



**SECO/WARWICK S.A.**

DIRECTORS' REPORT  
ON THE COMPANY'S OPERATIONS  
IN THE YEAR ENDED  
DECEMBER 31ST 2015

The Management Board of SECO/WARWICK S.A. (the "Company" or the "Issuer") presents the Directors' Report on the Company's operations in the period January 1st–December 31st 2015, prepared in accordance with the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (consolidated text: Dz.U. of 2014, item 133) (the "Regulation").

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

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

For detailed information on operating segments, see the consolidated financial statements of the SECO/WARWICK Group (Note 2 to the consolidated financial statements for the twelve months ended December 31st 2015).

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

Table: As at December 31st 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
<b>Parent</b>				
SECO/WARWICK S.A.	Świebodzin	Holding company of the SECO/WARWICK Group. Holding equity interests and providing strategic management services	N.A.	N.A.
<b>Direct and indirect subsidiaries</b>				
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

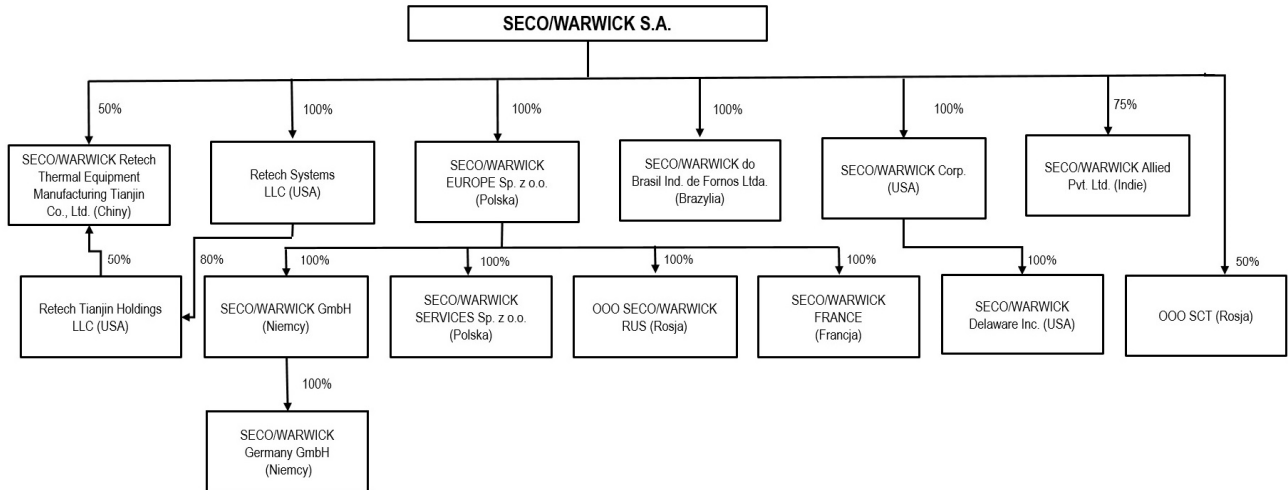
On April 8th 2015, SECO/WARWICK France of Roissy-en-Brie, France, was registered. The company's business comprises commercial and technical representation of SECO/WARWICK Europe Sp. z o.o. in France, French-speaking countries and their neighbouring countries.

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 SECO/WARWICK S.A. and its Group

In the reporting period, there were no changes in significant management policies at SECO/WARWICK S.A. 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

#### MANAGEMENT BOARD

Members of the Management Board receive remuneration based on their respective employment contracts. 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)**

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

(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)**

<b>Name and surname</b>	<b>Remuneration</b>
Andrzej Zawistowski, including:	197
- for his service as Chairman of the Supervisory Board	120
- under agreement for advisory services <sup>(1)</sup>	77
Jeffrey Boswell, including:	127
- for his service as Member of the Supervisory Board	-
- under employment contract <sup>(2)</sup>	127
James A. Goltz, including:	716
- for his service as Member of the Supervisory Board	-
- under employment contract <sup>(3)</sup>	716
Dr Gutmann Habig	28
Henryk Piłarski	54
Witold Klinowski, including:	198
- for his service as Member of the Supervisory Board	42
- under agreement for advisory services <sup>(4)</sup>	156
Zbigniew Rogóż <sup>(5)</sup>	17
Marcin Murawski <sup>(6)</sup>	26
<b>Total</b>	<b>1,363</b>

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

Employment contracts between the Company and its management staff do not provide for any compensation in the event of resignation or removal from office. Any severance or compensation payments are governed by the Labour Code, and the employment contracts do not contain any other specific provisions in this respect. Similarly, the contracts do not provide for severance payments in the event of removal from office or termination of contract caused by acquisition of SECO/WARWICK S.A. by another company.

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

	Jan 1 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)
<b>Management Board</b>								
Pawel Wyrzykowski	154,558	1.44%	1.44%	100,000	254,558	2.37%	2.37%	50,912
Wojciech Modrzyk <sup>(1)</sup>	25,958	0.24%	0.24%	4,000	-	-	-	-
Jaroslawn Talerzak	25,558	0.24%	0.24%	4,000	29,558	0.28%	0.28%	5,912
Wojciech Peret <sup>(2)</sup>	-	-	-	-	-	-	-	-
<b>Supervisory Board</b>								
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
Henryk Pilarski	10	0.0001%	0.0001%	-	10	0.0001%	0.0001%	2
Witold Klinowski	-	-	-	-	-	-	-	-
James A. Goltz	-	-	-	-	-	-	-	-
Zbigniew Rogóż <sup>(3)</sup>	-	-	-	-	-	-	-	-
Marcin Murawski <sup>(4)</sup>	-	-	-	-	-	-	-	-
Dr Gutmann Habig	-	-	-	-	-	-	-	-
<b>Commercial proxies</b>								
Piotr Walasek	15,335	0.14%	0.14%	4,000	19,335	0.18%	0.18%	3,867
Katarzyna Kowalska	-	-	-	-	-	-	-	-
<b>Total</b>	<b>231,195</b>	<b>2.15%</b>	<b>2.15%</b>	<b>177,000</b>	<b>378,237</b>	<b>3.52%</b>	<b>3.52%</b>	<b>75,647</b>

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
<b>Share capital</b>	<b>2,147,567.40</b>	<b>Share capital</b>	<b>2,147,567.40</b>

- (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.

By the issue date of this Report, members of SECO/WARWICK S.A.'s Management and Supervisory Boards did not enter into any other transactions that would involve their holdings of Company shares.

#### **7. Agreements (including agreements executed after the end of the reporting period) known to SECO/WARWICK S.A., 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 <sub>t</sub>	–	the Capital Bonus to be paid in a given financial year,
Div <sub>t</sub>	–	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

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

## 9. Share buybacks

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 full-year financial statements and of factors and events, including non-recurring ones, with a material effect on the Company's operations and profits earned or losses incurred in the financial year; discussion of development prospects in a period covering at least the next financial year

### STATEMENT OF COMPREHENSIVE INCOME

Since 2013, SECO/WARWICK S.A. has operated as a holding company. The Company's primary source of revenue is the provision of services to the Group companies covered by a CSA agreement (Management Services Agreement) and income from licensing fees (License Agreement). In 2015, revenue from sales to the Group companies amounted to PLN 12.1m (PLN 11.9m in 2014).

In 2015, despite dividends received from the subsidiaries in the amount of PLN 25.1m, the Company posted a net loss of PLN 37.4m, which resulted primarily from impairment losses on equity interests in foreign companies, amounting to PLN 48m.

In 2015, the ROE ratio was -25.9% (2014: -7.9%).

### STATEMENT OF FINANCIAL POSITION

Given the nature of the Company's business and its position within the Group, the significance of and movements in certain ratios could be interpreted differently for the Company and the Group.

As at the end of 2015, the Company's non-current to current assets ratio was 4.4 (2014: 6.7), which is normal considering its business profile – the Company's non-current assets include equity interests in other Group companies, and its cash requirements are met from sales of products and, periodically, from dividends received.

The equity to liabilities ratio was 2.7 (7.0 in 2014), which demonstrates that the Company is almost entirely independent of external financing. The ratio deteriorated due to an increase in the Company's debt level. All of the Company's non-current assets were covered by equity.

The current and quick ratios were at 2.1 (1.6 in 2014) (with its current business profile, the Company holds no inventories), while the cash ratio (cash to current liabilities) was 0.6 (0.6 in 2014).

The Company's debt ratios changed significantly: the total debt ratio is 27% (12% in 2014), and the long-term debt ratio is 25% (6% in 2014). The change is due to a long-term loan granted to the Company for the acquisition of its own shares.

Presented below are the Company's selected efficiency indicators:

- the average collection period lengthened from 356 days to 442 days. This long collection period results from the nature of the Company's business and the adopted invoicing policy (invoices are issued to the subsidiaries on a quarterly basis).

- the average payment period lengthened from 562 to 526 days on the back of lower current liabilities.

The asset turnover ratio and current asset turnover ratio stood at 0.2 and 0.4, respectively. These values (broadly unchanged on the previous year's figures), following from the role of SECO/WARWICK S.A. as a holding company, are considered healthy.

**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**

In 2015, SECO/WARWICK S.A. recognised impairment losses on equity interests in SECO/WARWICK Allied (PLN 13.8m), SECO/WARWICK Corporation (PLN 21.8m), and Retech Systems (PLN 12.4m). The impairment losses presented in the financial statements of SECO/WARWICK S.A. for the 2015 financial year totalled PLN 48m.

**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.**

Following the organisational changes introduced in 2013, the key customers of SECO/WARWICK S.A.'s management services are the Company's subsidiaries.

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

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 2015, SECO/WARWICK S.A. did not enter into any other significant insurance, partnership or cooperation agreements. Likewise, the Company has no knowledge of any significant shareholder agreements.

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

In 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**

Table: SECO/WARWICK S.A.'s outstanding borrowings as at December 31st 2015

Lender	Borrowing amount		Repayment date	Security	Interest rate	Type
	PLN '000	Foreign currency (USD) ('000)				
mBANK S.A.	26,845	-	Jan 31 2020	mortgage, SECO/WARWICK EUROPE Sp. z o.o.'s surety under civil law, hold on securities	variable	Investment overdraft facility
Bank Handlowy	6,156	1,578	Apr 27 2018	mortgage of up to USD 3,750 thousand, SECO/WARWICK EUROPE Sp. z o.o.'s surety under civil law	variable	Investment overdraft facility
<b>Total:</b>	<b>33,001</b>	<b>1,578</b>	<b>x</b>			

For more detailed information on SECO/WARWICK S.A.'s liabilities under bank borrowings see Note 22 to the Separate Financial Statements of SECO/WARWICK S.A. As at the end of 2015, SECO/WARWICK S.A. had no liabilities under other debt instruments. In 2015, no agreement concerning bank borrowings or other debt instruments was terminated.

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

Contingent liabilities under guarantees issued amounted to PLN 28,280 thousand as at the end of 2015, and to PLN 25,804 thousand as at the end of 2014. The guarantees were issued in respect of:

PBG → performance bond guarantee  
SBLC → standby letter of credit

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

Company	Bank	Surety in respect of	Currency	Dec 31 2015	Amount (PLN)
S/W ALLIED Pvt. Ltd.	Union Bank of India	Guarantee and credit facility	INR	258,200	15,234
RETECH Systems	HSBC BANK USA	Guarantee and credit facility	USD	16,000 <sup>(1)</sup>	62,418
RETECH Systems	HSBC BANK USA	Guarantee and credit facility	USD	5,500 <sup>(1)</sup>	21,456
S/W Retech	HSBC BANK USA	Guarantee and credit facility	USD	2,750	10,728
<b>TOTAL</b>					<b>109,836</b>

<sup>(1)</sup> The amount drawn by Retech Systems under the available guarantee and credit facilities as at December 31st 2015 was USD 2,141 thousand.

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.

**Table: Sureties received by the Parent, SECO/WARWICK S.A.**

Company	Bank	Surety in respect of	Currency	Dec 31 2015	Amount (PLN)
S/W EUROPE	CITI Bank Handlowy	Investment facility	USD	3,600	14,044
S/W EUROPE	mBank S.A.	Investment facility	PLN	26,845	26,845
<b>TOTAL</b>					<b>40,889</b>

#### 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 PLN was PLN 1,600 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 Company's ability to repay its liabilities, as well as an identification of threats, if any, and measures used or intended to be used by the Company to mitigate such threats; feasibility of planned investments, including equity investments, in view of the funds available to the Group; possible changes in the financing of the investments**

In 2015, the Company repaid its liabilities under the credit facilities contracted to finance investing activities in a timely manner.

As at December 31st 2015, the outstanding debt under investment facilities was PLN 33,001 thousand. As at December 31st 2015, the Company had no overdraft debt outstanding. As at December 31st 2014, the outstanding debt under an investment facility was PLN 9,505 thousand. As at the same date, the Company had no debt outstanding under overdraft facility.

The current and quick ratios were at 2.1 (with its current business profile, the Company holds no inventories), while the cash ratio (cash to current liabilities) was 0.6, which is a very good result.

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

In the Management Board's opinion, as at the end of the reporting period there was no threat of the Company's failure to meet its liabilities.

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

<b>LIQUIDITY RATIOS</b>	<b>Dec 31 2015</b>	<b>Dec 31 2014</b>
Current ratio	2.1	1.6
Quick ratio	2.1	1.6
Cash ratio	0.6	0.6

**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 Company's exposure to such risks or threats**

In 2015, SECO/WARWICK S.A.'s activities were limited to performing the functions of a holding company and providing management services and support to the Group companies. The relevant risk factors and the Group-wide financial risk management policy are described in detail in the consolidated report.

**21.1 Currency risk**

Its active international presence and a broad geographical reach require the Company to enter into transactions denominated in foreign currencies. Some of the Company's borrowings and other financial liabilities are also denominated in foreign currencies. This exposes the Company 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:



Liabilities	As at	As at	As at	As at
	Dec 31 2015	Dec 31 2015	Dec 31 2014	Dec 31 2014
	in foreign currency	in PLN	in foreign currency	in PLN
EUR	1	4	5	22
USD	1,875	6,157	3,486	12,227

Assets	As at	As at	As at	As at
	Dec 31 2015	Dec 31 2015	Dec 31 2014	Dec 31 2014
	in foreign currency	in PLN	in foreign currency	in PLN
EUR	1,063	4,529	1,136	4,841
USD	753	2,938	2,849	9,993

**21.1.1 Foreign currency sensitivity analysis**

The Company 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 exchange rate on the Company's profit or loss and other comprehensive income.

Exchange rate at Dec 31 2015	Exchange rate	+ 10% increase in exchange rate	- 10% decrease in exchange rate
USD	3.9011	0.390	-0.390
EUR	4.2615	0.426	-0.426

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

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 USD	Effect of EUR	Effect of EUR
		Period ended Dec 31 2015	Period ended Dec 31 2014	Period ended Dec 31 2015	Period ended Dec 31 2014
<b>ASSETS</b>					
Increase in exchange rate	10%	294	999	453	484
Decrease in exchange rate	-10%	-294	-999	-453	-484

**LIABILITIES AND  
BORROWINGS**

Increase in exchange rate	10%	-731	-1,223	-0,4	-2
Decrease in exchange rate	-10%	731	1,223	0,4	2
<b>TOTAL</b>					
Increase in exchange rate	10%	-437	-223	452	482
Decrease in exchange rate	-10%	437	223	-452	-482

Effect on profit/loss	Effect of USD		Effect of EUR	
	Period ended	Period ended	Period ended	Period ended
	Dec 31 2015	Dec 31 2014	Dec 31 2015	Dec 31 2014

**ASSETS**

Increase in exchange rate	10%	294	999	453	484
Decrease in exchange rate	-10%	-294	-999	-453	-484

**LIABILITIES AND  
BORROWINGS**

Increase in exchange rate	10%	-731	-1,223	-0,4	-2
Decrease in exchange rate	-10%	731	1,223	0,4	2
<b>TOTAL</b>					
Increase in exchange rate	10%	-437	-223	452	482
Decrease in exchange rate	-10%	437	223	-452	-482

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 Company's exposure to foreign currency risk.

**21.2 Interest rate risk**

The Company holds interest-bearing liabilities. Therefore, it is exposed to interest rate risk. In the financial year 2015, the total amount of interest on the Company's liabilities was PLN 1,044 thousand. The risk assessment is presented based on a 1% increase/decrease in interest rates.

	Effect on profit/loss before tax	Effect on equity	Effect on profit/loss before	Effect on equity
	+ 1%/- 1%		+ 1%/- 1%	
	Year ended Dec 31 2015		Year ended Dec 31 2014	
Leasing liabilities	+/- 5	+/- 5	+/- 3	+/- 3
Other financial liabilities at amortised cost	+/- 330	+/- 330	+/- 95	+/- 95

### 21.3 Capital management

The primary objective behind the Company's capital management is to maintain good credit rating and safe capital ratios, in order to support the Company's operations and enhance its shareholder value.

The Company manages its capital structure and modifies it in response to changes in the economic environment. To maintain or adjust its capital structure, the Company may make changes regarding dividend distributions, return capital to the shareholders or issue new shares. During the year ended December 31st 2015, no changes were made to capital management objectives, policies and processes.

In monitoring its capital, the Company uses the leverage ratio calculated as net debt divided by total equity plus net debt. The Company's net debt includes interest-bearing borrowings and other debt instruments and finance lease liabilities, less cash and cash equivalents. Equity includes convertible preference shares and equity attributable to equity holders of the parent, less capital reserve from unrealised net gains.

The gearing ratio at end of the year was as follows:

	Dec 31 2015	Dec 31 2014
	PLN'000	PLN'000
Debt	33,453	9,804
Cash and cash equivalents	-7,569	-9,474
Net debt	25,884	330
Equity	126,139	175,968
<b>Net debt to equity</b>	<b>20.52%</b>	<b>0.19%</b>

### 21.4 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 the individual members of the Company.

The Company also manages its liquidity risk by maintaining available unused credit facilities which serve as a liquidity reserve securing solvency and financial flexibility. The Company 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 22). As at December 31st 2015, current bank borrowings represented 69% of total current liabilities (December 31st 2014: 26%).

The table below presents the Company'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
Interest-bearing bank and other borrowings		24,215	8,785	-	33,001
Trade payables		583	-	-	583
Other liabilities		1,139	204	-	1,343
<b>TOTAL</b>		<b>25,937</b>	<b>204</b>	<b>-</b>	<b>34,927</b>



Dec 31 2014	Payable on demand	up to 1 year	1–5 years	Over 5 years	Total as at Dec 31 2014
Interest-bearing bank and other borrowings		3,970	5,534	-	9,505
Trade payables		4,251	-	-	4,251
Other liabilities		5,045	17	-	5,062
<b>TOTAL</b>		<b>13,266</b>	<b>5,551</b>	-	<b>18,818</b>

The maturity structure of liabilities is presented in Note 23.

### 21.5 Credit risk

SECO/WARWICK S.A. considers its trade receivables and loans advanced to be financial assets that may potentially lead to a concentration of credit risk.

However, the Company's credit risk exposure is limited because, being a holding company, its principal business relationships are with related entities. The Company defines its exposure to credit risk as the total amount of outstanding receivables and monitors the balances owed by each company on a regular basis. As at December 31st 2015, receivables from the Company's largest trading partner represented 49% of total net trade receivables.

The credit risk relating to the Company's other financial assets, including loans, arises from the potential failure by the other party to an agreement to pay amounts owed, and the maximum exposure to this risk equals the carrying amount of those assets. The age structure of receivables is presented in Note 16 and the value of loans advanced in Note 17 to financial statements of SECO/WARWICK S.A.

## 22. Statement of compliance with corporate governance rules by SECO/WARWICK S.A. 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](http://www.corp-gov.gpw.pl) and at: [www.secowarwick.com](http://www.secowarwick.com)

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

### b. Scope of non-compliance with the set of corporate governance rules referred to above, specification of the rules not complied with, and explanation of why they were not complied with and how the Company intends to eliminate the effects (if any) of non-compliance with a given rule or measures it intends to take to reduce the risk of non-compliance with a given rule in the future

In 2015, 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 SECO/WARWICK S.A.'s systems of internal control and risk management with respect to preparation of financial statements and consolidated financial statements**

The Management Board of the Parent is responsible for the Group's internal control system and its effectiveness in the process of preparation of periodic reports and financial statements prepared and published in accordance with the Regulation on current and periodic information to be published by issuers of securities of February 19th 2009.

The main objective of the Group's internal control system applied to financial reporting is to ensure adequacy, reliability, and accuracy of financial information presented in periodic reports and financial statements. The Group's effective internal control and risk management system applied to financial reporting was developed based on:

- Clear division of responsibilities and organisation of work in the financial reporting process – subsection 1;
- Precise definition of the scope of the Group's financial reporting – subsection 2;
- Regular reviews of the Group's performance, based on the financial reporting system used by the Group – subsection 3;
- Requirement to submit financial statements for approval prior to their publication – subsection 4;
- Audit/review of financial statements by an external auditor – subsection 5;

**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. 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. Relevant performance data is supplied by the Group subsidiaries on a monthly basis. The data is analysed by the management board of the holding company and then discussed during conference calls with the subsidiaries' management boards.

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.

#### **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:**

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. <sup>(1)</sup>	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%
Mettlife OFE	577,470	5.38%	577,470	5.38%

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

<sup>(1)</sup> 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. <sup>(1)</sup>	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%
Mettlife OFE	577,470	5.38%	577,470	5.38%

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

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



From the date of issue of the Q4 2015 report to the date of issue of the annual report for 2015, there were no changes in large holdings of Company 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, in Current Report No. 12/2015 the Management Board of SECO/WARWICK S.A. announced that on February 5th 2015 it was notified of the execution by the following shareholders of the Company:

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

- (i) 3,387,139 Company shares held by SWH,
- (ii) 1,000,000 Company shares held by SHLLC, and
- (iii) 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 with a view to retiring them. The Management Board has no authority to issue shares.

#### **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](http://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 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 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 Pilariski
2. Marcin Murawski
3. Witold Klinowski.

### **23. Court, arbitration and administrative proceedings**

In 2015, the value of liabilities or receivables of SECO/WARWICK S.A. or the Group companies disputed in any single or all pending court, arbitration or administrative proceedings did not exceed 10% of SECO/WARWICK S.A.'s equity.

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

External factors:

SECO/WARWICK S.A. is not dependent on external factors to the same extent as the other Group companies as it does not provide services to customers outside the Group.

Internal factors:

The achievement of the financial targets set by SECO/WARWICK S.A. depends on its ability to retain highly-skilled professionals in managerial and specialist positions. In the sector where the Company operates, as in many other sectors of the Polish economy, remuneration of highly qualified staff is lower compared with other EU countries, which may encourage employees to seek employment abroad. The Company is actively trying to mitigate this risk by implementing such measures as a share-based incentive scheme or a financial assistance programme designed to help finance the costs of university and specialist courses. Retention of the highly-qualified staff in the mid- and long-term perspective may result in an increase in employment costs, which in turn may reduce the profitability of the Company's business.

#### Key objectives of the Group's new 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. The Management Board announced the strategy update in Current Report No. 15/2014 of April 29th 2014.

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.

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

Events with a material bearing on the Company's business which occurred in the financial year are discussed in detail in Section 13 of this Report.

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

In Current Report No. 2/2016, 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](http://www.secowarwick.com)

## 26. 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.

## **27. Environmental matters**

In 2015, SECO/WARWICK S.A. used natural resources in the course of its service activities 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. The permits expire on November 28th 2021. The Company maintains a register of generated waste. In addition, SECO/WARWICK S.A. executed agreements with specialist companies which handle waste disposal, recycling and treatment (such companies hold relevant permits).

The summary of information on the scope of use of the natural environment was submitted to the Marshall Office of the Province of Zielona Góra/Gorzów Wielkopolski by the prescribed date. The Company was exempt from charges for the economic use of the environment under Art. 289.1 of the Environmental Protection Law of April 27th 2001.

## **28. Workforce**

In 2015, the average workforce at SECO/WARWICK S.A. was 21 FTEs, having increased from 20 FTEs in 2014.

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

**29. Information on:**

- a) the date of the agreement concluded by the Company with a qualified auditor of financial statements for an audit or review of financial statements or consolidated financial statements, and the term of such agreement,
- b) the remuneration payable or paid to the qualified auditor of financial statements for the financial year, separately for:
  - audit of the 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 presents the total remuneration of the auditor for 2015 and 2014.

**Table: Total remuneration of the auditor for 2015 and 2014**

Service	Remuneration for 2015 (PLN '000)	Remuneration for 2014 (PLN '000)(1)
Audit of full-year financial statements	51	53
Other assurance services, including a review of financial statements	68	40
Tax advisory services provided by PKF Tax Sp. z o.o., a related entity of PKF Consult Sp. z o.o.	-	32
Other services provided by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. of Warsaw	43	-
<b>Total</b>	<b>162</b>	<b>125</b>

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

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*