



SECO/WARWICK S.A.

DIRECTORS' REPORT
ON THE COMPANY'S OPERATIONS
IN THE YEAR ENDED
DECEMBER 31ST 2014

The Management Board of SECO/WARWICK S.A. presents the Directors' Report on the Company's operations in the period January 1st–December 31st 2014, prepared in accordance with Par. 91.1.4 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2009 No. 33, item 259, as amended).

The financial statements of SECO/WARWICK S.A. were prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the EU, and their scope is compliant with the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities, dated February 19th 2009 (Dz. U. No. 33, item 259, as amended). The financial statements cover the period January 1st–December 31st 2014 and the comparative period January 1st–December 31st 2013.

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 2014 and December 31st 2013, as well as of its results and cash flows in the years ended December 31st 2014 and December 31st 2013.

1. Introduction

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

The SECO/WARWICK 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 SECO/WARWICK's operations are divided into five business segments corresponding to the product groups, i.e. vacuum furnaces (Vacuum), aluminium heat exchanger brazing systems (Controlled Atmosphere Brazing), aluminium heat treatment systems (Aluminum Process), metallurgy equipment used for melting and vacuum casting of metals and specialty alloys (Melting Furnaces), and other.

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 2014).

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 2014, 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	Manufacture of vacuum furnaces, aluminium heat exchanger brazing systems and aluminium heat treatment systems	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%

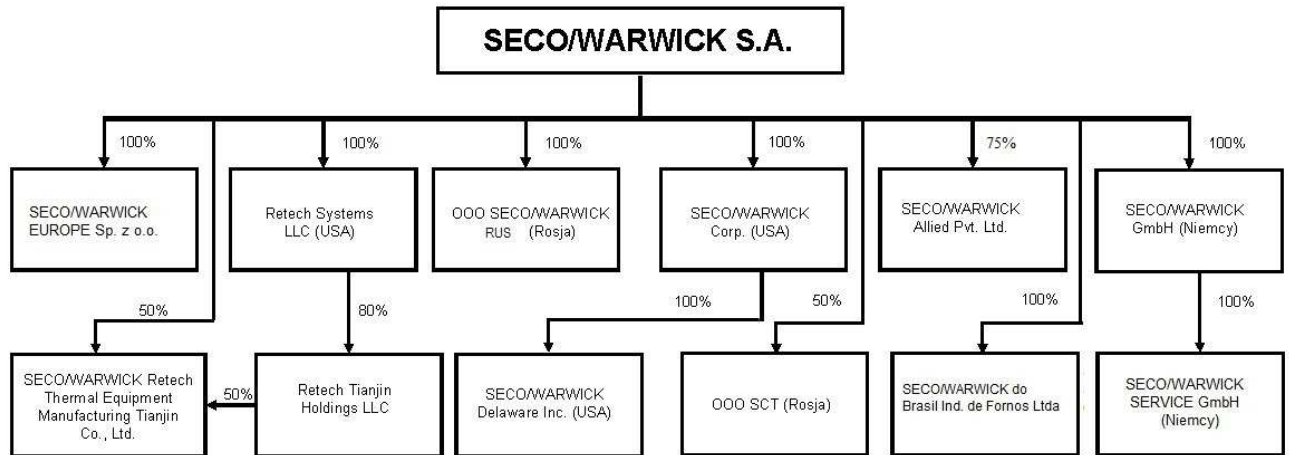


SECO/WARWICK Delaware, Inc.	of Wilmington (USA)	A holding company; registration of trademarks and patents, and granting licences for use of the trademarks and patents by SECO/WARWICK Corp.	Full	100%
SECO/WARWICK Rus	Moscow (Russia)	Distribution of the SECO/WARWICK Group's products	Full	100%
Retech Systems 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 manufactured by SECO/WARWICK S.A. and 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 GmbH	Service 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%

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

On June 4th 2014, conditions precedent were met for the acquisition of 9,122 shares in SECO/WARWICK Allied Pvt. Ltd. (Mumbai) India SECO/WARWICK Allied and payment of the third instalment of the purchase price. Following acquisition of the 9,122 shares, the Company holds 82,014 shares, representing 75.0% of the company's share capital and carrying the right to 75.0% of the total vote at its General Meeting.

SECO/WARWICK Group's structure as at December 31st 2014:



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

After December 31st 2014 and until the publication of this Report, there were no 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 was defined in resolutions passed by the Company's Supervisory Board on January 12th 2012 and December 5th 2013.

Table: Remuneration to members of the Management Board of SECO/WARWICK S.A. for 2014 (PLN '000)

<u>MANAGEMENT BOARD</u>	Total remuneration for the period
Paweł Wyrzykowski – President of the Management Board	1,384
Wojciech Modrzyk – Vice-President of the Management Board	553
Jarosław Talerzak – Vice-President of the Management Board.	436
Total	2,374

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 2014 (PLN '000)

Name and surname	Remuneration
Andrzej Zawistowski, including:	132
- for his work as Chairman of the Supervisory Board	120
- under agreement for advisory services*	12
Jeffrey Boswell, including:	122
- for his service as Member of the Supervisory Board	-
- under employment contract**	122
James A. Goltz, including:	2,089
- for his service as Member of the Supervisory Board	-
- under employment contract**	2,089
Mr Zbigniew Rogóż	42
Dr Gutmann Habig	30
Henryk Pilarski	54
Witold Klinowski, including:	219
- for his service as Member of the Supervisory Board	42
- under agreement for advisory services****	177
Total	2,688

* 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.

** Under an employment contract between SECO/WARWICK Corp. and Mr Jeffrey Boswell.

*** Under an employment contract between Retech Systems LLC and Mr James A. Goltz.

**** 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 Witold Klinowski.

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 2014				Dec 31 2014			
	Number of SECO/WARWICK shares held	Ownership interest (%)	% of total vote	Decrease/increase	Number of SECO/WARWICK shares held	Ownership interest (%)	% of total vote	Total par value of shares (PLN)
Management Board								
Paweł Wyrzykowski	98,337	0.92%	0.92%	56,221	154,558	1.44%	1.44%	30,912
Wojciech Modrzyk	25,958	0.24%	0.24%	-	25,958	0.24%	0.24%	5,192
Jarosław Talerzak	25,558	0.24%	0.24%	-	25,558	0.24%	0.24%	5,112
Supervisory Board								
Andrzej Zawistowski	-	-	-	-	-	-	-	-
Jeffrey Boswell	9,776	0.09%	0.09%	-	9,776	0.09%	0.09%	1,955
Henryk Pilarski	100	0.0009%	0.0009%	-90	10	0.0001%	0.0001%	2
Mr Witold Klinowski	-	-	-	-	-	-	-	-
James A. Goltz	-	-	-	-	-	-	-	-
Zbigniew Rogóż	-	-	-	-	-	-	-	-
Dr Gutmann Habig	-	-	-	-	-	-	-	-
Commercial proxies								
Piotr Walasek	15,335	0.14%	0.14%	-	15,335	0.14%	0.14%	3,067
Katarzyna Kowalska	-	-	-	-	-	-	-	-
Total	175,064	1.64%	1.64%	-	231,195	2.15%	2.15%	46,239

Item	Jan 1 2014	Item	Dec 31 2014
Number of shares	10,680,197	Number of shares	10,737,837
Par value per share	0.20	Par value per share	0.20
Share capital	2,136,039.40	Share capital	2,147,567.40

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

- The Management Board of SECO/WARWICK S.A. announced that on January 20th 2014 it was notified that a Management Board Member acquired – under the 2012–2016 Incentive Scheme adopted by virtue of Resolution No. 21 of the Annual General Meeting of May 28th 2012 – a total of 47,529 Series E Shares in the Company, with a par value of PLN 0.20 per share, at the issue price of PLN 0.20 per share.
- The Management Board of SECO/WARWICK S.A. announced that on January 23rd 2014 it received a notification from a Supervisory Board Member of the sale by that Member of 90 Company shares at a price of PLN 48.60 per share. The shares were sold on the regulated market (the WSE), during its regular trading sessions on July 3rd 2013.
- The Management Board of SECO/WARWICK S.A. announced that on May 16th 2014 it received a notification from the President of the Management Board that:
 - on May 13th 2014, the President of the Management Board purchased 4,547 Company shares at an average price of PLN 27.69 per share,
 - on May 14th 2014, the President of the Management Board purchased 4,145 Company shares at an average price of PLN 29.93 per share, The shares were acquired on the regulated market (the WSE), during regular trading sessions.

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 May 28th 2012 the Annual General Meeting approved the key objectives of the 2012–2016 Incentive Scheme for members of the SECO/WARWICK Group's management staff (the "2012–2016 Incentive Scheme"). For a detailed description of the key objectives of the Incentive Scheme see Section 7.

2012–2016 Incentive Scheme

Key terms of the Incentive Scheme are presented below.

1. The person serving as President of the Management Board as at the date of the Resolution ("**President of the Management Board**") and the key company employees indicated by the President of the Management Board in consultation with the Supervisory Board (jointly with the President of the Management Board – the "**Eligible Persons**") will be eligible for participation in the 2012–2016 Incentive Scheme. With respect to each Eligible Person other than the President of the Management Board, an a_i ratio, referred to in Par. 2.11 below, will be determined along with the indication of the person. A list of Eligible Persons will be prepared by the Supervisory Board in consultation with the President of the Management Board within three months from the date of the Resolution.
2. The 2012–2016 Incentive Scheme will include up to 500,000 (five hundred thousand) of Company Series E Shares ("**Series E Shares**"). The President of the Management Board will be entitled to acquire up to 250,000 (two hundred and fifty thousand) Series E Shares, and the other Eligible Persons will have the right to acquire the maximum of the remaining 250,000 (two hundred and fifty thousand) Series E Shares.
3. Under the 2012–2016 Incentive Scheme, Eligible Persons will be entitled to acquire Series B subscription warrants ("**Series B Warrants**") free of charge. Series B Warrants will confer the right to acquire Series E Shares at their par value of PLN 0.20 (twenty grosz) per share.
4. One Series B Warrant will confer the right to acquire one Series E Share.
5. The 2012–2016 Incentive Scheme will be implemented by way of resolutions passed by the General Meeting on conditional share capital increase by up to PLN 100,000 (one hundred thousand zloty), through an issue of up to 500,000 (five hundred thousand) Series E Shares and an issue of up to 500,000 (five hundred thousand) Series B Warrants, with full waiver of the existing shareholders' pre-emptive rights to all Series E Shares and Series B Warrants.
6. The 2012–2016 Incentive Scheme is planned to cover a period of four years starting from the date of its approval by the General Meeting. The duration of the 2012–2016 Incentive Scheme may be extended by the Supervisory Board making relevant changes in the Rules of the Incentive Scheme.
7. The number of Series B Warrants issued to Eligible Persons will depend on:
 - (i) the price of the Company shares on the Warsaw Stock Exchange ("**WSE**"), or

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

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

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

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

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

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

$$Q = 6.666 P - 183.310$$

provided that:

$$\text{for } P < \text{PLN } 35 \rightarrow Q = 0$$

$$\text{for } P \geq \text{PLN } 65 \rightarrow Q = 250.000$$

where:

Q stands for the number of Series B Warrants;

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

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

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

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

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

provided that:

$$\text{for } P < \text{PLN } 35 \rightarrow Q = 0$$

for $P \geq \text{PLN } 65 \rightarrow Q = a_i \times 250,000$

where:

Q stands for the number of Series B Warrants;

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

a_i is a ratio determined individually for each Eligible Person, provided that:

$$a_i \in (0.1) \text{ and } \sum_{i=1}^n a_i \leq 1$$

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

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

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

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

As at December 31st 2014, 261,627 Series E Shares had been acquired under the 2012–2016 Incentive Scheme for management personnel of the SECO/WARWICK Group, approved by virtue of Resolution No. 21 of the Annual General Meeting of May 28th 2012, of which:

- 132,325 Series E Shares, with a fair value of PLN 2,997 thousand, were acquired by Paweł Wyrzykowski, President of the Management Board;
- 25,558 Series E Shares, with a fair value of PLN 575 thousand, were acquired by Wojciech Modrzyk, Vice-President of the Management Board;
- 25,558 Series E Shares, with a fair value of PLN 575 thousand were acquired by Jarosław Talerzak, Vice-President of the Management Board.

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., and its detailed rules were approved by the Supervisory Board on January 12th 2012.

9. Share buybacks

In 2014, the Company did not acquire its own shares.

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

**STATEMENT OF COMPREHENSIVE INCOME**

Since 2013, SECO/WARWICK S.A. has operated as a holding company. The Company's primary source of revenue is from the provision of services to the Group companies covered by a CSA agreement (Management Services Agreement) and income from licensing fees (License Agreement). Additionally, the Company posted revenue from sale of equipment wholly produced by SECO/WARWICK Europe Sp. z o.o. (execution of a contract with SECO/WARWICK S.A. was one of the conditions precedent for the performance of the agreement). In 2014, revenue from sale to companies of the Group totalled PLN 11.2m (2013: PLN 12.4m), and revenue from sale of equipment amounted to PLN 8.3m, with an average margin of 7.1%.

In 2014, despite dividends received from the subsidiaries in the amount of PLN 21.3m, the Company posted a net loss of PLN 9.4m, which resulted primarily from impairment losses on equity interests in foreign companies, amounting to PLN 31.7m.

In 2013, the ROE ratio was -4.3% (2013: 8.0%).

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 2014, the Company's non-current to current assets ratio was 7.8 (2013: 8.1), 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 6.8 (2013: 5.6), which demonstrates that the Company is almost entirely independent of external financing. Furthermore, all of the Company's non-current assets were covered by equity.

The current and quick ratios stayed unchanged year on year, at 1.6 (with its current business profile, the Company holds no inventories), while the cash ratio (cash to current liabilities) was on the previous year's level of 0.6, which is a good result.

The Company's audited debt ratios were also healthy. The debt ratio was 13% (2013: 15%), and the long-term debt ratio was 6% (2013: 10%).

Presented below are the Company's selected efficiency indicators:

- the average collection period shortened from 265 days to 196 days. The relatively long collection period results from the nature of the Company's business and the adopted invoicing policy (invoices are issued to subsidiaries on a quarterly basis), as well as arrears in payments by the Indian and Brazilian subsidiaries.

- average payment period shortened from 325 to 309 days, due to an increase in current liabilities, which include a liability of BRL 3m arising from the purchase of shares in the Brazilian subsidiary.

The asset turnover ratio and current asset turnover ratio stood at 0.2 and 0.8, respectively. These values (broadly unchanged on the previous year's figures), driven by the specific 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 2014, SECO/WARWICK S.A. recognised impairment losses on equity interests in SECO/WARWICK Allied (PLN 8.3m), SECO/WARWICK do Brasil (PLN 19.8m), and SECO/WARWICK Retech (PLN 3.7m). The impairment losses presented in the financial statements of SECO/WARWICK S.A. for the 2014 financial year totalled PLN 31.7m.

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 2014, SECO/WARWICK S.A. entered into the following significant agreement:

Increased equity interest in SECO/WARWICK Allied. For a detailed description of this transaction, see Section 3 of this Report.

In 2014, SECO/WARWICK S.A. did not enter into any significant insurance, partnership or cooperation agreements. Likewise, the Company has no knowledge of any significant shareholder agreements.

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

In 2014, 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

Lender	Borrowing amount		Repayment date	Security	Interest rate	Type
	PLN '000	Foreign currency (USD) ('000)				
mBANK S.A.	1,754	500	Dec 31 2015	Ordinary mortgage for USD 2,500,000 Ceiling mortgage for USD 250,000 Submission to enforcement for up to USD 2,750,000	1M LIBOR + 1.55%	Investment overdraft facility
Bank Handlowy	7,751	2,210	Apr 27 2018	mortgage of up to USD 3,750 thousand, SECO/WARWICK EUROPE Sp. z o.o.'s surety under civil law	USD 3M LIBOR + 1.80%	Investment overdraft facility
Total:	9,505	2,710	x			

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 2014, SECO/WARWICK S.A. had no liabilities under other debt instruments. In 2014, 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 25,804 thousand as at the end of 2014, and to PLN 18,358 thousand as at the end of 2013. The guarantees were issued in respect of:

- APG → advance payment guarantee
- CRG → credit repayment guarantee
- PBG → performance bond
- CRB → credit repayment bond



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

Company	Bank	Surety in respect of	Currency	Dec 31 2013	AMOUNT (PLN)
S/W ALLIED Pvt. Ltd.	Union Bank of India	Guarantee and credit facility	INR	258,200	14,322
RETECH Systems	HSBC BANK USA	Guarantee and credit facility	USD	25,000*	87,680
RETECH Systems	HSBC BANK USA	Guarantee and credit facility	USD	5,500*	19,290
S/W Retech	HSBC BANK USA	Guarantee and credit facility	USD	2,200	7,716
S/W Corp.	HSBC BANK USA	Guarantee and credit facility	USD	1,800	6,313
TOTAL					135,321

* The amount drawn by Retech Systems under the available credit facilities as at December 31st 2014 was USD 700 thousand.

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 members of the Management Board or the Supervisory Board in 2014.

On March 21st 2014, SECO/WARWICK S.A. advanced a RUB 6,000 thousand loan to its associate OOO SCT. The loan amount in the Polish currency is PLN 505.8 thousand. The loan is to be repaid by February 26th 2016.

On June 27th 2014, SECO/WARWICK S.A. advanced a EUR 220 thousand loan to its subsidiary, SECO/WARWICK Service GmbH. The loan amount in the Polish currency is PLN 914 thousand. The loan is to be repaid by December 31st 2015.

In 2014, 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 2014, the Company repaid its liabilities under the credit facilities contracted to finance investing activities in a timely manner.

As at December 31st 2014, the outstanding debt under investment facilities was PLN 9,505 thousand. As at the same date, the Company had no debt outstanding under overdraft facility. As at December 31st 2013, the outstanding debt under investment facility was PLN 11,572 thousand. As at the same date, the Company had no debt outstanding under overdraft facility.

The current and quick ratios were at 1.6 (with its current business profile, the Company holds no inventories), while the cash ratio (cash to current liabilities) was 0.6, which is a good result.

The funds and credit facilities available to the Company were sufficient to finance investments and capital expenditure planned for and executed in 2014.

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.

LIQUIDITY RATIOS	Dec 31 2014	Dec 31 2013
Current ratio	1.6	1.6
Quick ratio	1.6	1.6
Cash ratio	0.6	0.6

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

On January 20th 2014, 57,640 (fifty-seven thousand, six hundred and forty) Series E ordinary bearer shares in the Company ("Series E Shares") were acquired, as reported by the Company in Current Report No. 2/2014.

The Series E Shares were subscribed for under the Incentive Scheme for the management staff of the SECO/WARWICK Group for the years 2012–2016, approved by virtue of Resolution No. 21 of the Annual General Meeting of May 28th 2012 ("2012–2016 Incentive Scheme"), on the basis of which the Company issued Series B subscription warrants ("Series B Warrants") entitling its holders to acquire Series E Shares.

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 2014 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

For a detailed description of Company's exposure to risks, see Note 32 to the financial statements of SECO/WARWICK S.A.

22. Statement of compliance with corporate governance rules by SECO/WARWICK S.A. in 2014**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 2014, 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 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 2014:

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of total vote at General Meeting
SW Poland Holding B.V. (Netherlands)	3,387,139	31.54%	3,387,139	31.54%
Spruce Holding Limited Liability Company (USA)	1,419,294	13.22%	1,419,294	13.22%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	904,794	8.43%	904,794	8.43%
Funds represented by PKO BP BANKOWY PTE S.A.	849,698	7.91%	849,698	7.91%
Bleauhard Holdings LLC	743,456	6.92%	743,456	6.92%
ING NN OFE	600,000	5.59%	600,000	5.59%
AMPLICO	577,470	5.38%	577,470	5.38%
- share capital	2,147,567.40			
- number of shares	10,737,837			
- par value per share	0.20			

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

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

Shareholder	Number of shares	Ownership interest %	Number of votes	% of total vote at General Meeting
SW Holding Sp. z o.o.	3,387,139	31.54%	3,387,139	31.54%
Spruce Holding Limited Liability Company (USA)	1,123,294	10.46%	1,419,294	10.46%
SECO/WARWICK S.A.	1,073,783	10.00%	1,073,783	10.00%
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%
ING NN OFE	600,000	5.59%	600,000	5.59%
AMPLICO	577,470	5.38%	577,470	5.38%
- share capital	2,147,567.40			
- number of shares	10,737,837			
- par value per share	0.20			

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

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

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

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

There are no restrictions at the Parent on the exercise of voting rights such as restrictions on the exercise of voting rights by holders of a certain portion or number of votes, time limits for exercising voting rights, or provisions under which, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of the securities.

g. Restrictions on transferability of the Company securities

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:

- (i) SW Holding sp. z o.o. ("SWH"), holding 3,387,139 Company shares as at the date of this report,
- (ii) Spruce Holding Limited Liability Company ("SHLLC"), holding 1,419,294 Company shares as at the date of this report,
- (iii) Bleauhard Holdings LLC ("BHLLC"), holding 743,456 Company shares as at the date of this 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 2014, the formally convened SECO/WARWICK S.A. General Meeting was held on May 30th 2014. The General Meeting was convened at the request of the Management Board. No requests to convene a General Meeting were submitted by shareholders in 2014.

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. 17/2014 of April 30th 2014 at least 26 days prior to the General Meeting. The Company approved the documents submitted by the shareholders and their proxies, and recognised the validity of the powers of proxy, right to represent and participate in the General Meeting.

Within its powers, the General 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 2013, approval of the Directors' Report on the Group's operations and the consolidated financial statements of the SECO/WARWICK Group for the financial year 2013, and granting discharge in respect of performance of duties to members of the Company's governing bodies.

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 2014 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

The Extraordinary General Meeting held on October 30th 2014 was convened for the main purpose of passing a resolution on authorising the Management Board to repurchase the Company's own shares and creating a capital reserve to fund the repurchase. The Extraordinary General Meeting was formally convened.

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

In 2014 and on the date of issue of this Report, the composition of the Company's Management Board was as follows:

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

Operation of the Management Board

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

The Management Board is the executive body of the Company, managing its current operations and representing it in relations with third parties. The powers of the Management Board include all matters which do not fall within the exclusive scope of competence of the General Meeting or the Supervisory Board. A decision to acquire or dispose of real estate, perpetual usufruct right to or an interest in real estate, rests exclusively with the Management Board and requires approval by the General Meeting.

The Management Board is composed of 2 (two) to 7 (seven) members appointed by the Supervisory Board, including President, Vice-President and members of the Management Board. The Supervisory Board may appoint any number of Vice-Presidents. The Management Board members are appointed by the Supervisory Board for a joint three-year term of office. Each Management Board member may individually incur a liability or dispose of a right for up to the equivalent of PLN 200,000.00 (two hundred thousand). Incurring a liability or disposal of a right in excess of the equivalent of PLN 200,000.00 (two hundred thousand) requires two Management Board members acting jointly or a Management Board member acting

jointly with a commercial proxy. The Management Board acts in accordance with its Rules of Procedure, approved by the Supervisory Board at the request of the Management Board.

When formulating strategic objectives and setting current tasks, the Management Board was primarily guided by the Company's best interest and the provisions of law, while also protecting the interests of shareholders, employees and creditors.

In order to ensure the clarity and efficiency of the management system, the Management Board observed the rules of professional conduct within the limits of reasonable economic risk, using a wide range of information, opinions and analyses available.

The Supervisory Board decides on the remuneration of the members of the Management Board based on clearly defined procedures. The remuneration for serving as members of the Management Board was granted taking into account the economic results achieved on the basis of competence and responsibility of the individual members of the Board. The amount of remuneration payable to the Management Board members was defined in resolutions passed by the Company's Supervisory Board on January 12th 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.

In 2014 and on the date of issue 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
Zbigniew Rogóż – 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 2014, 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 2014, members of the

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

In 2014, 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 2014, 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.

In 2014, the Audit Committee comprised:

1. Henryk Pilarski
2. Zbigniew Rogóż,
3. Witold Klinowski.

In the reporting period, the Audit Committee operated through meetings correlated with the Supervisory Board meetings. The activities performed by the Audit Committee of the Supervisory Board of SECO/WARWICK S.A. in 2014 included reviewing of the Company information intended for publication. In the reporting period, the Audit Committee held a number of meetings, and also met with representatives of the Management Board and the Company employees.

The activities of the Audit Committee focused on:

1. Monitoring of the auditor's review of financial statements;
2. Reviewing the auditor's findings;
3. Reviewing the Management Board's information on the internal control systems at the Company.

23. Court, arbitration and administrative proceedings

In 2014, 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.

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.

No events with a material bearing on the Company's business occurred after the end of the financial year.

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

26. Major achievements in research and development

In 2014, the Research and Development division of the SECO/WARWICK Group worked on the following projects:

- The Group's key FineCarb® and PreNitLPC® vacuum carburising technology was further developed and promoted; an expert system for the design, simulation and optimisation of processes was further refined (in collaboration with the Łódź University of Technology).

The vacuum carburising systems with process simulator (SimVaC) were successfully implemented in furnaces of our customers in India, Korea, Russia, France, the Czech Republic, Poland, and other countries.

The R&D team carried out research and development work on vacuum carburising procedures for new grades of steel for application in the automotive and aviation industries (Pyrowear 53).

- The Demonstrator project was in progress (construction and launch of equipment). Its purpose is to build a multifunction intelligent (computer-controlled) modular centre for high-tech vacuum heat and surface treatment.
- The Compact project was in progress (development of an engineering design and launch of commercial production of furnaces by Seco/Warwick Retech in China). Its purpose is to build a line of attractively priced 2-bar and 15-bar single-chamber vacuum furnaces for a wide range of process applications.
- The CaseCopy Master project was launched (concept and documentation development phase) for the construction of a system for batch heat treatment of components (gear wheels, rings, etc.) based on the vacuum carburising and high-pressure gas quenching technologies for applications in mass production industries (automotive, gears, bearings, etc.).
- A three-chamber CME T12 vacuum carburising and oil quenching furnace was constructed. The design helps to reduce operating costs by replacing an electric heating system with a natural gas-fired burner heating system.
- An automated ZeroFlow nitrocarburising line was placed in commercial operation at the facilities of a renowned truck manufacturer in Sweden.
- A superconductor heat treatment furnace for the international thermonuclear power reactor project (ITER) was placed in operation in the US.
- A new concept was developed for the thermal oil afterburner on the CAB line, which features a reduced gas consumption rate.

- A vacuum purging system was implemented in the Active Only and Universal Batch furnaces.
- SeCoil Control System – On-line simulator-based control of the aluminium sheet coils annealing process in the Vortex® Jet Heating unit – the system is offered to customers and it is continuously developed and improved (AP, Institute of Turbomachinery of the Łódź University of Technology, R&D)
- 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)
- The nitrosulphuring treatment technology reached the implementation phase at a customer's facilities (C&NF, Faculty of Materials Science and Engineering of the Łódź University of Technology, R&D)
- ZeroFlow® Nitriding Kinetics Simulator – a nitrided layer growth simulator for the ZeroFlow® processes (R&D, Poznań University of Technology, C&NF)
- ZeroFlow® Nitriding Database – a comprehensive, open database of ZeroFlow® processes (R&D, BP, C&NF, E)
- Multifunction ZeroFlow® Furnace – a multifunction ion-activated testing furnace for nitriding and derivative processes – design development phase (C&NF, R&D)
- High Efficiency Wire Annealing Technology – A high-efficiency and energy-efficient technology for coiled wire annealing based on a bell-type furnace – the project is in the design development phase, implemented based on prior tests and research (C&NF, R&D)
- Development of the technology for monetary disc annealing in a closed circuit of protective atmosphere with a water cooling system – the technology was implemented in a circulating retort furnace, based on prior tests and research (SF, R&D)
- Development of an innovative technology for bright annealing of spool-wound stainless steel installation tubing – a preliminary design was prepared based on prior N₂/H₂ atmosphere heating tests (SP, R&D)
- Development of an innovative technology for fuel pipe annealing in an argon-based protective atmosphere with an intensive water spray cooling system – a preliminary design was prepared based on prior analyses, tests and trials (SP, R&D)
- Test chamber for testing high-capacity gas diffusion burners – the project is in the design phase (R&D, R&M)
- Development and promotion of the Expanite® technology (atmosphere furnace VTR 669)
- Testing and development of the ZeroFlow® nitriding technology:
 - process testing at SWE and at Poznań University of Technology
 - creating a database of the ZeroFlow® process economics (energy and utilities consumption)
 - creating a database of the ZeroFlow® process results (layer thickness, structure)
 - cyclical development of the VDRFC technological test station (to be completed in April 2014)
- Development of a nitrosulphuring treatment technology – trials and process tests performed in collaboration with Łódź University of Technology
- Development of a passivation technology – an R&D project implemented in collaboration with dr inż. Jerzy Iwanow of the Institute of Precision Mechanics in Warsaw
- Research and process testing of an intensive water quenching technology (IQ Technologies USA)
- Calibration of an on-line simulator of the aluminium coil annealing process in the Vortex® Jet Heating System furnace (performed at the ASSAN aluminium works in Turkey)
- Implementation of a flow model for PIT aluminium homogenising furnaces
- Implementation of a test chamber for the drum-type coil annealer furnaces
- Testing and further development of the ZeroFlow® nitriding technology:
 - process testing at SWE and at Poznań University of Technology,

- creating a database of the ZeroFlow® process economics (energy and utilities consumption),
- creating a database of the ZeroFlow® process results (layer thickness, structure),
- completion of work and closing of a project for the development of a commercial nitriding process simulation programme,
- launch of a standardisation project for the HRNE nitriding furnaces.
- Development of the nitrosulphuring treatment technology – a VRNE furnace using the nitrosulphuring treatment technology was launched, with trials and process tests conducted in collaboration with the Łódź University of Technology Execution of an agreement with the Łódź University of Technology for the development and implementation of the nitrosulphuring treatment technology.
- Implementation and development of the G60 generator with an automatic generation control system.
- Implementation and launch of the Pegat pit furnace with compensator bellows.
- Development of new engineering solutions and launch of the HRNG 9.8.12 furnace with gas heating and vertical turbocooling systems.
- Implementation of heat treatment process optimisation software for the fully automated SQ furnace line.
- Design and implementation of the HRNE plasma nitriding furnace. The furnace is scheduled for launch in 2015.

In 2014, the Group took steps to actively promote its technological and engineering achievements at international seminars, conferences and industry fairs. Members of the R&D team wrote papers and prepared presentations, and took part in the following events:

- Southwest Summit – Seco/Warwick USA Seminar, March 26th–27th 2014, San Antonio, USA
- Tube&Wire, April 7th–11th 2014, Dusseldorf, Germany (Atmosphere Furnaces)
- Heat Treatment Forum Wrocław, April 7th and 8th 2014 (Atmosphere Furnaces)
- Metallurgy LITMASH June 3rd–6th 2014, Moscow, Russia (ATM and AP)
- Metef, June 11th–13th 2014, Verona, Italy (Aluminium Process)
- A3TS, SVTM, June 11th–13th 2014, Paris, France (ATM)
- Furnaces and Atmospheres Seminar, June 16th–18th 2014, Meadville, USA (ATM)
- Heat Treatment Congress, Mexico, October 18th 2014, Mexico City (ATM)
- Heat Treatment Russia, September 9th–11th 2014, Moscow, Russia (ATM and AP)
- ANKIROS, September 11th–13th 2014, Istanbul, Turkey (ATM and AP)
- Modern Trends in Heat Treatment Seminar, September 24th–25th 2014 (ZeroFlow®, ENDO process atmosphere generator, gas carburising)
- Furnaces North America 2014, October 6th–8th 2014, New York, USA (ATM)
- ALUMINIUM 2014, October 7th–9th 2014, Düsseldorf, Germany (Aluminium Process)
- Heat Treatment Forum Kraków, October 8th 2014, Kraków, Poland (ATM)
- HK 2014, October 22nd–24th 2014, Cologne, Germany (Atmosphere Furnaces)
- Aluminium Furnace Seminar, October 27th–29th 2014, Meadville, USA (Aluminium Process)
- AIRTEC October 28th–30th 2014, Frankfurt, Germany (Aluminium Process)
- International Federation of Heat Treatment and Surface Engineering, 21st Congress, May 12th–15th 2014, Munich, Germany

- AeroMat – 25th Advanced Aerospace Materials and Processes Conference and Exposition, June 6th–19th 2014, Orlando, USA
- Seco/Warwick Allied + ASM International Seminar, July 27th 2014, Chennai, India
- Furnace North America Conference & Exhibition, October 6th–8th 2014, Nashville, USA
- Harterei Kolloquium, October 22nd–24th 2013, Cologne, Germany
- International Conference on Advances in Heat Processing, December 4th–6th 2014, Gujarat, India
- 8th International Congress 'Aluminium Brazing', June 3rd–5th 2014, Düsseldorf, Germany
- The 8th Gränges Technical Seminar, Chengdu, China.
- SECO/WARWICK seminar in Russia:
1-ый Международный Семинар SECO/WARWICK
Пайка в Контролируемой Атмосфере (First International SECO/WARWICK Seminar – Brazing in Controllable Atmosphere)
October 7th and 8th 2014, Tolyatti, Russia

Trade publications:

- Heat Processing (Use of Seco on-line simulator for process control of aluminium sheet coil annealing in SECO/WARWICK VORTEX Jet Heating Furnaces)
- Thermal Processing Magazine (ATM)

The Group successfully organised the 17th 'New trends in heat treatment' seminar, which is an annual industry event in Poland. The seminar was held on September 23rd–25th 2014 at the conference centre in Zielona Góra, Poland. The event was attended by over 100 guests, including customers and trade and research partners. The participants gave fourteen thematic lectures and took part in two workshops. The participants praised the seminar for its high quality, both in terms of content and form.

The equipment delivered to the Institute of Electronic Materials Technology (ITME) and the Łódź University of Technology was launched. Both scientific research centres are implementing the research programme as planned. The ITME launched production of large format graphene (500 mm x 500 mm) grown on copper. Also, the Łódź University of Technology succeeded in producing graphene with excellent strength parameters. Since the beginning of 2015, SECO/WARWICK has been implementing a marketing strategy promoting its graphene production equipment. In March 2015, we participated in the 2015 Graphene Fair in Bilbao, Spain. We also plan to attend two other trade events dedicated to nanotechnology.

27. Environmental matters

In 2014, SECO/WARWICK S.A. 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. The permits expire on November 28th 2021. The Company maintains a register of generated waste. In addition, SECO/WARWICK S.A. executed agreements with specialist companies which handle waste disposal, recycling and treatment. All such companies hold relevant permits.

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

28. Workforce

In 2014, the average headcount at SECO/WARWICK S.A. was 20 FTEs, having decreased from 24 FTEs in 2013.

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

29. Information on:

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

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. 09/2014, appointing PKF Consult Sp. z o.o. of Warsaw as the auditor responsible for auditing the full-year separate financial statements of SECO/WARWICK S.A. and the consolidated financial statements of the SECO/WARWICK Group for 2014.

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. 9/2014, appointing PKF Consult Sp. z o.o. of Warsaw as the auditor responsible for reviewing the half-year separate financial statements of SECO/WARWICK S.A. and the half-year consolidated financial statements of the SECO/WARWICK Group for 2014.

The agreement with the auditor was executed on July 21st 2014. PKF Consult Sp. z o.o., with its registered office in Warsaw at ul. Orzycka 6 (suite 1B), is entered in the list of qualified auditors of financial statements under Reg. No. 477. The table below presents the total remuneration of the auditor for 2014 and 2013.

Table: Total remuneration of the auditor for 2014 and 2013

Service	Remuneration for 2014 PLN '000	Remuneration for 2013 PLN '000
Audit of annual financial statements	53	53
Other assurance services, including a review of financial statements	40	97
Tax advisory services provided by PKF Tax Sp. z o.o., a related entity of PKF Audyty Sp. z o.o.	32	36
Other services provided by PKF Audyty Sp. z o.o.	-	-
Total	126	186

Date: April 29th 2015

Paweł Wyrzykowski

*President of the
Management Board*

Wojciech Modrzyk

*Vice-President of the
Management Board*

Jarosław Talerzak

*Vice-President of the
Management Board*