



SECO/WARWICK S.A.

**DIRECTORS' REPORT
ON THE SECO/WARWICK GROUP'S OPERATIONS
IN THE YEAR ENDED
DECEMBER 31ST 2015**

The Management Board of SECO/WARWICK S.A. presents the Directors' Report on the SECO/WARWICK Group's operations in the period January 1st–December 31st 2015, prepared in accordance with Par. 92 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2009 No. 33, item 259, as amended).

The consolidated financial statements of the SECO/WARWICK Group (the "Group") have been 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 2015 and the comparative period January 1st–December 31st 2014.

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 2015 and December 31st 2014, as well as of its results and cash flows in the years ended December 31st 2015 and December 31st 2014.

1. Introduction

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

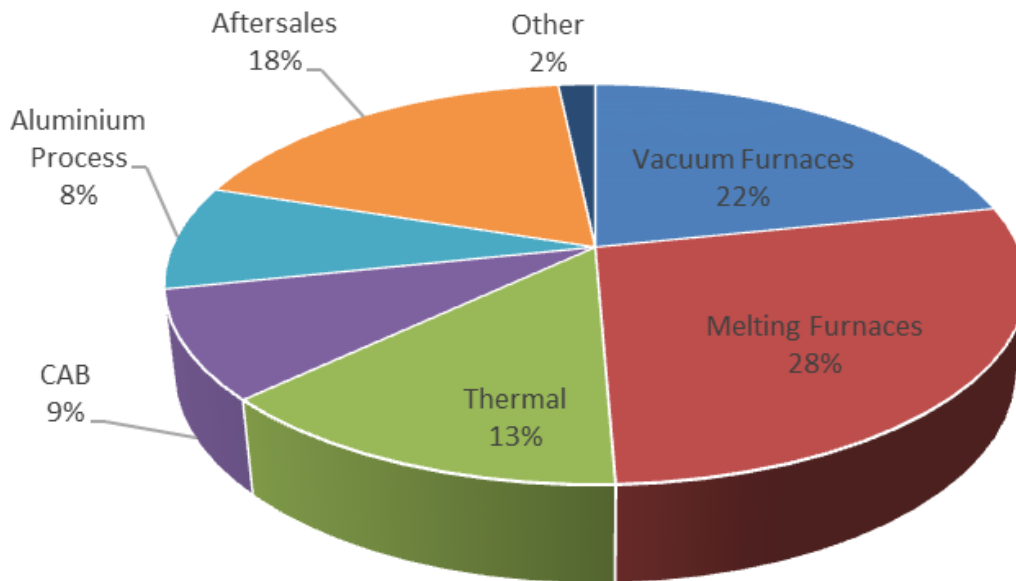
The Group's core business consists in manufacture of five key groups of products: vacuum furnaces, aluminium heat exchanger brazing systems, aluminium heat treatment systems and metallurgy equipment used for melting and vacuum casting of metals and specialty alloys. The Group's operations are divided into five business segments corresponding to the product groups, i.e. vacuum furnaces (Vacuum), aluminium heat exchanger brazing systems (Controlled Atmosphere Brazing - CAB), aluminium heat treatment systems (Aluminum Process), metallurgy equipment used for melting and vacuum casting of metals and speciality alloys (Melting Furnaces), and other. Also, in accordance with the Company's management accounts, a separate aftersales segment has been established.

The table below presents the Group's revenue.

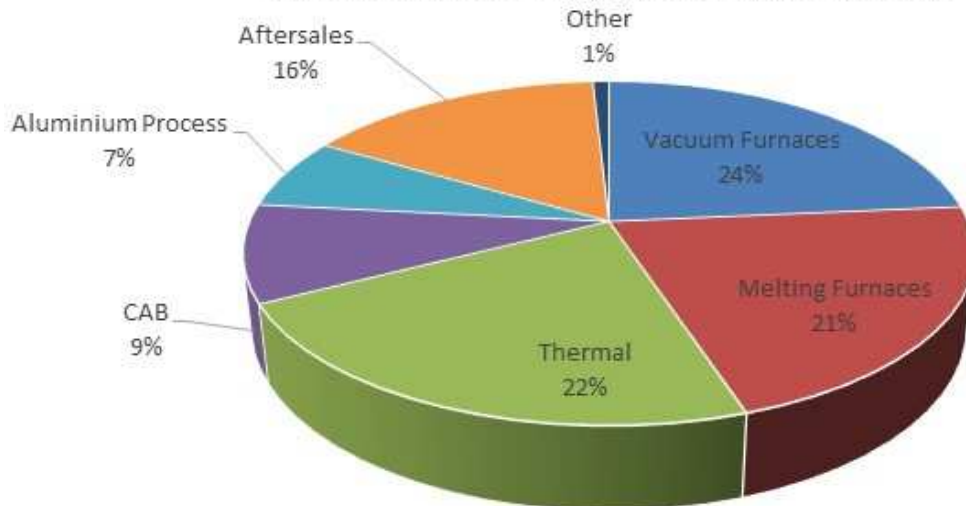
Table: Revenue (PLN '000)

Wyszczególnienie	Działalność kontynuowana							Działalność ogółem
	<i>Piece Próżniowe</i>	<i>Piece Topialne</i>	<i>Piece Atmosferowe</i>	<i>CAB</i>	<i>Aluminium Process</i>	<i>Aftersales</i>	<i>Pozostałe</i>	
01.01.2015-31.12.2015	104,390	133,373	65,076	42,156	40,737	87,859	7,948	481,539
01.01.2014-31.12.2014	103,498	93,637	99,063	40,217	29,524	69,356	3,736	439,031

Revenue in 2015 by operating segments



Revenue in 2014 by operating segments



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

Table: As at December 31st 2015, 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
Parent				
SECO/WARWICK S.A.	Świebodzin	Holding company of the SECO/WARWICK Group. Holding equity interests and providing strategic management services	N.A.	N.A.
Direct and indirect subsidiaries				
SECO/WARWICK EUROPE Sp. z o.o.	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.	Wilmington (USA)	Holding company; registration of trademarks and patents, and granting licences for use of the trademarks and patents by SECO/WARWICK Corp.	Full	100%
SECO/WARWICK Rus	Moscow (Russia)	Distribution of the SECO/WARWICK Group's products	Full	100%
Retech Systems LLC	Ukiah (USA)	Trade and services; manufacture of metallurgy equipment used for melting and vacuum casting of metals and specialty alloys	Full	100%
SECO/WARWICK Retech Thermal Equipment Manufacturing Tianjin Co., Ltd.	Tianjin (China)	Manufacture of metal heat treatment equipment	Full	90%
Retech Tianjin Holdings LLC	(USA)	A holding company	Full	80%
SECO/WARWICK Allied Pvt. Ltd.	Mumbai (India)	Manufacture of metal heat treatment equipment	Full	75%
SECO/WARWICK GmbH	Bedburg-Hau (Germany)	Intermediation in the sale of furnaces and spare parts manufactured by SECO/WARWICK EUROPE Sp. z o.o., and provision of technical support to customers in Germany, Austria, the Netherlands, Switzerland, Liechtenstein and Slovenia	Full	100%
OOO SCT	Solnechnogorsk (Russia)	Provision of metal heat treatment services in Russia	Equity	50%
SECO/WARWICK Germany GmbH	Bedburg-Hau (Germany)	Provision of metal heat treatment services in Germany	Full	100%

SECO/WARWICK do Brasil Ltda. (Engefor Engenharia Indústria e Comércio Ltda)	Jundiaí (Brazil)	Manufacture of metal heat treatment equipment	Full	100%
SECO/WARWICK France	Roissy-en-Brie (France)	Commercial and technical representation of SECO/WARWICK Europe in France, French-speaking countries and their neighbouring countries	Full	100%
SECO/WARWICK Services Sp. z o.o.	Świebodzin	Repair and maintenance services	Full	100%

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

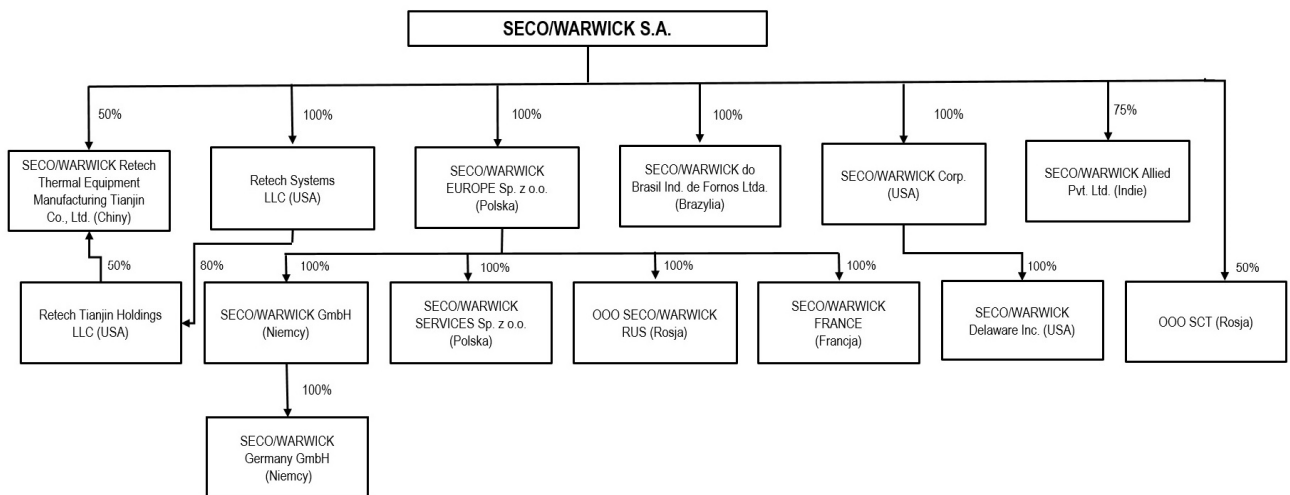
On April 8th 2015, SECO/WARWICK France of Roissy-en-Brie, France, was registered. The company's business comprises commercial and technical representation of SECO/WARWICK Europe Sp. z o.o. in France, French-speaking countries and their neighbouring countries.

On November 2nd 2015, SECO/WARWICK Service GmbH of Bedburg-Hau, Germany, changed its name to SECO/WARWICK Germany GmbH.

On December 9th 2015, SECO/WARWICK Services Sp. z o.o. of Świebodzin was established. The company's principal business is the provision of repair and maintenance services for equipment manufactured by SECO/WARWICK Europe Sp. z o.o.

On December 28th 2015, SECO/WARWICK S.A. sold a 100% interest in SECO/WARWICK GmbH of Bedburg-Hau (Germany) and a 99% interest in SECO/WARWICK RUS of Moscow (Russia) to SECO/WARWICK Europe sp. z o.o.

SECO/WARWICK Group's structure as at December 31st 2015:



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

On March 30th 2016, SECO/WARWICK S.A. acquired 1,550,000 shares in SECO/WARWICK Allied Private Limited of Maharashtra (India). Following the acquisition, the Parent holds a total of 1,632,014 shares representing 98% of the subsidiary's share capital.

Between December 31st 2015 and the issue date of this Report, there were no other changes in the composition of the SECO/WARWICK Group.

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

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

In 2015, there were no changes in significant management policies at the Company or the Group.

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

MANAGEMENT BOARD

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

Table: Remuneration to members of the Management Board of SECO/WARWICK S.A. for 2015 (PLN '000)

<u>MANAGEMENT BOARD</u>	Total remuneration for the period
Paweł Wyrzykowski – President of the Management Board	1,056
Wojciech Modrzyk – Vice-President of the Management Board ⁽¹⁾	393
Jarosław Talerzak – Vice-President of the Management Board	451
Wojciech Peret – Member of the Management Board ⁽²⁾	30
Total	1,930

(1) Remuneration to Mr Wojciech Modrzyk for the period January 1st–December 3rd 2015 for serving on the Company's Management Board.

(2) Remuneration to Mr Wojciech Peret for the period December 3rd–December 31st 2015 for serving on the Company's Management Board.

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 2015 (PLN '000)

Name and surname	Remuneration
Andrzej Zawistowski, including:	197
- for his service as Chairman of the Supervisory Board	120
- under agreement for advisory services ⁽¹⁾	77
Jeffrey Boswell, including:	127
- for his service as Member of the Supervisory Board	-
- under employment contract ⁽²⁾	127
James A. Goltz, including:	716
- for his service as Member of the Supervisory Board	-

- under employment contract ⁽³⁾	716
Dr Gutmann Habig	28
Henryk Pilarski	54
Witold Klinowski, including:	198
- for his service as Member of the Supervisory Board	42
- under agreement for advisory services ⁽⁴⁾	156
Zbigniew Rogóż ⁽⁵⁾	17
Marcin Murawski ⁽⁶⁾	26
Total	1,363

- (1) 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.
- (2) Under an employment contract between SECO/WARWICK Corp. and Mr Jeffrey Boswell.
- (3) Under an employment contract between Retech Systems LLC and Mr James A. Goltz.
- (4) Under an agreement for the provision of technical and product development advisory services of October 3rd 2013, executed between SECO/WARWICK EUROPE Sp. z o.o. and Mr Witold Klinowski.
- (5) Mr Zbigniew Rogóż was removed from his position of member of the Supervisory Board by Resolution No. 26 of the General Meeting of May 26th 2015.
- (6) Mr Marcin Murawski was appointed as member of the Supervisory Board by Resolution No. 33 of the General Meeting of May 26th 2015.

5. Agreements between the Group companies 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 of the Parent held by the management and supervisory staff (presented separately for each person)

	Jan 1 2015				Dec 31 2015			
	Number of S/W shares held	Ownership interest	% of total vote	Decrease/increase	Number of S/W shares held	Ownership interest	% of total vote	Total par value of shares (PLN)
Management Board								
Paweł Wyrzykowski	154,558	1.44%	1.44%	100,000	254,558	2.37%	2.37%	50,912
Wojciech Modrzyk ⁽¹⁾	25,958	0.24%	0.24%	4,000	-	-	-	-
Jarosław Talerzak	25,558	0.24%	0.24%	4,000	29,558	0.28%	0.28%	5,912
Wojciech Peret ⁽²⁾	-	-	-	-	-	-	-	-
Supervisory Board								
Andrzej Zawistowski	-	-	-	65,000	65,000	0.61%	0.61%	13,000
Jeffrey Boswell	9,776	0.09%	0.09%	-	9,776	0.09%	0.09%	1,955



THE SECO/WARWICK GROUP

Directors' Report on the operations of the SECO/WARWICK Group for the year ended December 31st 2015

Henryk Pilarski	10	0.0001%	0.0001%	-	10	0.0001%	0.0001%	2
Witold Klinowski	-	-	-	-	-	-	-	-
James A. Goltz	-	-	-	-	-	-	-	-
Zbigniew Rogóż ⁽³⁾	-	-	-	-	-	-	-	-
Marcin Murawski ⁽⁴⁾	-	-	-	-	-	-	-	-
Dr Gutmann Habig	-	-	-	-	-	-	-	-
Commercial proxies	-	-	-	-	-	-	-	-
Piotr Walasek	15,335	0.14%	0.14%	4,000	19,335	0.18%	0.18%	3,867
Katarzyna Kowalska	-	-	-	-	-	-	-	-
Total	231,195	2.15%	2.15%	177,000	378,237	3.52%	3.52%	75,647

Item	Jan 1 2015	Item	Dec 31 2015
Number of shares	10,737,837	Number of shares	10,737,837
Par value per share	0.20	Par value per share	0.20
Share capital	2,147,567.40	Share capital	2,147,567.40

- (1) Mr Wojciech Modrzyk ceased to serve on the Management Board as of December 3rd 2015.
- (2) Mr Wojciech Peret was appointed member of the Management Board of SECO/WARWICK S.A. as of December 3rd 2015.
- (3) Mr Zbigniew Rogóż was removed from his position of member of the Supervisory Board by Resolution No. 26 of the General Meeting of May 26th 2015.
- (4) Mr Marcin Murawski was appointed as member of the Supervisory Board by Resolution No. 33 of the General Meeting of May 26th 2015.

The Management Board of SECO/WARWICK S.A. (the "Company") announced that on February 18th 2015 it received, from the Chairman of the Supervisory Board and the President of the Management Board, Notifications under Art. 160 of the Act on Trading in Financial Instruments, concerning transactions in the Issuer shares.

The Management Board of SECO/WARWICK S.A. (the "Company") announced that on August 3rd 2015 it received, from two Vice-Presidents of the Management Board and a Commercial Proxy, Notifications under Art. 160 of the Act on Trading in Financial Instruments, concerning transactions in the Issuer shares.

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

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

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 April 23rd 2015 the Supervisory Board approved the key objectives of the 2016–2018 Incentive Scheme for members of the SECO/WARWICK Group's management staff (the "2016–2018 Incentive Scheme").

General objectives of the Incentive Scheme of SECO/WARWICK S.A.

- The Incentive Scheme is effective for 2016, 2017 and 2018.
- The Incentive Scheme covers 995,750 Company shares which may be distributed to Eligible Persons.
- Scheme Participants include key members of the Group's management staff who are identified as Scheme Participants in the relevant resolution of the Supervisory Board, and in the period between February 1st 2015 and August 15th 2015

acquire with their own funds, in their own name and for their own account no less than 4,000 and no more than 11,500 Company shares. In the case of the President of the Management Board of SECO/WARWICK SA, the number of shares to be acquired is 100,000. In the case of the President of the Management Board of SECOWARWICK Europe, the largest company of the Group, the number of shares to be acquired is 35,000. The price per share is PLN 25.

- The number of acquired shares and the 3.5 multiple defines the number of potential options which may be granted under the Scheme subject to fulfilment of the conditions specified below.
- Shares for a participant's own account must be acquired no later than on August 15th 2015,
- and may not be sold before June 30th 2022.
- The persons specified in the Supervisory Board's resolution are to declare their intention to participate in the Incentive Scheme by August 31st 2015.
- Participants of the scheme will be assigned individual objectives and a joint objective, the achievement of which is a precondition for a Scheme Participant to become eligible for benefits under the Scheme.
- Achievement of individual objectives is a pre-condition for acquiring rights to 15% of the options in each of the years 2016, 2017 and 2018.
- Achievement of the joint objective is a pre-condition for acquiring rights to 55% of the options in 2016, 2017 and 2018.
- Achievement of the Individual Objectives will be revised on the basis of the Company's audited financial information.
- Achievement of the Individual Objectives will be verified by the Audit Committee by April 30th of each consecutive financial year for the previous financial year.
- Achievement of the Joint Objective will be verified on the basis of the Company's audited financial information for all the financial years between 2016 and 2018.
- Achievement of the Joint Objective will be verified by the Audit Committee by April 30th 2019.
- If a Scheme Participant achieves the Individual Objectives or the Joint Objective, such participant will become eligible to acquire Company Shares in the number and on the terms and conditions specified in the Scheme Rules, and to obtain a Capital Bonus (the "Option").
- Options will vest in accordance with the provisions of agreements to be entered into between the Company and the individual Scheme Participants (the "Option Agreement").
- Rights under Options may not be transferred or encumbered. Such rights are attached to a Scheme Participant and expire upon his/her death.
- An Option entitles a Scheme Participant to purchase Shares at nominal price, in the number specified in the Option Agreement.
- An Option also entitles a Scheme Participant to receive from the Company annual payments whose amount will depend on the amount of dividend paid by the Company for a preceding financial year (the "Capital Bonus").
- The Capital Bonus for a given financial year will be calculated by July 31st of a given financial year, on the basis of a resolution on distribution of the Company's profit and the Company's audited financial information for the previous financial year, based on the following formula:

$$PK_t = \frac{Div_t}{LA} \times LAUP$$

where:

PK _t	–	the Capital Bonus to be paid in a given financial year,
Div _t	–	the amount of dividend to be paid in a given financial year,
LA	–	the total number of Company shares participating in dividend payment,
LAUP	–	the number of Company shares that a Scheme Participant is entitled to acquire in the exercise of an Option; Shares already delivered to a Scheme Participant are not taken into account in this calculation;

- The right to obtain the Capital Bonus expires on or before the last Distribution Date.
- Date of settlement of the acquisition by a Scheme Participant of Company Shares in the exercise of an Option (Distribution Date)
 - in the case of Scheme Participants other than the President of the Management Board, the Distribution Date will be: June 30th 2020 – in respect of 33% of Shares receivable by a Scheme Participant, June 30th 2021 – in respect of another 33% of Shares receivable by a Scheme Participant, and June 30th 2022 – in respect of the remaining 33% of Shares receivable by a Scheme Participant;

- in the case of the Management Board President, the Distribution Date will be August 31st 2019 in respect of all Shares receivable by him.

The Supervisory Board determined the Individual Objectives and the Joint Objective for the Incentive Scheme Participants, the achievement of which is a precondition for a Scheme Participant to become eligible for benefits under the Scheme for the financial year 2016. The Objectives cover financial and operating ratios of the individual subsidiaries, the organisational units related to particular technologies, or the entire Group, depending on the position of a Scheme Participant. For the entire Group, the Individual Objective for the President of the Management Board, Chief Financial Officer and Chief Operating Officer at SECO/WARWICK S.A., the Parent, is the consolidated net profit of the Group. For 2016, the Objective is set at PLN 18m.

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 April 23rd 2015 the Annual General Meeting approved the key objectives of the 2016–2018 Incentive Scheme for members of the SECO/WARWICK Group's management staff (the "2016–2018 Incentive Scheme"). For a detailed description of the key objectives of the Incentive Scheme see Section 7.

The Scheme is overseen by the Supervisory Board and the Management Board of SECO/WARWICK S.A., and its detailed rules were approved by the Supervisory Board on April 23rd 2015.

9. Information on the acquisition of own shares by the Group companies, including information on the purpose of the acquisition, the number and par value of the shares and percentage of the share capital they represent, acquisition price and selling price (in the case of sale)

On October 30th 2014, the Extraordinary General Meeting resolved to approve a buyback of up to 1.5m shares (up to 13.97% of the share capital) at a price of not less than PLN 10 and not more than PLN 27.50, for a total amount of not more than PLN 41.75m. The buyback was announced on February 3rd 2015. On February 13th 2015, the Company acquired 1,073,783 own shares, representing 10% of its share capital. The average price per share was PLN 25. The acquisition was financed from an investment credit facility granted by mBank S.A. of Warsaw. Under the facility agreement, the Bank granted a PLN 26,845 thousand investment credit to the Company, repayable by January 31st 2020.

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

STATEMENT OF COMPREHENSIVE INCOME

In 2015, the SECO/WARWICK Group recorded revenue growth. Sales reported by the Group's key foreign subsidiaries changed as follows: Retech LLC +34.0% (2014: PLN 93.1m, 2015: PLN 124.7m), SW Retech +81.5% (2014: PLN 8.2m, 2015: PLN 14.9m), SW do Brazil +51.1% (2014: PLN 7.0m, 2015: PLN 10.6m), SW Germany +29.6% (2014: PLN 17.1m, 2015: PLN 22.2m). Revenue generated by SW Europe also rose, by +10.8% (2014: PLN 229.2m, 2015: PLN 254.1m). The changes were partly offset by lower revenue generated by some other companies: SW Corporation -15.5% (2014: PLN 79.7m, 2015: PLN 67.4m) and SW Allied (India) -5.7% (2014: PLN 35.9m, 2015: PLN 33.9m).

The Group reported total revenue of PLN 481.5m, up PLN 42.5m (or +9.7% year on year).

In 2015, the Group companies secured new orders with an aggregate value of PLN 634m, up by 53% on the previous year (PLN 413m). As a result, the Group's order book at the end of 2015 also considerably expanded relative to the previous year, to PLN 422m (end of 2014: PLN 277m).

2015 saw significant changes in the structure of sales. The Group reported higher sales in the segments of Melting Furnaces (+42%), Aluminium Process (+38%), CAB (+5%), and spare parts and maintenance services (+27%), and lower sales in the Atmosphere Furnaces (-34%) segment. Sales in the Aluminium Process segment remained broadly unchanged relative to the previous year.

Geographically, the Group posted the strongest sales increase in the EU (+65%). In 2015, the EU market accounted for almost 44% of the total sales, which indicates the market's increased absorptive capacity and the efficiency of the

Company's sales efforts. The largest declines were reported for the Russian and US markets, down 41% and 13%, respectively. On the Asian market sales volumes remained virtually unchanged year on year.

Gross profit came in at PLN 99.631m, i.e. 5.3% down on the previous year, despite the stronger revenue figures.

As disclosed in the 2015 consolidated full-year accounts, distribution costs and administrative expenses rose by PLN 6.4m on 2014. Almost the entire amount of the increase is attributable to foreign exchange fluctuations: in 2014, the average PLN/USD exchange rate was 3.1784, while the 2015 results of SW Corporation and Retech LLC were translated at the average exchange rate of 3.7928.

In 2015, the Company reported significant net other expenses, primarily reflecting impairment losses on past due receivables from external customers in SW Allied (PLN 8.2m) and SW Corporation (PLN 1.6m), and impairment losses, on goodwill of Retech LLC (PLN 30m) and SW Corporation (PLN 5.8m). As a result of these adjustments, the Group posted EBIT loss of PLN -40.3m compared with the PLN -15.1m loss a year before.

Taking into account the one-off transactions discussed above, as well as tax expenses, and profit or loss attributable to non-controlling interests, the SECO/WARWICK Group posted a net loss for 2015 of PLN -49.675m (in 2014: PLN -15.697m).

STATEMENT OF FINANCIAL POSITION

Compared with 2014, 2015 saw a 4.1% increase in total assets (from PLN 475.0m to PLN 494.5m). Non-current assets fell -8.6%, following the recognition of goodwill impairment and despite capital expenditure on property, plant and equipment. Current assets increased by 13.3%, and the ratio of non-current assets to current assets fell from 72% to 58%. In current assets, the largest increase was seen in trade and other receivables, and in cash. Inventories declined slightly, while assets from settlement of contracts remained unchanged.

In equity and liabilities, in 2015 there was a year-on-year rise in non-current liabilities (+57%) and in current liabilities (+32%), with a -27% decline in equity. In non-current liabilities, the largest growth was seen in 'Borrowings and other debt instruments', the reason being that in 2015 SECO/WARWICK S.A. contracted an additional investment facility to finance the purchase of its own shares. As at December 31st 2015, the total amount drawn under the facility was PLN 26,844,575. In current liabilities, the largest growth was reported under 'Contract settlement' – up by almost PLN 59m year on year. Changes in equity were attributable to the 2015 financial loss and the purchase of own shares.

As a result, there was a marked change in the structure of equity and liabilities. The share of equity in total equity and liabilities fell from 51% to 36% at the end of 2015. As a result, at the end of 2015, non-current liabilities were the principal source of financing for the SECO/WARWICK Group, and the equity to liabilities ratio changed from 103% to 55%.

The current and quick ratios changed slightly year on year, and stood at 1.2 and 1.1, respectively (1.4 and 1.3 in 2014). The cash ratio remained unchanged year on year, at 0.2. The ratios indicate that the Company operates in a stable manner and is able to pay all its current liabilities when due.

The higher revenue in 2015 caused changes in efficiency ratios. The average collection period shortened from 78 to 75 days. Inventory turnover improved from 38 to 34 days, while the average payment period was 211 days (compared with 199 days in 2014). The asset turnover ratio, in particular with respect to non-current assets (4.8), attests to the good use of the Group's production potential.

STATEMENT OF CASH FLOWS

In 2015, the Group generated positive operating cash flows of PLN 43.4m, up 24% on the PLN 35m generated in 2014. The largest items of operating cash flows were the change in accruals and deferrals and contracts (PLN 68.8m), change in current liabilities (PLN -21.6m), and other adjustments (PLN 36.8m), which included goodwill impairment at Retech LLC and SW Corporation.

In 2015, cash flows from investing activities were PLN -23.5m (2014: PLN -26.1m), of which PLN 18.8m was spent on investment in non-current assets and intangible assets, mostly at SW Europe.

Cash flows from financing activities included mainly increases in, and repayments of, borrowings and other debt instruments, and dividend distributions. On February 3rd 2015, SECO/WARWICK S.A. ex

Cash flows from financing activities included mainly increases in, and repayments of, borrowings and other debt instruments, and dividend distributions. On February 3rd 2015, SECO/WARWICK S.A. executed a PLN 41,250,000 investment credit agreement with mBank S.A. of Warsaw. The facility was contracted to finance the purchase of up to 1,500,000 of Company shares. As at December 31st 2015, the total amount drawn under the facility was PLN 26.8m. The transaction accounted for a majority of the Group's cash provided by financing activities. Cash used in financing activities included the purchase of own

shares, repayment of borrowings and other debt instruments, and interest payments. In 2015, capital expenditure exceeded the amount of contracted borrowings. Net cash flows from financing activities totalled PLN -8.7m.

As a result, as at the end of 2015 cash grew year on year, to PLN 58.1m (December 31st 2014: PLN 46.8m).

Having analysed the size of the Group's order book at the end of 2015 (+52% year on year), the budgets of the individual companies, the market outlook as well as adjustments for 2015, the Management Board is optimistic about the Company's prospects despite the loss sustained, while realising that the achievement of its long-term strategic goals may be delayed. The 2015 results were affected by a number of adjustments. Also, some operating segments were affected by costs related to contract performance issues. The 2015 revenue also suffered due to the low backlog at the end of 2014. Impairment losses on investments (Retech LLC, SW Corporation) and impairment losses on receivables from external customers (SW Allied, SW Corporation) affected the consolidated accounts.

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

For an analysis and assessment of factors and non-recurring events and their effect on the Group'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:

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

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

The first and the largest market from which the Group sources production materials is the domestic market. It is followed by the EU (where Germany is the largest supplier). The U.S. market is the third supply market for the Group in terms of both importance and volume.

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

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

The markets in which the customers buying the Group'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 Group 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 customers for the Group's products represents a major part of the economy and its development follows the development of the GDP. In 2015, no single customer represented 10% or more of the Group's total revenue.

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

In 2015, SECO/WARWICK S.A. and other SECO/WARWICK Group companies signed the following significant agreements:

In Current Report No. 2/2015, the Management Board of SECO/WARWICK S.A. announced that between November 14th 2014 and January 13th 2015 the Company's subsidiaries SECO/WARWICK EUROPE Sp. z o.o. and Retech Systems LLC, USA, executed with HSBC twelve forward contracts to sell a total of EUR 1,726,185 (PLN 7,272,110), nine forward contracts to sell a total of USD 5,123,000 (PLN 17,880,807), and one forward contract to sell GBP 3,888,500 (PLN 21,380,140). The value of the forward contracts totals PLN 46,533,057.

In Current Report No. 3/2015, the Management Board of SECO/WARWICK S.A. announced that on January 16th 2015 it was notified that a subsidiary SECO/WARWICK EUROPE of Świebodzin executed a contract with ECOTITANIUM of France for the construction and delivery of titanium refining, recycling, purification and melting equipment. The total value of the contract exceeds 10% of SECO/WARWICK S.A.'s equity.

In Current Report No. 4/2015, the Management Board of SECO/WARWICK S.A. announced that between May 13th 2014 and January 16th 2015 SECO/WARWICK EUROPE Sp. z o.o., the Company's subsidiary, executed with mBank S.A. twelve forward contracts to sell a total of EUR 2,840,000 (PLN 11,835,918), six forward contracts to sell a total of RUB 53,581,000 (PLN 4,418,261), three forward contracts to sell a total of CZK 23,000,000 (PLN 3,498,300), and one forward contract to sell a total of USD 5,150,000 (PLN 19,144,610). The value of the forward contracts totals PLN 38,897,088.

In Current Report No. 5/2015, the Management Board of SECO/WARWICK S.A. announced that between September 3rd 2014 and January 16th 2015 SECO/WARWICK EUROPE Sp. z o.o., the Company's subsidiary, and Bank Handlowy w Warszawie S.A. of Warsaw executed twenty one forward contracts to sell a total of EUR 2,004,000 (PLN 8,417,972) and two forward contracts to sell a total of USD 5,150,000 (PLN 19,144,610). The value of the forward contracts totals PLN 27,562,582.

In Current Report No. 6/2015, the Management Board of SECO/WARWICK S.A. announced that between July 18th 2014 and January 16th 2015 SECO/WARWICK EUROPE Sp. z o.o., the Company's subsidiary, and Raiffeisen Bank Polska S.A. of Warsaw executed thirty-two forward contracts to sell a total of EUR 5,569,296 (PLN 23,448,117) and three forward contracts to sell a total of USD 5,270,000 (PLN 19,333,298). The value of the forward contracts totals PLN 42,781,415.

In Current Report No. 10/2015, the Management Board of SECO/WARWICK S.A. announced that on February 3rd 2015 it executed a credit facility agreement with mBank S.A. of Warsaw. Under the agreement, the Bank granted a PLN 41,250,000 investment credit facility to the Borrower. The facility was contracted to finance the repurchase of up to 1,500,000 Company's own shares under the share buyback programme established pursuant to resolution No. 5 of the Company's Extraordinary General Meeting of October 30th 2014. As at December 31st 2015, the total amount drawn down under the facility was PLN 26,844,575, and the final repayment date is January 31st 2020.

In Current Report No. 17/2015, the Management Board of SECO/WARWICK S.A. announced that on February 24th 2015 the Company provided a corporate performance bond in respect of the obligations of its subsidiary SECO/WARWICK Europe sp. z o.o., for the benefit of ECOTITANIUM of France. The value of the bond is equal to the aggregate value of the subsidiary's obligations under an agreement for the construction and delivery of equipment for titanium refining, recycling, purifying and melting, which exceeds 10% of the Company's equity. The bond will remain in effect until all the obligations under the agreement and the bond are fully discharged.

In Current Report No. 18/2015, further to Current Report No. 21/2012 dated July 6th 2012, the Management Board of SECO/WARWICK S.A. announced that the Company signed amendments extending the expiry dates of sureties provided with respect to the obligations of RETECH SYSTEMS LLC, USA. The sureties were provided as security for credit and guarantee facilities granted by HSBC BANK USA, N.A. The sureties are provided for up to USD 5,500,000 (five million and five hundred thousand dollars) and USD 16,000,000 (sixteen million dollars), and cover the repayment of the principal along with interest, commissions, fees and costs arising under the agreement. The zloty amount of the sureties is approximately PLN 84,153,150. The sureties will remain effective until June 30th 2018.

In Current Report No. 28/2015, the Management Board of the Company announced that on June 2nd 2015 it was notified that SECO/WARWICK EUROPE of Świebodzin, a subsidiary, secured a contract from OJSC RUSAL Krasnoyarsk of Russia for the construction and delivery of equipment for continuous homogenizing of ingots. The contract remains in effect until January 20th 2017. The total value of the contract exceeds 10% of SECO/WARWICK S.A.'s equity.

In Current Report No. 29/2015, the Management Board of SECO/WARWICK S.A. announced that between January 22nd 2015 and June 30th 2015 sixteen forward contracts to sell a total of EUR 1,977,000 (PLN 8,236,534), seven forward contracts to sell a total of GBP 1,025,000 (PLN 5,718,320), and three forward contracts to sell a total of USD 585,000 (PLN 2,138,292) were entered into by the Company's subsidiary SECO/WARWICK EUROPE Sp. z o.o. with mBank S.A. The value of the forward contracts totals PLN 16,093,145.

In Current Report No. 32/2015, the Management Board of SECO/WARWICK S.A. announced that between February 4th 2015 and August 6th 2015 SECO/WARWICK EUROPE Sp. z o.o., the Company's subsidiary, and Raiffeisen Bank Polska S.A. of Warsaw executed twelve forward contracts to sell a total of EUR 4,332,000 (PLN 18,004,975).

In Current Report No. 33/2015, the Management Board of SECO/WARWICK S.A. announced that between January 16th and August 7th 2015 SECO/WARWICK EUROPE Sp. z o.o., a subsidiary of the Company, and HSBC Bank Polska S.A. of Warsaw executed five forward contracts to sell a total of EUR 1,530,000 (PLN 6,275,317), and five forward contracts to sell a total of USD 2,825,000 (PLN 10,708,439). The value of the forward contracts totals PLN 16,983,756.

In Current Report No. 34/2015, the Management Board of SECO/WARWICK S.A. announced that on September 18th 2015 together with a subsidiary SECO/WARWICK Europe Sp. z o.o. it signed an annex to the trilateral framework agreement on a revolving bank guarantee facility with Bank Handlowy w Warszawie Spółka Akcyjna of Warsaw. Under the annex, the Bank granted the Company a revolving bank guarantee facility of USD 6,000,000 (PLN 22,042,800), available until July 5th 2016. The Company's subsidiary SECO/WARWICK Europe already has a PLN 8,000,000 guarantee facility with Bank Handlowy, which expires on December 28th 2015.

In Current Report No. 35/2015, the Management Board of SECO/WARWICK S.A. announced that between July 8th and October 1st 2015 SECO/WARWICK EUROPE Sp. z o.o., a subsidiary of the Company, and mBank S.A. executed sixteen forward contracts to sell a total of EUR 3,526,065 (PLN 14,823,752), and two forward contracts to sell a total of USD 900,000 (PLN 3,449,340). The total value of the contracts is PLN 18,273,092.

In Current Report No. 36/2015, the Management Board of SECO/WARWICK S.A. announced that since June 2nd 2015 (i.e. the date of Current Report No. 28/2015 on the value of business with OJSC RUSAL) the Company's subsidiary SECO/WARWICK EUROPE of Świebodzin has executed contracts with OJSC RUSAL of Russia with a total value of EUR 6,244,000.00 (PLN 26,704,963.60). The largest of these contracts provides for the manufacture and delivery of ten foil annealing furnaces. The contract is to be completed by April 21st 2017.

In Current Report No. 39/2015, the Management Board of SECO/WARWICK S.A. announced that between August 10th 2015 and December 15th 2015 SECO/WARWICK EUROPE Sp. z o.o., the Company's subsidiary, and HSBC Bank Polska S.A. of Warsaw executed twenty-three forward contracts to sell a total of EUR 4,322,000 (PLN 18,372,072).

In Current Report No. 40/2015, the Management announced that it was notified that between August 7th and December 18th 2015 SECO/WARWICK EUROPE Sp. z o.o., the Company's subsidiary, and Raiffeisen Bank Polska S.A. of Warsaw executed five forward contracts to sell a total of USD 1,920,000 (PLN 7,358,592) and ten forward contracts to sell a total of EUR 2,105,000 (PLN 8,926,631). The value of the forward contracts totals PLN 16,285,233.

In 2015, 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 the Group other than arm's length transactions

In 2015, SECO/WARWICK S.A. and its subsidiaries did not enter into any transactions with related entities other than transactions executed on an arms' length basis.

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

Current and non-current bank and other borrowings as at December 31st 2015

Lender	Borrowing amount		Repayment date	Security	Interest rate	Type
	PLN '000	Currency '000				
HSBC Bank	1,951	500 USD	-	SBLC	constant	Overdraft facility
HSBC Bank	136	226 CNY	03.2016	gwarancja	constant	Overdraft facility
CITI BANK	4,338	7,220 CNY	03.2016	SBLC	constant	Overdraft facility
CITI BANK	472	121 USD	10.2016	SBLC	constant	Overdraft facility
Toyota Kreditbank	107	25 EUR	01.11.2018	-	constant	Overdraft facility
BNP Paribas	37	9 EUR	15.11.2017	-	constant	Overdraft facility
Mercedes Benz	17	4 EUR	30.05.2017	-	constant	Overdraft facility
Commerzbank	1,278	300 EUR	31.10.2017	-	constant	Overdraft facility
Commerzbank	361	85 EUR	31/10/2017	-	constant	Overdraft facility
Toyota	36	8 EUR	31.07.2020	-	constant	Overdraft facility
Toyota	60	14 EUR	15.02.2021	-	constant	Overdraft facility
Toyota	97	23 EUR	15.05.2021	-	constant	Overdraft facility
Toyota	104	25 EUR	15.05.2021	-	constant	Overdraft facility
Toyota	106	25 EUR	15.06.2021	-	constant	Overdraft facility
CITI BANK	493	500 BRL	31/05/2016	SBLC	constant	Overdraft facility
CITI BANK	591	600 BRL	31/05/2016	SBLC	constant	Overdraft facility
CITI BANK	1,445	1,467 BRL	31/05/2016	SBLC	constant	Overdraft facility
Aparicio Freitas	181	183 BRL	-	-	constant	Overdraft facility
Yassuhiro	181	183 BRL	-	-	constant	Overdraft facility
Union Bank of India	1,812	30,733 INR	13.09.2021	-	constant	Overdraft facility
Union Bank of India	4,902	83,131 INR	-	-	constant	Overdraft facility
Union Bank of India	3,904	66,221 INR	-	-	constant	Overdraft facility
HSBC Bank	4,411	74,813 INR	-	SBLC	constant	Overdraft facility
Corporation Bank	59	1,000 INR	-	-	constant	Overdraft facility
HSBC Bank	586	9,938 INR	-	SBLC	constant	Overdraft facility
Citi Bank N.A.	4,349	73,765 INR	-	SBLC	constant	Overdraft facility
Kotak Mahindra Bank	853	14,465 INR	10.10.2018	-	constant	Overdraft facility
Union Bank of India	73	1,237 INR	29.08.2017	-	constant	Overdraft facility
Union Bank of India	36	604 INR	30.08.2020	-	constant	Overdraft facility
Union Bank of India	31	525 INR	30.08.2020	-	constant	Overdraft facility
SW Allied shareholders	3,157	53,503 INR	-	-	-	Preference shares (1)
BRE	49	-	-	-	-	Credit card limit
BRE	2	1 USD	-	-	-	Credit card limit
BRE	105	25 EUR	-	-	-	Credit card limit
mBANK S.A.	26,845	-	31.01.2020	hipoteka, poręczenie cywilno-prawne SECO/WARWICK EUROPE Sp. z o.o., blokada papierów wartościowych	variable	Overdraft facility

Bank Handlowy	6,156	1,578 USD	27.04.2018	hipoteka do kwoty 3.750 tys. USD, poręczenie cywilno- prawne SECO/WARWICK EUROPE Sp. z o.o.	variable	Overdraft facility
Total:	69,319					

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

Contingent liabilities under guarantees issued amounted to PLN 75,507 thousand as at the end of 2015, and to PLN 67,050 thousand as at the end of 2014. The guarantees were issued in respect of:

- APG → advance payment guarantee
- BB → bid bond
- CRG → credit repayment guarantee
- PBG → performance bond guarantee
- SBLC → stand-by letter of credit
- WAD → bid bond guarantee
- CRB → credit repayment bond

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

No loans were advanced to Management Board or Supervisory Board members in 2015.

On August 11th 2015, SECO/WARWICK S.A. advanced a USD 420 thousand loan to its subsidiary, SECO/WARWICK Corporation. The loan amount in the Polish currency is PLN 1,600 thousand.

On July 17th 2015, SECO/WARWICK Europe Sp. z o.o. advanced a RUB 6,000 thousand loan to SECO/WARWICK Rus. The loan amount in the Polish currency is PLN 398 thousand.

On September 9th 2015, SECO/WARWICK Europe Sp. z o.o. advanced a EUR 208 thousand loan to SECO/WARWICK Rus. The loan amount in the Polish currency is PLN 876 thousand.

On September 23th 2015, SECO/WARWICK Europe Sp. z o.o. advanced a EUR 10 thousand loan to SECO/WARWICK France. The loan amount in the Polish currency is PLN 42 thousand.

Total value of loan write-downs as at December 31st 2015 was PLN 2,436 thousand.

In 2015, SECO/WARWICK S.A. did not advance loans to any non-related parties.

18. Assessment (and grounds for the assessment) of financial resources management, including in particular an assessment of the Group's ability to repay its liabilities, as well as an identification of threats, if any, and measures used or intended to be used by the Group to mitigate such threats; feasibility of planned investments, including equity investments, in view of the funds available to the Group; possible changes in the financing of the investments

As at December 31st 2015, the SECO/WARWICK Group's debt under investment and overdraft facilities was PLN 63,319 thousand, which represents an increase compared with debt of PLN 45,822 thousand as at the end of 2014.

The funds and credit facilities available to the Group were sufficient to finance investments and capital expenditure planned for and executed in 2015.

The Parent's Management Board believes that as at the end of the reporting period there was no threat of a Group company's failure to meet its liabilities.

The table below presents the liquidity ratios of the Group.

LIQUIDITY RATIOS	Dec 31 2015	Dec 31 2014
Current ratio	1,2	1.4
Quick ratio	1,1	1.3
Cash ratio	0,2	0.2

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

No such events occurred in 2015.

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 2015 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 Group's exposure to such risks or threats

In the course of its operating and financing activities, the SECO/WARWICK Group is exposed to risks arising mainly in connection with the financial instruments held. Those risks may be broadly defined as market risk, comprising currency risk, interest rate risk, liquidity risk and credit risk. The objective behind the Group'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 within the Group are determined by the Parent's 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 for the Group companies.

21.1 Currency risk

Its active international presence and a broad geographical reach require the Group to enter into transactions like sales and purchase denominated in foreign currencies. Some of the Group's borrowings and other financial liabilities are also denominated in foreign currencies. This exposes the Group to the risk of exchange rate fluctuations.

Foreign-currency financial assets and liabilities translated into PLN using the closing exchange rate prevailing at the reporting date:

	As at Dec 31 2015 in foreign currency	As at Dec 31 2015 in PLN	As at Dec 31 2014 in foreign currency	As at Dec 31 2014 in PLN
Liabilities				
EUR	1,874	7,987	1,003	4,273
USD	4,202	16,391	6,846	24,011
Assets				
EUR	17,311	73,769	15,961	68,031
USD	9,087	35,451	9,446	33,130
Notional amount of hedging instrument				
EUR	21,990	93,710	21,249	90,570
USD	21,666	84,521	11,140	39,070
Goodwill				
EUR	406	1,730	406	1,730

USD	9,860	38,464	19,054	66,827
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The Group is mainly exposed to foreign currency risk related to EUR and USD.

Presented below is a sensitivity analysis for financial assets and liabilities, showing the effect of movements in the EUR/PLN, USD/PLN exchange rates on the Company's profit or loss and other comprehensive income.

Assumptions:

exchange rate at reporting date Dec 31 2015

+ 10% increase in exchange rate

- 10% decrease in exchange rate

Effect on equity		Effect of USD		Effect of EUR	
		Period ended		Period ended	
		Dec 31 2015	Dec 31 2014	Dec 31 2015	Dec 31 2014
ASSETS					
Increase in exchange rate	10%	7 392	21 740	7 550	6,976
Decrease in exchange rate	-10%	-7 392	-21 740	-7 550	-6,976
LIABILITIES AND BORROWINGS					
Increase in exchange rate	10%	-10 091	-11 726	-10 170	-9,484
Decrease in exchange rate	-10%	10 091	11 726	10 170	9,484
TOTAL					
Increase in exchange rate	10%	-2 700	10 014	-2 620	-2,508
Decrease in exchange rate	-10%	2 700	-10 014	2 620	2,508
Effect on profit/loss		Effect of USD		Effect of EUR	
		Period ended		Period ended	
		Dec 31 2015	Dec 31 2014	Dec 31 2015	Dec 31 2014
ASSETS					
Increase in exchange rate	10%	3 545	3 158	7 377	6,803
Decrease in exchange rate	-10%	-3 545	-3 158	-7 377	-6,803
LIABILITIES AND BORROWINGS					
Increase in exchange rate	10%	-10 091	-5 373	-10 170	-9,484
Decrease in exchange rate	-10%	10 091	5 373	10 170	9,484
TOTAL					
Increase in exchange rate	10%	-6 546	-2 215	-2 793	-2,681
Decrease in exchange rate	-10%	6 546	2 215	2 793	2,681

The currency risk exposure changes over the year, depending on the volume of transactions executed in foreign currencies. Nevertheless, the above sensitivity analysis is considered to be representative of the Group's exposure to foreign currency risk.

Exchange rate at Dec 31 2015	Exchange rate	+ 10% increase in exchange rate	- 10% decrease in exchange rate
USD	3.9011	0.3901	-0.3901
EUR	4.2615	0.4262	-0.4262

Exchange rate at Dec 31 2014	Exchange rate	+ 10% increase in exchange rate	- 10% decrease in exchange rate
USD	3.5072	0.351	-0.351
EUR	4.2620	0.426	-0.426

21.2 Interest rate risk

The Group companies use interest-bearing liabilities. Therefore, the Group is exposed to interest rate risk, with the risk assessment presented based on a 1% increase/decrease in interest rates.

	Effect on profit/loss before tax	Effect on profit/loss before tax
	+ 1%/- 1%	+ 1%/- 1%
	Year ended Dec 31 2015	Year ended Dec 31 2014
Lease liabilities	+/- 20	+/- 14
Other financial liabilities at amortised cost	+/- 693	+/- 471

For the purposes of the assessment the average interest rate was assumed at 7.4% for 2015 and 7.0% for 2014. Total borrowings in 2015 amounted to PLN 69,319 (2014: PLN 47,075). The effect of interest rate movements on profit or loss and equity was calculated by adding/deducting 1pp to/from the average interest rate.

The objective of interest rate risk management is to reduce to an acceptable level by the Group to adverse changes in market interest rates on cash flows.

21.3 Liquidity risk

Liquidity risk is the risk that the Company may face problems with meeting its financial liabilities. Liquidity risk is managed by projecting future cash flows, analysing the relation of liquid assets to cash flows, monitoring liquidity ratios based on items of the statement of financial position and ensuring constant access to various sources of financing at the level of individual Group companies.

The Group also manages its liquidity risk by maintaining available unused credit facilities which serve as a liquidity reserve securing solvency and financial flexibility. The Group considers its bank borrowings as financial instruments that may potentially lead to a concentration of liquidity risk as the Company enters into cooperation with selected financial institutions only (see Note 24). As at December 31st 2015, bank borrowings represented 13% of total current liabilities (December 31st 2014: 16%).

The table below presents the Group's financial liabilities by maturity as at December 31st 2015 and December 31st 2014, based on contractual undiscounted payments.

Dec 31 2015	Payable on demand	up to 1 year	1–5 years	Over 5 years	Total as at Dec 31 2015
Trade payables	-	49,228	-	-	49,228
Leasing	-	737	1,191	-	1,928
Derivatives	-	3,197	1,699	-	4,896
Interest-bearing bank and other borrowings	-	38,355	46,377	-	84,733
Other liabilities	-	4,038	3,107	-	7,144
TOTAL	-	95,555	52,374	-	147,929

Dec 31 2014	Payable on demand	up to 1 year	1–5 years	Over 5 years	Total as at Dec 31 2014
Trade payables	-	46,541	-	-	46,541
Leasing	-	593	782	-	1,375
Derivatives	-	2,660	-	-	2,660
Interest-bearing bank and other borrowings	-	35,301	20,797	-	56,098
Other liabilities	-	7,094	984	-	8,078
TOTAL	-	92,189	22,563	-	114,752

The maturity structure of liabilities is presented in Note 27.

21.4 Credit risk

The Group operates a policy of selling its products and services only to customers whose credibility has been verified. Management believes that thanks to this policy there is no additional credit risk beyond the level defined by the impairment losses recognised with respect to uncollectible trade receivables. The Group discloses no past due receivables which would not have been deemed uncollectible.

The Group defines its exposure to credit risk as the total amount of outstanding receivables and monitors the balances owed by each customer on a regular basis. As at December 31st 2015, the share of receivables from one of the customers was in the range 10%–15% of total net trade receivables.

The maturity structure of receivables is presented in Note 19.

The Group manages credit risk to counterparties mainly through the use of the following mechanisms and techniques:

- Assessment of the financial standing of contractors, along with giving credit limits;
- Standardization of contractual provisions in the field of credit risk;
- A system of ongoing monitoring of payment;
- Ongoing monitoring of the financial condition of the counterparty.

22. Statement of compliance with corporate governance rules by the SECO/WARWICK Group in 2015

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 2015, SECO/WARWICK S.A. complied with the Code of Best Practice for WSE-Listed Companies.

The Code of Best Practice for WSE-Listed Companies is available at: www.corp-gov.gpw.pl and at: 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. applied all corporate governance principles set forth in the Code of Best Practice for WSE-Listed Companies, except for the principle defined in Section IV.10, which recommends that listed companies enable shareholders to participate in General Meetings via electronic means of communication. The reason for the non-compliance is technical constraints and high potential cost of adapting the existing system to fit the purpose. The Company does not apply the above principle or recommendations related to it. The Management Board of SECO/WARWICK S.A. would like to note that the Company's Articles of Association do not contain provisions that would allow shareholders to speak at the General Meeting from a location other than the venue of the Meeting using electronic means of communication, as permitted under the Polish Commercial Companies Code.

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

The Management Board of the Parent is responsible for the Group's internal control system and its effectiveness in the process of preparation of periodic reports and financial statements prepared and published in accordance with the Regulation 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

SECO/WARWICK EUROPE appoints a CEO Proxy for Quality Assurance and Turnover Control, who participates in the analysis of processes and, through internal audits, in the assessment of the control mechanisms. The programme of half-year internal audits is created based on the analysis of the findings of the previous audits, and taking into account the significance of particular processes in place. The audit programme is approved by the CEO, member of the Management Board, and is implemented by a team of auditors. Apart from scheduled audits, there are also audits reviewing the conclusions of 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 company as a whole, they are introduced, if necessary, by the Proxy in the system documentation.

d. Shareholders holding, directly or indirectly, major holdings of shares
Table: Shareholders holding – directly or indirectly through subsidiaries – 5% or more of the total vote at the General Meeting as at December 31st 2015 and as at the date:

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of total vote at General Meeting
SW Holding	3,387,139	31.54%	3,387,139	31.54%
Spruce Holding Limited Liability Company (USA)	1,123,337	10.46%	1,123,337	10.46%
SECO/WARWICK S.A. ⁽¹⁾	1,041,783	9.70%	1,041,783	9.70%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	904,794	8.43%	904,794	8.43%
Bleauhard Holdings LLC	637,028	5.93%	637,028	5.93%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	600,000	5.59%	600,000	5.59%
Metlife OFE	577,470	5.38%	577,470	5.38%

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

⁽¹⁾ Treasury shares; the Company does not exercise voting rights in respect of treasury shares.

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 General Meeting
SW Holding	3,387,139	31.54%	3,387,139	31.54%
Spruce Holding Limited Liability Company (USA)	1,123,337	10.46%	1,123,337	10.46%
SECO/WARWICK S.A. ⁽¹⁾	1,041,783	9.70%	1,041,783	9.70%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	904,794	8.43%	904,794	8.43%
Bleauhard Holdings LLC	637,028	5.93%	637,028	5.93%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	600,000	5.59%	600,000	5.59%
Metlife OFE	577,470	5.38%	577,470	5.38%

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

⁽¹⁾ Treasury shares; the Company does not exercise voting rights in respect of treasury shares.

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

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

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

There are no restrictions 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

Further to Current Report No. 29 published in 2013, the Management Board of SECO/WARWICK S.A. announced that on February 5th 2015 it was notified of execution by the following shareholders of the Company:

- 1) SW Holding sp. z o.o. ("SWH"), holding 3,387,139 Company shares as at the date of the report,
- 2) Spruce Holding Limited Liability Company ("SHLLC"), holding 1,419,294 Company shares as at the date of the report,

3) Bleauhard Holdings LLC ("BHLLC"), holding 743,456 Company shares as at the date of the report, (SWH, SHLLC and BHLLC jointly referred to as the "Shareholders") of a share lock-up agreement (the "Agreement").

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

- 1) 3,387,139 Company shares held by SWH,
- 2) 1,000,000 Company shares held by SHLLC, and
- 3) 593,456 Company shares held by BHLLC.

The lock-up restrictions imposed under the Agreement remain in effect until December 31st 2016, but they may expire before that date in certain circumstances agreed by the Parties in the Agreement.

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 buyback 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 require a resolution of the Management Board.

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

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

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

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

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

The General Meeting operates according to the Rules of Procedure for the General Meeting of SECO/WARWICK S.A., adopted by virtue of Resolution No. 26 of the SECO/WARWICK S.A. General Meeting of May 28th 2012. The General Meeting may only be attended by persons who are the Company's shareholders sixteen days prior to the date of the General Meeting. The record date for participation in the General Meeting is the same for the holders of rights under bearer and under registered shares. (Art. 406 [1] of the Commercial Companies Code) Holders of rights under registered shares and provisional certificates, as well as pledgees and usufructuaries holding voting rights, are entitled to participate in the General Meeting of a public company only if they are entered in the share register as at the record date (Art. 406 [2] of the Commercial Companies Code) The General Meeting may be attended by persons whose presence is considered indispensable by the Supervisory Board or Management Board (Par. 4 of the Rules of Procedure for the General Meeting).

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

Depending on their subject matter, resolutions of the General Meeting are adopted by the majority of votes required by the Company's Articles of Association, the Commercial Companies Code, or other generally applicable laws (Par. 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 2015, the Annual General Meeting of SECO/WARWICK S.A., formally convened, was held on May 26th 2015. The General Meeting was convened at the request of the Management Board. No requests to convene a General Meeting were submitted by shareholders in 2015.

The General Meeting was held in accordance with the Commercial Companies Code, the Rules of Procedure for the General Meeting of SECO/WARWICK S.A. and the Code of Best Practice for WSE-Listed Companies. The shareholders were afforded the opportunity to read draft resolutions for the General Meeting as these were published on the Company's website and in Current Report No. 23/2015 of April 29th 2015 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 Annual General Meeting 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, allocation of profit for the financial year 2014, approval of the Directors' Report on the Group's operations and the consolidated financial statements of the SECO/WARWICK Group for the financial year 2014, and granting discharge in respect of performance of duties to members of the Company's governing bodies. The General Meeting also passed resolutions on setting the number of members of the Supervisory Board of the new term of office; removal of Zbigniew Wiaczesław Rogóż from the position of Supervisory Board member; appointment of Marcin Murawski as member of the Supervisory Board of the new term; setting the remuneration for the Supervisory Board members; accepting the Management Board's notification, given in compliance with Art. 363.1 of the Commercial Companies Code, of the acquisition of the Company's own shares.

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 2015 by the General Meeting were aimed at serving the interest of the Company, with due consideration given to other stakeholders' rights. The resolutions adopted by the General Meeting were published on the Company's website at: www.secowarwick.com

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

Management Board

Composition of the Management Board

As at December 3rd 2015, 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

From December 3rd 2015 to the issue date of this Report, the composition of the Company's Management Board was as follows:

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

Operation of the Management Board

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

The Management Board is the executive body of the Company, managing its current operations and representing it in relations with third parties. The powers of the Management Board include all matters which do not fall within the exclusive scope of competence of the General Meeting or the Supervisory Board. A decision to acquire or dispose of 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 the 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 is defined in resolutions passed by the Company's Supervisory Board on February 1st 2007, April 28th 2008, January 12th 2012, December 13th 2012 and December 5th 2013. 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.

As at May 26th 2015, the composition of the Supervisory Board of SECO/WARWICK S.A. was as follows:

Andrzej Zawistowski – Chairman of the Supervisory Board
Henryk Pilarski – Deputy Chairman of the Supervisory Board
Witold Klinowski – Member 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

From May 26th 2015 to the issue date of this Report, the composition of the Supervisory Board was as follows:

Andrzej Zawistowski – Chairman of the Supervisory Board
Henryk Pilarski – Deputy Chairman of the Supervisory Board
Witold Klinowski – Member of the Supervisory Board
Jeffrey Boswell – Member of the Supervisory Board
James A. Goltz – Member of the Supervisory Board
Marcin Murawski – Member of the Supervisory Board
Gutmann Habig – 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 2015, 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 2015, members of the Supervisory Board informed the Company's Management Board of their acquisition or disposal of SECO/WARWICK S.A. shares.

In 2015, 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 Code of Best Practice for WSE-Listed companies.

Committees of the Supervisory Board

In 2015, an Audit Committee operated within the Supervisory Board, as the analytical and controlling body, according to the Rules of Procedure of the Supervisory Board and the guidelines set out in the Code of Best Practice for WSE Listed Companies. Its activities included in particular:

1. monitoring of the financial reporting process,
2. monitoring of risk management systems used to control key risks to which the Company was exposed,
3. monitoring of the operating risks of the Group companies based abroad (India, China, Brazil and Russia),
4. monitoring of compliance with the auditor's instructions,
5. verification of information which relates to the Company and is intended for publication,
6. submission of recommendations concerning appointment of an auditor, and
7. meetings with auditing firms.

As at December 31st 2015, the composition of the Audit Committee was as follows:

1. Henryk Pilarski
2. Marcin Murawski
3. Witold Klinowski

I. policy for sponsorship and charitable activities and activities of a similar nature

It follows from the documents and Management Board's explanations submitted to the Supervisory Board that in the financial year 2015 the Company undertook the following activities and incurred the following expenses connected with sponsorship or charitable activities:

- Parafia Św. Michała Archanioła Świebodzin,
- Dolnośląska Fundacja Rozwoju Ochrony Zdrowia DOLFROZ,
- Parafia Narodzenia N.M.P Wilkowo,
- Parafia Miłosierdzia Bożego Świebodzin,
- Dom Dziecka nr 2 Świebodzin,
- Publiczne Przedszkole nr 7 Świebodzin,
- Polski Związek Działkowców "Jedność" Świebodzin.

Total amount of sponsorship and charitable activities expenses is PLN 7 thousand.

23. Court, arbitration and administrative proceedings

Seco/Warwick Corporation (SWC), a subsidiary of the Issuer, with its registered office in Pennsylvania, USA, along with a third party not associated with the Issuer ("Third Party"), are parties to a court dispute with Liberty Mutual Insurance (LMI), in which they claim from LMI additional insurance limits for continued product liability insurance coverage under insurance policies issued to the Third Party in 1980-1986. SWC and the Third Party are seeking coverage for the claims being raised against SWC and the Third Party in connection with product liability personal injury lawsuits filed by individuals alleging injury from asbestos as a result of their exposure to the Third Party's products manufactured by legal predecessors of SWC and the Third Party in 1958-1984 (the Asbestos Claims). SWC was not established until 1984, and was not a part of the Issuer's Group until 2006.

SWC and the Third Party have alleged in court that the insurance policy contract entered into by LMI extends additional coverage to the Asbestos Claims, including the costs of settlements entered into with injured parties and the legal costs in connection with verifying the legitimacy of such claims and negotiating such settlements. LMI claims that the policy limits

have been exhausted, citing certain special provisions of the insurance policy. SWC and the Third Party disagree with LMI's contract interpretation.

To the best of the Issuer's knowledge, by the date of this Report, 517 Asbestos Claims have been filed against SWC, out of which 164 such Claims were rejected, 35 Claims ended in settlements entered into by LMI for the total amount of USD 3m, and 318 Claims are being verified or negotiations of the terms of settlements, if any, with injured parties are being conducted in respect thereof.

Should no agreement be reached with LMI on continued insurance coverage for SWC or should the lawsuit against LMI be dismissed in this respect, there arises the risk that SWC will be forced to bear the costs relating to the Asbestos Claims while SWC and the Third Party pursue the excess carriers to take over the asbestos product liability claims.

To the best of the Issuer's knowledge, the risk of SWC being forced to bear further costs relating to the Asbestos Claims is not significant, as the Third Party holds other excess insurance policies contracted with other insurance companies, which policies can, according to the information received from SWC, cover the Asbestos Claims.

As at the date of this Report, the Issuer is not able to reliably estimate the total amount of its contingent liability related to the claims discussed above. The Issuer will publish any important information regarding the matter.

24. External and internal factors relevant to the growth of the Group's business; description of development prospects for the Group'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 Group's market strategy

External factors:

- The Group's financial performance will be driven to a large extent by the macroeconomic conditions prevailing on the markets where the Group companies operate or which they plan to enter. The rate of the Group'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 the Group's strategic objectives may be hindered by competition. If competitive pressures intensify, especially in Asian markets, they may adversely affect the Group's ability to meet its planned financial results.
- Foreign exchange rates, particularly the EUR/PLN rate, are a significant factor for the development of the Group's business. However, the Group actively mitigates 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 the SECO/WARWICK Group depends on its ability to retain highly-skilled professionals in managerial and specialist positions. In the sector where the Parent operates, as in many other sectors of the Polish economy, remuneration of highly qualified staff is lower compared with other EU countries, which may encourage employees to seek employment abroad. The Parent is actively trying to mitigate this risk by implementing such measures as a share-based incentive scheme or a financial assistance programme designed to help finance the costs of university and specialist courses. Retention of the highly-qualified staff in the mid- and long-term perspective may result in an increase in employment costs, which in turn may reduce the profitability of the Group's business.

25. Major achievements in research and development

In 2015, the Research and Development division of the SECO/WARWICK Group worked on the following projects:

A number of new R&D projects were launched in 2015:

- Developing a ZeroFlow gas nitriding furnace with ion-induced steel activation capabilities – developing the ion-induced activation technology (implementation at a customer's site is currently in progress).
- Developing an innovative walking beam for pass-through aluminium homogenising furnaces to prevent the heated feed from moving around and being damaged (implementation at a customer's site is currently in progress).

- Developing a continuous sulphur feeding system designed to create a protective atmosphere for the heat treatment of magnesium alloys (implementation at a customer's site is currently in progress).
- Preparing a grant application in connection with R&D efforts concerning the UniCase Master furnace and technology – the National Centre for Research and Development's grant obtained.
- Preparing a construction and technological concept for producing nanostructures in a gas-cooled vacuum furnace. Funds are being raised to launch an R&D project in collaboration with the Warsaw University of Technology.
- Developing a concept for controlling and regulating the gas nitriding process using a nitrided layer kinetic growth simulator. The concept will represent the core of the R&D grant application to be submitted to the National Centre for Research and Development (Q4 2016).
- Developing a new drive for the pass-through furnace for homogenizing of ingots (lower production cost, better reliability).
- A new guide system of the soaking furnace for homogenizing of ingots – cost reduction.
- Developing a solution for modifying the atmosphere flow in CAB convection-type furnaces to ensure more efficient heating of exchangers.

Work continued in 2015 included:

- The Group's key FineCarb® and PreNitLPC® vacuum carburising technology was further developed and promoted. An expert system for process design, simulation and optimisation was further refined (in collaboration with the Łódź University of Technology). A framework agreement with the Łódź University of Technology was signed and the scope of work for the coming half-year of 2016 was specified.
- The Demonstrator project was completed (construction and launch of equipment). Its purpose was to build a multifunction intelligent (computer-controlled) modular centre for high-tech vacuum heat and surface treatment.
- A three-chamber gas-fired CME T12 vacuum furnace was tested. The project is scheduled for completion in June 2016.
- A new concept was implemented for a thermal oxidizer for oil on the CAB line with reduced gas consumption (implementation at one of the CAB plant's customers).
- SeCoil Control System – On-line simulator-based control of the aluminium sheet coils annealing process in the Vortex® Jet Heating unit – the system is continuously developed, improved and offered to new customers.
- High Efficiency Circulation System – A new high-efficiency circulation system based on a radial mixer in the Vortex® Jet Heating unit – the system is offered to customers and it is continuously developed and improved (AP, R&D, Institute of Turbomachinery of the Łódź University of Technology).
- Development of the nitrosulphuring treatment technology – implementation for further customers is planned.
- ZeroFlow® Nitriding Database – the first and most important stage of the project, i.e. preparation of the database, was completed. The database will be expanded to encompass laboratory and industrial process data.
- Multifunction ZeroFlow® Furnace – a multifunction ion-activated testing furnace for nitriding and derivative processes – the design is ready and awaiting implementation, which may begin after the grant application has been filed.
- Further development and promotion of the Expanite® technology (atmosphere furnace VTR 669).
- Last year, we continued our work on developing the ZeroFlow® nitriding technology. As Seco/Warwick's flagship solution, ZeroFlow® attracted substantial market interest.
- Development of a passivation technology – an R&D project implemented in collaboration with Jerzy Iwanow, D.Eng., of the Institute of Precision Mechanics in Warsaw – implementation attempt at a customer's site (STAV Italy).
- Implementation and development of the G60 generator with an automatic generation control system – sale and testing of further units.

- Development of new engineering solutions and launch of the HRNG 9.8.12 furnace with gas heating and vertical turbocooling systems – sale and testing of further units.

In 2015, 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.

The Group successfully organised the 18th 'Modern trends in heat treatment' seminar, which is an annual industry event in Poland. The seminar was held on September 16th–17th 2015 at the conference centre in Zbąszyń, Poland. The event was attended by some 80 guests, including customers and trade and research partners. The participants gave fifteen thematic lectures. The participants praised the seminar for its high quality, both in terms of content and organisation.

UniCase Master – a system for the treatment of gears and bearings for high-volume fully automated production in the automotive industry – it is the first solution of its kind in the world. The furnace was displayed at the Seco/Warwick stall during the Thermprocess trade fair as a working technology so the visitors had an opportunity to see not only its high quality but also the advanced solutions it offers. All of the latest "made in S/W" technologies were also presented in a dedicated 3D presentation room. 3D videos had been specially prepared to give the visitors a detailed and attractive view of SECO/WARWICK's solutions.

26. Environmental matters

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

The SECO/WARWICK Group's Polish operations are mainly regulated by the following laws:

1. Polish Environmental Protection Law of April 27th 2001 (consolidated text: Dz.U. of 2006 No. 129, item 902),
2. Polish Water Law of July 18th 2001 (consolidated text: Dz.U. of 2005 No. 239, item 2019), and
3. Polish Waste Act of April 27th 2001 (consolidated text: Dz.U. of 2007 No. 39, item 251).

In 2015, SECO/WARWICK EUROPE Sp. z o.o. used natural resources in the course of its production and trade operations in accordance with applicable laws and was charged with no penalties.

The Company holds all relevant permits for waste generation and release of gas and dust into the air. In the case of SECO/WARWICK EUROPE Sp. z o.o. the permit for waste generation expires on October 31st 2018 and the permit for release of gas and dust into the air remains valid until January 5th 2023. 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.

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

Given the scope of their activities within the Group, SECO/WARWICK Retech Thermal Equipment Manufacturing (Tianjin) Co. Ltd., Allied Consulting Engineers Pvt. Ltd Mumbai (India), SECO/WARWICK GmbH and OOO SECO/WARWICK Group do not any special environmental permits, and the norms applicable in this respect have no bearing on the companies' use of property, plant and equipment.

While observing applicable regulations prescribed by law or by administrative bodies, the SECO/WARWICK Group strives to ensure that neither its operations nor its products, have negative environmental impact. To this end, the Group maintains and upgrades its production plants in accordance with technical guidelines, in particular the equipment used for production, accumulation and safe storage of hazardous waste, and conducts research activities aimed at mitigating environmental impacts of the process lines and furnaces it produces. As a rule, the SECO/WARWICK Group companies meet the requirements set in the environmental permits and fulfil relevant disclosure requirements.

In view of the above, the Company is not aware of any grounds for proceedings to be instigated against the Company or any other SECO/WARWICK Group company based on environmental protection regulations. Furthermore, to the best of the

Group's knowledge, no proceedings related to environmental protection are underway or have been instituted against the Company or any other Group company. The SECO/WARWICK Group is not aware of any obligations which may be imposed on the Company or any other SECO/WARWICK Group company in connection with environmental protection regulations.

27. Workforce

For more information on the workforce of SECO/WARWICK S.A., see Note 33 to the consolidated financial statements of the SECO/WARWICK Group.

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

For information on the structure of assets and liabilities in the consolidated statement of financial position, including from the perspective of the SECO/WARWICK Group's liquidity, as well as key financial and economic data and indicators, see Section 10 of this Report.

29. Material off-balance sheet items by counterparty, subject matter and value

For material off-balance sheet items by counterparty, subject matter and value, see Section 16 of this Report.

30. Structure of key capital placements and equity investments made within the Group in the financial year

In 2015, the SECO/WARWICK Group made the following equity investments within the Group:

In December 2015, the share capital of SECO/WARWICK do Brasil Ind.de Fornos Ltda. was increased by BRL 647,699.80.

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

Major events with a material bearing on the Group's business which occurred after the end of the financial year:

In Current Report No. 2/2016, the Management Board of SECO/WARWICK S.A. announced that between October 6th 2015 and January 20th 2016 the Company's subsidiary SECO/WARWICK EUROPE Sp. z o.o. and mBank S.A. executed nineteen forward contracts to sell a total of EUR 2,709,000 (PLN 11,641,301), two forward contracts to sell a total of GBP 800,000 (PLN 4,746,160), and one forward contract to sell a total of USD 58,000 (PLN 219,762). The value of all the forward contracts totals PLN 16,607,223.

In Current Report No. 3/2016, the Management Board of SECO/WARWICK S.A. announced that on January 27th 2016 the Company's subsidiary SECO/WARWICK Europe Sp. z o.o. signed an annex to a bank guarantee facility agreement with mBank Spółka Akcyjna of Warsaw. Under the annex, mBank granted SECO/WARWICK Europe Sp. z o.o. a revolving bank guarantee facility of PLN 25,000,000 valid until December 31st 2018. The Company already has a PLN 4,000,000 guarantee facility with mBank, which expires on December 29th 2017. The aggregate value of guarantee facilities held with mBank is PLN 29,000,000.

In Current Report No. 6/2016, further to Current Report No. 4/2013 of March 22nd 2013 and Current Report No. 24/2014 of June 4th 2014, the Management Board of SECO/WARWICK S.A. announced that on March 30th 2016 the Company acquired 1,550,000 shares in SECO/WARWICK Allied Private Limited of Maharashtra, India ("SWAPL"), for INR 155,000,000 (PLN 8,767,265 translated at the mid-exchange rate quoted by the National Bank of Poland for March 30th 2016) in connection with a share capital increase and new share issue carried out by SWAPL. Following the acquisition of the 1,550,000 shares, the Company will hold a total of 1,632,014 shares, representing 98.4% of the SWAPL's share capital and carrying 98.4% of total voting rights at its General Meeting.

Details on the events occurring after the end of the reporting period are provided in current reports, available from the corporate website at:

www.secowarwick.com

32. Description of the policy on the development directions for the Group

Key objectives of the Group's new growth strategy until 2019

Having performed a periodic review of the Group's strategic objectives, the Management Board resolved to modify a strategic objective defined in the Group's growth strategy published in Current Report No. 28/2012 of October 23rd 2012 as to the time scale for achieving the expected level of sales by the Group.

According to the Management Board's projections, the time frame in which the Group's consolidated sales are expected to reach ca. PLN 1bn has been extended from 2016, as previously projected, until 2019, assuming a CAGR of 13% in 2013–2019.

For the remaining part, the key objectives of the Group's growth strategy until 2016, published in Current Report No. 28/2012 of October 23rd 2012, remain valid. The Company will pursue the adopted strategy in its entirety, subject to the changed assumptions regarding its expected revenue growth.

33. 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 full-year financial statements
 - other assurance 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

On December 4th 2014, the Supervisory Board of the Company, acting under Art. 29.1.6 of the Articles of Association, which authorises it to select the Company's auditor, passed Resolution No. 1/2014 under which Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. of Warsaw, Aleja Jana Pawła II 19, Warsaw, Poland, audited the full-year separate financial statements of SECO/WARWICK S.A. and the consolidated financial statements of the SECO/WARWICK Group for 2015.

Furthermore, the Supervisory Board, acting under Art. 29.1.6 of the Articles of Association, which authorises it to select the Company's auditor, passed Resolution No. 1/2014, under which Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. of Warsaw, Aleja Jana Pawła II 19, Warsaw, Poland, reviewed the half-year separate financial statements of SECO/WARWICK S.A. and the half-year consolidated financial statements of the SECO/WARWICK Group for 2015.

The agreement with the auditor was executed on June 15th 2015. Deloitte Polska Spółka z ograniczoną odpowiedzialnością sp.k., with its registered office at Aleja Jana Pawła II 19, Warsaw, Poland, is entered in the list of qualified auditors of financial statements maintained by the National Council of Statutory Auditors under Reg. No. 73.

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

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

SECO/WARWICK Group company	Entity authorised to audit financial statements
SECO/WARWICK S.A.	Deloitte Polska Sp. z o.o. Sp.k.
SECO/WARWICK EUROPE Sp. z o.o.	Deloitte Polska Sp. z o.o. Sp.k.
SECO/WARWICK Corp.	Deloitte Polska Sp. z o.o. Sp.k.
Retech Systems LLC	Deloitte Polska Sp. z o.o. Sp.k.

SECO/WARWICK Retech Thermal Equipment
Manufacturing Tianjin Co., Ltd.
SECO/WARWICK Allied Pvt. Ltd.
SECO/WARWICK Germany GmbH
SECO/WARWICK do Brasil Ltda. (Engefor Engenharia
Indústria e Comércio Ltda)

Deloitte Touche Tomatsu Certified Public Accountants LLP
Deloitte Haskins & Sells LLP
Deloitte & Touche GmbH
Deloitte Touche Tohmatsu Auditores Independentes

The table below presents the total remuneration of the auditors for 2015 and 2014.

Table: Total remuneration of the auditors for 2015 and 2014

Service	Remuneration for 2015 (PLN '000)	Remuneration for 2014 (PLN '000) ⁽¹⁾
Audit of full-year financial statements	648	648
Review of financial statements	244	185
Tax advisory services	10	226
Other services	66	80
Total	968	1,138

⁽¹⁾ In 2014, the entity responsible for the review and audit of the consolidated financial statements was PKF Consult Sp. z o.o. of Warsaw, ul. Orzycka 6, unit 1B, Warsaw, Poland.

The entities authorised to audit the separate financial statements of the SECO/WARWICK Group companies in 2014 were:

- PKF Consult Sp. z o.o. – SECO/WARWICK S.A., SECO/WARWICK EUROPE Sp. z o.o.
- Schaffner Knight Minnaugh Co. – SECO/WARWICK Corporation
- Miller & Associates – Retech Systems LLC
- PKF China Ltd. – SECO/WARWICK Retech
- FBK Grant Thornton LLC – SECO/WARWICK Rus
- PKF Sridhar & Santhanam – SECO/WARWICK Allied
- PKF Brazil – SECO/WARWICK do Brasil Ltda

Date: April 28th 2016

Paweł Wyrzykowski
*President
of the Management Board*

Jarosław Talerzak
*Vice-President
of the Management Board*

Wojciech Peret
*Member
of the Management Board*