced in the composition of the Supervisory Board.

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 resolutions adopted in 2012 by the General Meeting were aimed at serving the interest of the Company, with due consideration given to other stakeholders' rights. Resolutions adopted by the General Meeting were published on the Company's website at:

[www.secowarwick.com](http://www.secowarwick.com).

An Extraordinary General Meeting of SECO/WARWICK was convened at the request of the Management Board for November 28th 2012.

Within its powers, the Extraordinary General Meeting adopted a resolution, essential to the operation of the Company, concerning approval for a disposal of an organised part of SECO/WARWICK S.A.'S business. Changes were also introduced in the composition of the Supervisory Board.

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

**Management Board**

**Composition of the Management Board**

In 2012, the composition of the Company's Management Board was as follows:

Paweł Wyrzykowski – President of the Management Board (since February 1st 2012)  
Andrzej Zawistowski – Vice-President of the Management Board (until May 25th 2012)  
Wojciech Modrzyk – Vice-President of the Management Board  
Witold Klinowski – member of the Management Board (until December 31st 2012)  
Józef Olejnik – member of the Management Board (until December 31st 2012)

On January 12th 2012, in Current Report No. 02/2012, the SECO/WARWICK Management Board reported on appointment by the Supervisory Board of Mr Paweł Wyrzykowski to serve as President of the Management Board as of February 1st 2012.

On May 25th 2012, the SECO/WARWICK Management Board was notified of a decision of Mr Andrzej Zawistowski, one of the Company founders, to resign as Vice-President and member of the SECO/WARWICK Management Board. The resignation was due to Mr Zawistowski's plans to take the position of Chairman of the SECO/WARWICK Supervisory Board. See Current Report No. 14/2012.

On December 14th 2012, in Current Report No. 38/2012, the SECO/WARWICK Management Board reported on Mr Witold Klinowski's resignation from the position of member of the Company's Management Board. The resignation was due to Mr Klinowski's plans to take the position of member of the SECO/WARWICK Supervisory Board.

On December 14th 2012, in Current Report No. 38/2012, the SECO/WARWICK Management Board reported on Mr Józef Olejnik's resignation from the position of member of the Company's Management Board. Mr Józef Olejnik cited his retirement age as the reason behind the resignation.

On December 14th 2012, in Current Report No. 39/2012, the SECO/WARWICK Management Board reported on appointment by the Supervisory Board of Mr Jarosław Talerzak to serve as Vice-President of the Management Board as of January 1st 2013.

After the end of 2012 and until the date of release of this Report, the composition of the Company's Management Board was as follows:

Paweł Wyrzykowski – President of the Management Board  
Wojciech Modrzyk – Vice-President of the Management Board  
Jarosław Talerzak – Vice-President 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 real estate, perpetual usufruct right to or an interest in real estate, rests exclusively with the Management Board and requires approval by the General Meeting.

The Management Board is composed of 2 (two) to 7 (seven) 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 200,000.00 (two hundred thousand). Incurring a liability or disposal of a right in excess of the equivalent of PLN 200,000.00 (two hundred thousand) requires two Management Board members acting jointly or a Management Board member acting jointly with a commercial 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 was defined in resolutions adopted by the Company's Supervisory Board on February 1st 2007, April 28th 2008 and January 12th 2012. 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**

The Supervisory Board is composed of five to seven members.

In 2012, the composition of the Supervisory Board was as follows:

Andrzej Zawistowski – Chairman of the Supervisory Board (since May 28th 2012)

Henryk Pilarski – Deputy Chairman of the Supervisory Board

Jeffrey Boswell – member of the Supervisory Board

Artur Rusiecki – member of the Supervisory Board (until May 17th 2012)

James A. Goltz – member of the Supervisory Board (since May 28th 2012)

Piotr Kula – member of the Supervisory Board (until September 1st 2012)

Piotr Kowalewski – member of the Supervisory Board (until November 28th 2012)

Mariusz Czaplicki – member of the Supervisory Board (until November 28th 2012)

Zbigniew Rogóż – member of the Supervisory Board (since November 28th 2012)

Gutmann Habig – member of the Supervisory Board (since November 28th 2012)

On May 25th 2012, the SECO/WARWICK Management Board was notified of Mr Artur Rusiecki's decision to resign as member of the SECO/WARWICK Supervisory Board, with effect as of May 17th 2012. The resignation was due to important personal reasons. See Current Report No. 15/2012.

On May 28th 2012, the Annual General Meeting of SECO/WARWICK S.A., by virtue of Resolution No. 40, appointed Mr Andrzej Zawistowski to serve as member of the Company's Supervisory Board. See Current Report No. 17/2012.

On May 28th 2012, the Annual General Meeting of SECO/WARWICK S.A., by virtue of Resolution No. 34, appointed Mr James A. Goltz to serve as member of the Company's Supervisory Board. See Current Report No. 17/2012.

In Current Report No. 25/2012 of September 3rd 2012, the SECO/WARWICK Management Board reported on Mr Piotr Kula's resignation as member of the Company's Supervisory Board. The resignation followed from Mr Piotr Kula's appointment, as of September 1st 2012, as Deputy Dean of the Łódź University of Technology.

On November 28th 2012, the Extraordinary General Meeting of SECO/WARWICK S.A., by virtue of Resolution No. 6, removed from office Mr Piotr Kowalewski, who served as member of the Company's Supervisory Board. See Current Report No. 36/2012.

On November 28th 2012, the Extraordinary General Meeting of SECO/WARWICK S.A., by virtue of Resolution No. 7, removed from office Mr Mariusz Czaplicki, who served as member of the Company's Supervisory Board. See Current Report No. 36/2012.

On November 28th 2012, the Extraordinary General Meeting of SECO/WARWICK S.A., by virtue of Resolution No. 8, appointed Mr Zbigniew Rogóż to serve as member of the Company's Supervisory Board. See Current Report No. 36/2012.

On November 28th 2012, the Extraordinary General Meeting of SECO/WARWICK S.A., by virtue of Resolution No. 9, appointed Dr Gutmann Habig to serve as member of the Company's Supervisory Board. See Current Report No. 36/2012.

On November 28th 2012, the Extraordinary General Meeting of SECO/WARWICK S.A., by virtue of Resolution No. 10, appointed Mr Witold Klinowski to serve as member of the Company's Supervisory Board as of January 1st 2013. See Current Report No. 36/2012.

After the end of 2012 and until the date of release of this Report, the composition of the Company's Supervisory Board was as follows:

Andrzej Zawistowski – Chairman of the Supervisory Board  
Henryk Pilarski – Deputy Chairman of the Supervisory Board  
Jeffrey Boswell – member of the Supervisory Board  
James A.Goltz – member of the Supervisory Board  
Zbigniew Rogóż – member of the Supervisory Board  
Gutmann Habig – member of the Supervisory Board  
Witold Klinowski – member 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 provisions of 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 2012, 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 six 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. In order to ensure an efficient performance of its functions, if required the Supervisory Board, acting at the request of the Management Board, adopted resolutions by circulation, without holding a meeting.

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 2012, members of the Supervisory Board informed the Company's Management Board of their acquisition or disposal of SECO/WARWICK S.A. shares.

In 2012, in its work the Supervisory Board focused primarily on the matters material 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 S.A. 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 reviews of the financial statements of SECO/WARWICK S.A. and the Group. The reports on the Company's operations were also analysed and evaluated.

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, as well as evaluation of the operation of the Supervisory Board, prepared in accordance with the Best Practices for WSE-listed companies.

### **Committees of the Supervisory Board**

In 2012, an Audit Committee operated within the Supervisory Board. In the reporting period the Audit Committee operated through meetings convened by the Chairman of the Committee and by using means of remote communication (electronic mail). The Audit Committee also took part in regular meetings of the Supervisory Board prior to the publication of quarterly financial statements. In 2012, as part of its activities the Audit Committee became familiar with the preliminary results of SECO/WARWICK S.A. and the SECO/WARWICK Group for December 2012. Members of the Committee were in ongoing contact with the persons responsible at the Company for preparation of financial statements. The Committee paid particular attention to compliance of the financial statements with the applicable accountancy regulations. The Committee issued opinions on the budgets planned for 2012, both for SECO/WARWICK S.A. and the SECO/WARWICK Group. The Audit Committee conducted a review of the overall situation at the Group companies and approved the individual criteria for eligibility of particular persons to acquire subscription warrants as part of the SECO/WARWICK S.A. Incentive Scheme. The Audit Committee also became familiar with the current strategic activities carried out at the SECO/WARWICK Group.

In 2012, the Audit Committee consisted of:

1. Henryk Pilarski
2. Piotr Kowalewski
3. Piotr Jerzy Kula
4. Artur Rusiecki
5. Mariusz Czaplicki

### 23. Court, arbitration and administrative proceedings

In 2012, the value of liabilities or receivables of SECO/WARWICK S.A or the Group companies disputed in any single or all pending court, arbitration or administrative proceedings did not exceed 10% of SECO/WARWICK S.A.'s equity.

### 24. External and internal factors relevant to the growth of the Company's business; description of development prospects for the Company's operations in the period at least until the end of the financial year immediately following the financial year for which the financial statements contained in the annual report were prepared, including elements of the Company's market strategy

External factors:

- The Company's financial performance will be driven to a large extent on the macroeconomic conditions prevailing on the markets where the Company operates or which it plans to enter. The rate of the Company's growth will depend on the key economic indicators as recorded on the markets where it is present, such as: the demand for capital goods, GDP growth rate, inflation rate, unemployment rate or capital expenditure.
- The achievement of SECO/WARWICK S.A.'s strategic objectives may be hindered by competition. If competitive pressures intensify, especially in Asian markets, they may adversely affect the Company'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 Company's business. However, the Company actively mitigates its currency risk by adjusting the reference rates used for equipment calculations, hedging transactions on the futures market, and settling purchases in EUR or USD.

Internal factors:

- The achievement of the financial targets set by SECO/WARWICK S.A. depends on its ability to retain highly-skilled professionals in managerial and specialist positions. In the sector where the Company 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 Company 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 Company's business.

Key objectives of the Group's new development strategy until 2016

#### 1. Mission

SECO/WARWICK is a global provider of industrial equipment and advanced metal heat treatment technologies. Thanks to their innovativeness and conformity with modern industrial processes, our products offer customers competitive advantage in the production process.

## 2. Company value growth

A three-fold growth in SECO/WARWICK's business, from revenue of ca. PLN 370m in 2011 to ca. PLN 1bn in 2016, and an increase in net margin to ca. 7%.

## 3. Changes in organisational structure

Implementation of organisational changes whereby SECO/WARWICK is to become a global industrial group with its management centre in Świebodzin, Poland. The function of the holding company with a staff of between ten to twenty employees will be, apart from its natural governance function, to manage the gradual implementation of the best technologies and the transfer of best practices between the regional companies. In order to streamline the organisational structure, as of January 1st 2013 the operating activities in Poland will be consolidated in one company SECO/WARWICK Europe, which will be an operating centre for the European region and, at the same time, a model enterprise for other companies. Savings generated as a result of the spinning off of operating activities from SECO/WARWICK S.A. to SECO/WARWICK Europe S.A. are estimated at ca. PLN 5.25m from 2013, with an additional PLN 4.5m from 2014.

## 4. Investment

The Group's organic growth will be supported by growth through acquisitions. The Management Board plans to incur capital expenditure of PLN 40-50m in 2012-2013.

## 5. Financing structure, dividend distributions

- A secure financing structure planned to be maintained, with low debt facilitating flexible response to market changes;
- Investment programmes to be financed with internally generated cash flows;
- Effective control over SUBs – implementation of a system to effectively expatriate profits to the holding company;
- Dividend policy from 2013 onwards – upon completion of intensive investment efforts, recommendation to pay out >50% of net profit;

## 6. Macroeconomic assumptions

- In the Group's markets, including emerging markets, expected improvement in the GDP growth rate; over the next two years the growth rate is expected to return to its pre-crisis level; China and India will remain growth leaders;
- Foreign exchange rates of the currency pairs relevant to SECO/WARWICK's business are expected to stabilise within the following ranges: EUR/USD: 1.25-1.35; EUR/PLN: 3.8-4.2; and as the product of the two preceding rates - USD/PLN: 2.8-3.4.

SECO/WARWICK S.A. is aware of benefits to be derived from the development of the vacuum carburising technology. The technology continues to be researched and developed by the Company's personnel. It is also consulted as part of a cooperation project with academic partners from the leading academic centres in Poland. The research work performed by SECO/WARWICK S.A. has helped the Company to win many contracts related to this technology across the world. Those projects can now serve as valuable credentials when next bids are submitted by the Company. The development of the aluminium heat exchanger brazing technology for the air conditioning and refrigeration industries is also considered a promising application by the Company. SECO/WARWICK S.A. intends to continue its efforts to intensify the development work on improving new systems. Considering that the annual value of the market of new systems for the air conditioning industry is estimated by SECO/WARWICK S.A. at as much as approximately USD 100m, it is a very attractive direction of development for SECO/WARWICK S.A. Furthermore, the Company plans to take advantage of the high growth potential of the Russian market to expand its sales of aluminium heat treatment systems.



## 25. Events with a material bearing on the Company's business which occurred in the financial year or in the period from the end of the financial year to the date of approval of the financial statements

### Events with a material bearing on the Company's business which occurred in the financial year:

- OOO SCT (Solnechnogorskiy Centr Termooobrabotky) of Russia was registered on August 17th 2012. The company's business consists in the provision of metal heat treatment services in Russia. SECO/WARWICK S.A holds 50% of the shares in the company, while a Russian partner holds the remaining shares.
- In December 2012, SECO/WARWICK S.A. acquired the remaining 49% of SECO/WARWICK GmbH shares held by the German partner. At present, SECO/WARWICK S.A. holds 100% of shares in SECO/WARWICK GmbH.
- In December 2012, SECO/WARWICK Service GmbH of Germany joined the SECO/WARWICK Group. SECO/WARWICK Service GmbH is an indirect subsidiary owned through SECO/WARWICK GmbH, which holds a 100% interest in SECO/WARWICK Service GmbH.
- In 2012, SECO/WARWICK S.A. and SECO/WARWICK EUROPE launched the "TALENT 2012" Programme. The Programme, which spans some 18 months, is addressed to experts (specialists and designers) and managers. The aim behind the project is to develop the potential of employees working at SECO/WARWICK S.A. and SECO/WARWICK Europe, so as to provide them with skills required to assume key positions and efficiently implement the Company's strategic plans. "TALENT 2012" creates new opportunities of professional advancement for exceptionally talented employees. The Programme's other advantage is that it enables the implementation of innovative projects and solutions designed to enhance efficiency in different business segments. At the same time, investment in the internal management and specialist resources will allow the companies to better plan strategies and expansion on the global markets. The project may prove to be a great organisational, motivational and financial success.

### Events with a material bearing on the Company's business which occurred after the end of the financial year:

- On January 3rd 2013, in Current Report No. 01/2013 the SECO/WARWICK Management Board reported on the acquisition of shares in a subsidiary. On December 18th 2012, the Extraordinary General Meeting of SECO/WARWICK EUROPE S.A. of Świebodzin, a wholly-owned subsidiary of SECO/WARWICK S.A., adopted Resolution No. 1/2012 on share capital increase at SECO/WARWICK EUROPE S.A. through the issue of new Series B ordinary registered shares, which were offered to SECO/WARWICK S.A. in a private placement in exchange for a non-cash contribution (the "Contribution"). Pursuant to the Resolution, the share capital of SECO/WARWICK EUROPE S.A. was increased. On January 2nd 2013, SECO/WARWICK EUROPE S.A. submitted to SECO/WARWICK S.A. an invitation to acquire the New Shares. The Company accepted the invitation and executed with SECO/WARWICK EUROPE S.A. a share purchase agreement concerning the New Shares. Under the Share Purchase Agreement, SECO/WARWICK S.A. acquired the New Shares for a total issue price of PLN 82,218,000 in exchange for the Contribution.
- On January 3rd 2013, in Current Report No. 02/2013 the Management Board of SECO/WARWICK S.A. reported of the disposal of an organised part of the Company's business to a subsidiary as a contribution to cover the subsidiary's new issue shares. An agreement was executed for the disposal of an organised part of business of



SECO/WARWICK S.A. comprising tangible and intangible assets used in manufacturing and distribution activities, liabilities related to the manufacturing and distribution activities, and the Company's employees involved in the manufacturing and distribution activities, to be effected through contribution of the organised part of business to a subsidiary of the SECO/WARWICK Group, i.e. SECO/WARWICK EUROPE S.A. ("Subsidiary") of Świebodzin, in exchange for shares in the increased share capital of the Subsidiary. The transfer of the organised part of business was a part of the Group's New Growth Strategy presented in Current Report No. 28/2012. The disposal will allow the Group to consolidate its Polish operations within a single entity, SECO/WARWICK EUROPE S.A. The Parent (SECO/WARWICK S.A.) will focus on the strategic and financial management of the SECO/WARWICK Group. SECO/WARWICK S.A., acting as the holding company, will exercise corporate supervision and provide strategic management services to the subsidiaries of the SECO/WARWICK Group.

- On March 22nd 2013, in Current Report No. 04/2013 the Management Board of SECO/WARWICK S.A. reported that the Company and shareholders (hereinafter jointly referred to as the "Selling Shareholders") of Seco/Warwick Allied Private Limited of Maharashtra, India ("SWAPL"), in which the Company holds a 50% interest, representing 50% of SWAPL's equity and carrying the right to 50% of the total vote at the General Meeting of SWAPL, entered into a conditional agreement on purchase by the Company of [27,339] SWAPL shares, representing 25% of SWAPL's equity and carrying the right to 25% of the total vote at its General Meeting (the "Sale Shares") (the "Agreement"). Pursuant to the Agreement, the acquisition of Sale Shares by the Company depends on fulfilment - to the Company's satisfaction - of certain conditions precedent, listed in the Current Report. Under the Agreement, the total selling price for the Sale Shares is 161,000,000 Indian rupees (PLN 9,590,609, translated at the mid-exchange rate quoted by the National Bank of Poland for March 22nd 2013) (the "Selling Price"), and the total Selling Price is to be paid by the Company in three instalments, upon fulfilment of conditions precedent to each payment.
- On March 25th 2013, in Current Report No. 05/2013 the Management Board of Seco/Warwick S.A. with registered office in Świebodzin, at ul. Sobieskiego 8, (the "Company"), reported that on March 25th 2013 the conditions precedent were fulfilled for purchase of 9,090 Sale Shares and payment of the first instalment of the Selling Price of 53,529,280 Indian rupees (PLN [3,156,996], translated at the mid-exchange rate quoted by the National Bank of Poland for March 25th 2013), as defined in the agreement for purchase of shares in Seco/Warwick Allied Private Limited of Maharashtra, India ("SWAPL"), made between the Company and SWAPL shareholders. Following the acquisition of 9,090 Sale Shares, the Company will hold 63,765 shares, representing 58.3% of the SWAPL's equity and carrying the right to 58.3% of the total vote at the General Meeting of SWAPL.

For details of events subsequent to the balance-sheet date, see current reports available on the corporate website at:

[www.secowarwick.com](http://www.secowarwick.com).

## 26. Major achievements in research and development

In 2012, the Research and Development division of the SECO/WARWICK Group worked on the following projects:

- Development of the FineCarb® technology and testing of the carburising process simulator (in cooperation with Łódź University of Technology).

Successful installation of vacuum carburising systems with process simulators (SimVaC) by ten new customers (from the U.S., the Czech Republic, India, Poland, Russia,

Germany, Denmark, Italy and the Philippines), who confirmed the accuracy of simulations and technological results.

Research and development of vacuum carburising procedures for new types of steel (tool steel).

- Technological tests and development of FineLPN vacuum nitriding.
- National Centre for Research and Development's project on quenching deformation control.
- Design and launch of construction of a superconductor heat treatment furnace for the international thermonuclear power reactor project (ITER).

Over the same period, the representatives of the Group's Research and Development division participated in a number of conferences, seminars and industry exhibitions.

In 2012, the Group took steps to actively promote its technological and engineering achievements at international seminars, conferences and industry fairs. Members of the R&D team wrote papers and prepared presentations, and took part in the following events:

- SimTech Conference, May 17th–18th 2012, Singapore
- Seco/Warwick Conference, May 24th 2012, Prague, the Czech Republic
- International Federation of Heat Treatment, September 10th–12th 2012, Chicago, USA
- Furnace North America, October 2nd–4th 2012, Nashville, USA
- Korean Society of Heat Treatment, November 9th 2012, Seoul, Korea
- Vacuum Heat Treatment and Heat Treatment of Tools, November 27th–28th 2011, Jihlava, the Czech Republic

The Group successfully organised the 15th “New directions in heat treatment” seminar, which is an annual industry event in Poland. The seminar was held on September 20th–21st 2012 at the conference centre in Łagów (Poland). The event was attended by over 100 guests, including customers and trade and research partners. The participants gave twelve thematic lectures and took part in two workshops on carburising and nitriding technologies. The participants praised the seminar for its high quality, both in terms of content and form.

## 27. Environmental matters

In 2012, SECO/WARWICK S.A. of Świebodzin used the natural environment in the course of its production and trade operations in accordance with the applicable law and was charged with no penalties.

The Company holds all relevant permits for waste generation and release of gas and dust into the air. The permits expire on November 28th 2021. The Company maintains a register of generated waste. In addition, SECO/WARWICK S.A. executed agreements with specialist companies which handle waste disposal, recycling and treatment. All such companies hold relevant permits.

All fees due for the use of natural environment were transferred to the dedicated account of the Marshall Office of the Province of Zielona Góra / Gorzów Wielkopolski in a timely manner. Similarly, the summary of information on the scope of natural environment use was submitted to the Marshall Office of the Province of Zielona Góra / Gorzów Wielkopolski by the prescribed date.

## 28. Workforce

In 2012, the average headcount at SECO/WARWICK S.A. increased to 298 FTEs, from 292 FTEs in 2011.

For more information on the workforce of SECO/WARWICK S.A., see Note 31 to the Separate Financial Statements of SECO/WARWICK S.A.

## 29. Information on:

- a) the date of the agreement concluded by the Company with a qualified auditor of financial statements for an audit or review of financial statements or consolidated financial statements, and the term of such agreement,
- b) the remuneration payable or paid to the qualified auditor of financial statements for the financial year, separately for:
  - audit of the annual financial statements
  - other attestation services, including a review of financial statements,
  - tax advisory services,
  - other services,
- c) information specified in item b) above should also be disclosed for the previous financial year

Under Par. 29.1.6 of the Company's Articles of Association, which grants the Supervisory Board the power to select the qualified auditor, the Company's Supervisory Board adopted resolution No. 11/2011 on selection of PKF Audyt Sp. z o.o. of Warsaw as the auditor of the financial statements of SECO/WARWICK S.A. and the consolidated financial statements of the SECO/WARWICK Group for 2011 and 2012.

Under Par. 29.1.6 of the Company's Articles of Association, which grants the Supervisory Board the power to select the qualified auditor, the Company's Supervisory Board adopted resolution No. 11/2011 on selection of PKF Audyt Sp. z o.o. of Warsaw to review the semi-annual financial statements of SECO/WARWICK S.A. and the semi-annual consolidated financial statements of the SECO/WARWICK Group for 2011 and 2012.

The agreement with the auditor was executed on June 15th 2011.

PKF Audyt Sp. z o.o., with registered office at ul Orzycka 6, lok.1B, Warsaw, is entered in the list of qualified auditors of financial statements under Reg. No. 548.

The table below presents the total remuneration of the auditor for 2012 and 2011.

**Table: Total remuneration of the auditor for 2012 and 2011**

Service	Remuneration for 2012 PLN '000	Remuneration for 2011 PLN '000
Audit of annual financial statements	57	62
Other attestation services, including a review of financial statements	51	38
Tax advisory services provided by PKF Tax Sp. z o.o., a wholly-owned subsidiary of PKF Audyt Sp. z o.o.	29	30
Other services provided by PKF Audyt Sp. z o.o.	0	1

Date: April 26th 2013

Paweł Wyrzykowski  
*President of the Management Board*

Wojciech Modrzyk  
*Vice-President of the Management Board*

Jarosław Talerzak  
*Vice-President of the Management Board*