

2019 REPORT



CONSOLIDATED ANNUAL REPORT

of LUG S.A. Capital Group

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The Letter of the President of LUG S.A.

Dear Sirs,

Hereby I present the annual report of the LUG S.A. Capital Group of 2019. This is a unique report - for two reasons. First of all, the 30th anniversary of LUG business operation activity. Secondly, I am writing this letter at an extraordinary time as the entire world is struggling with the SARS-CoV-2 virus pandemic. However, we are lucky to be one of the companies that have not stopped production, continuing to work while maintaining the necessary measures to protect the health of our employees.



Our strength is the ability to adapt to the changing market and its needs. Over the three decades of activity, LUG has evolved from a small family business that I founded with my father into a strong capital group. Today's offer of products and services is nothing like the one at the beginning of our activity. On the other hand, the values which we follow while running the company, such as innovation, partnership and responsibility, remained constant.

For 30 years we have been developing, successfully climbing the next rungs of the business ladder. A milestone in the development of the Group was the decision to issue shares publicly and debut on the New Connect stock market, which became the basis for the expansion of the plant in the Kostrzyn-Słubice Economic Zone.

The decision to invest in the development of new technologies turned out to be a breakthrough. Same, from a luminaire manufacturer, we have become a supplier of system solutions in the field of professional lighting technology, and our offer is not only lighting fixtures with optical systems and electronics, but also lighting management systems supporting the development of smart cities.

High specialization and comprehensive service from design to implementation is the future. Bearing the above in mind, last year we increased our competitive advantages by investing in new companies ESCOLIGHT Sp. z o.o. and LUG Services Sp. z o.o. The activities of these companies include "Light-as-a-Service" lighting management services, design and construction of lighting installations as well as integration of software elements cooperating with lighting installations. Already this year, we have also finalized a project in the form of a subsidiary LUG West Africa Ltd., which is an important element in building our presence on the African continent.

The past year has been full of a series of successes and worries related to the deteriorating economic situation on the construction services market and the reduction of investments. As a result of a series of events such as: the weakest in ten years readings of significant economic indicators (PMI), increased price pressure and postponing investment projects, we decided to accelerate activities related to the development of export markets. We have consolidated the sales structures and strengthened the team responsible for foreign expansion. We have significantly increased our sales expenditures, the goal of which is to reach 75 percent. export sales. Additionally, to improve the competitiveness of the LUG Group's offer, we temporarily reduced margins, thus gaining higher sales volumes, which strengthened our negotiating position with suppliers. All these activities meant that despite maintaining a high volume of revenues and gross profit, we did not manage to end the year with a profit. I believe that the effects of our actions will be visible in subsequent reports.

Last year, the work of our entire team has been recognized and awarded many times by independent experts. I will mention only a few of the titles here, the Global Champion of the Year in the Emerging Europe competition, the Bull statuette and the title of the best company on the NewConnect market, the Economic Award of the Marshal of the Lubuskie Voivodeship and a nomination for the Economic Award of the President of the Republic of Poland.

Today we face the great challenge of the global coronavirus pandemic. In this Report you will find a summary of its impact on our operations and the environment in which we operate, as well as information about our contribution to the fight with a pandemic in the form of a new family of PURELIGHT LUG lighting products for air and surface disinfection. This is an intense time full of challenges for us, but it is reassuring that over the past weeks we have not stopped production and, using all available protective measures, we have continued our activity in the new, epidemic reality. Many our plans may be disrupted and targets may be redefined as a result of the unpredictable effects of a global pandemic. However, we have proven many times that we can successfully face even the greatest challenges. I am convinced, that we will overcome difficulties once again and become even stronger.

I would like to thank all those who contribute to our development, wishing at the same time a lot of health and mutual kindness in this demanding period for everyone. Special thanks for the employees of companies associated within the LUG S.A. Capital Group, our business partners and shareholders.

I am pleased to invite you to read the information contained in this report.

Yours faithfully,



Ryszard Wtorkowski, CEO of LUG S.A.

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**FINANCIAL
INFORMATION**
of the Capital Group of LUG S.A.

1. INTRODUCTION

The selected financial information contains basic data (in PLN and translated on EURO) summarizing the financial situation of the LUG S.A. Capital Group. in the period from 01.01.2019 r. – 31.12.2019 are presented in Table 2, Table 3, Table 4 and Table 5.

Balance sheet items were translated at the average Euro exchange rate announced by the National Bank of Poland, in force at the balance sheet date.

Items of the income statement were translated at the average Euro exchange rate being the arithmetic average of the average Euro exchange rates published by the National Bank of Poland and binding on the last day of each completed month of four quarters of the year.

Table 1 Exchange rate table EUR/PLN

	Euro rate of exchange on the balance sheet date (31.12.)	Average exchange rate in the period from 01.01. to 31.12.
2018	4,3000	4,2669
2019	4,2585	4,3018

Source: NBP

2. SELECTED INFORMATION FROM THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

Table 2. Selected consolidated financial data of LUG S.A. Capital Group for 2019 and comparative data for 2018 [PLN mln]

	2019 mln PLN	2018 mln PLN	2019 mln EUR	2018 mln EUR	Dynamics y/y
Sales revenues	168,50	170,79	39,17	40,03	98,64
Amortization	8,29	6,84	1,93	1,60	121,08
Profit (loss) on gross sales	62,45	70,72	14,52	16,57	88,31
Profit (loss) on net sales	-7,50	7,49	-1,73	1,76	-99,55
Profit (loss) from operational activity	-5,68	9,01	-1,32	2,11	-63,01
Profit from economic activity	-4,94	5,04	-1,15	1,18	-98,11
EBITDA	2,61	15,85	0,61	3,71	16,45
Gross Profit (loss)	-4,94	5,04	-1,15	1,18	-98,11
Net Profit (loss)	-5,80	4,15	-1,35	0,97	-139,71
	31.12.2019 mln PLN	31.12.2018 mln PLN	31.12.2019 mln EUR	31.12.2018 mln EUR	Dynamics y/y
Total Assets, including:	150,32	143,83	34,94	33,45	104,51
Fixed Assets	69,64	64,36	16,19	14,97	108,20
Current Assets	80,68	79,47	18,75	18,48	101,52
Inventory	41,55	35,51	9,66	8,26	116,99
Cash and cash equivalent	3,74	5,26	0,87	1,22	71,06
Total Receivables, including:	33,28	37,24	7,74	8,66	89,38
Short-term receivables	33,25	37,21	7,73	8,65	89,38
Long term-receivables	0,03	0,03	0,01	0,01	99,78
Liabilities and provisions, including:	104,67	89,98	24,33	20,93	116,33
Liabilities and long-term provisions	14,17	14,93	3,29	3,47	94,94
Liabilities and short-term provisions	90,50	75,05	21,04	17,45	120,58
Equity, including:	45,65	53,85	10,61	12,52	84,76
Share capital	1,80	1,80	0,42	0,42	100,00

Source: Issuer

3. CASH FLOW

Table 3. Consolidated cash flows of LUG S.A. Capital Group in MSR/MSSF of 2019 and comparative data of 2018 rok [mln PLN]

	2019 mln PLN	2018 mln PLN
Net cash flows from operational activity	-2,34	10,74
Net cash flows from investment activities	-6,24	-8,88
Net cash flow form financial activity	7,05	0,77
Net cash flows	-1,52	2,64

Source: Issuer

4. INDICATOR ANALYSIS

Table 4. Selected consolidated financial indicators of LUG S.A. Capital Group of 2019 with comparative indicators for 2018 [% , pp]

	2019	2018	Change y/y
Gross margin on sales	37,1%	41,4%	-4,3pp
EBITDA profitability	1,5%	9,3%	-7,7pp
Operational profitability	-3,4%	5,3%	-8,6pp
Net profitability	-2,9%	2,1%	-5,0pp
Return on equity	-10,6%	6,7%	-17,3pp
Return on assets	-3,2%	2,5%	-5,7pp
Overall liquidity ratio	89,1%	105,9%	-16,7pp
General debt ratio	69,6%	62,9%	+7,1pp
Net debt/ EBITDA	21,38	2,40	+18,98
EV/EBITDA (at the end of the period)	31,28	5,94	+25,33

Source: Issuer

Explanation of the indicators:

Gross margin on sales

Formula: gross result on sales/sales revenues

Description: determines the level of basic margin obtained from the sale of services and products

EBITDA profitability

Formula: (result on operating activity + amortization)/sales revenues

Description: measures the effectiveness of conversion of revenues into profit from continuous activity, against interest on loans taken, taxes, depreciation and amortization cost and before deduction the cost of any exceptional items

Operational profitability

Formula: result on operating activity/sales revenues

Description: determines how much net profit (after tax) is assigned to 1 PLN of company revenues

Net profitability

Formula: Net result/sales revenues

Description: informs investors what percentage of sales revenues is net profit

Return on Equity

Formula: Net result equity capital, where Equity capital = Total assets – Liabilities (short and long-term)

Description: determines the profitability rate on the equity invested in the company

Return on Assets

Formula: Net result/total assets

Description: informs about the profitability of all company assets in relation to the profits generated by them, or – in other words - how much net profit brings every 1,- PLN spent on financing the assets

Overall liquidity ratio

Formula: assets/current liabilities

Description: informs about the company ability to settle liabilities based on all current assets

General debt ratio

Formula: Total liabilities/total assets

Description: informs about the share of debt and liabilities in the financing of company assets

Net debt/EBITDA

Formula: Net debt/EBITDA, where Net debt = Total financial liabilities (short and long-term) – Cash; in the denominator the sum of EBITDA for the last four quarters

Description: informs about the company ability to repay the debt with operating profits

EV/ EBITDA

Formula: Enterprise value / EBITDA, where: Enterprise value = Capitalization (number of X shares, share price on a given day) + Total liabilities (short and long-term) - Minority capital - Cash, with capitalization determined according to the share price on the last day of a given quarter; in the denominator the sum of EBITDA for the last four quarters

Description: informs about the profit coverage of the company value and as a dynamic indicator (depending on the company's share price), it indicates how many investors are ready to pay for this unit of this kind of profit.

5. DESCRIPTION OF THE STRUCTURE OF ASSETS AND LIABILITIES**Table 5.** Structure of assets and liabilities of LUG S.A. Capital Group in 2019 and comparative data for 2018

Balance sheet	Balance on 31.12.2019 [thousand PLN]	Structure [%]	Balance on 31.12.2018 [thousand PLN]	Structure [%]	Dynamics y/y
ASSETS					
Fixed assets	69,64	46,33%	64,36	44,75%	108,20%
Tangible fixed assets	46,37	30,85%	47,57	33,08%	97,47%
Intangible assets	16,05	10,68%	12,83	8,92%	125,10%
Long-term investments	0,00	0,00%	0,0011	0,00%	0,00%
Shares consolidated with the equity method	0,03	0,02%	0,00	0,00%	0,00%
Right-of-use assets	3,11	2,07%	0,00	0,00%	0,00%
Deferred tax assets	4,04	2,69%	3,93	2,73%	102,93%
Long-term receivables	0,03	0,02%	0,03	0,02%	99,72%
Current assets	80,68	53,67%	79,47	55,25%	101,52%
Inventory	41,55	27,64%	35,51	24,69%	116,99%
Trade receivables	32,01	21,29%	34,92	24,28%	91,67%
Receivables due to taxes/ customs/ insurance and others	0,00	0,00%	0,22	0,15%	0,00%
Other receivables	1,25	0,83%	2,29	1,59%	54,43%
Financial assets at fair value through profit or loss	0,2	0,13%	0,00	0,00	0,00%
Accruals	1,94	1,29%	1,27	0,88%	152,43%
Cash and cash equivalent	3,74	2,49%	5,26	3,66%	71,06%
TOTAL ASSETS	150,32	100,00%	143,83	100,00%	104,51%
LIABILITIES					
Equity capital	45,65	30,37%	53,85	37,44%	84,76%
Share capital	1,80	1,20%	1,80	1,25%	100,00%

Supplementary capital from issue of shares above face value	23,82	15,84	23,82	16,56%	100,00%
Other capitals	22,08	14,69%	17,05	11,86%	129,46%
Exchange differences from consolidation	-1,75	-1,16%	-0,31	-0,21%	568,90%
Profits retained	7,60	5,06%	9,40	6,54%	80,81%
Minority shareholders capital	-2,09	-1,39%	-2,06	-1,43%	101,46%
Financial result of the current period	-5,80	-3,86%	4,15	2,89%	-139,71%
Long-term liabilities	14,17	9,43%	14,93	10,38%	94,94%
Liabilities due to credits, loans and debt instruments	2,64	1,75%	3,78	2,63%	69,79%
Other financial liabilities	7,04	4,68%	6,07	4,22%	115,97%
Provisions due to deferred income tax	0,07	0,05%	0,07	0,05%	102,35%
Provisions due to employee benefits	0,37	0,25%	0,30	0,21%	121,45%
Prepayments and accrued income	2,63	1,75%	3,64	2,53%	72,30%
Other provisions	1,42	0,95%	1,06	0,74%	133,59%
Short-term liabilities	90,50	60,20%	75,05	52,18%	120,58%
Liabilities due to credits, loans and other debt instrument	34,00	22,62%	23,72	16,49%	143,35%
Prepayments and accrued income	0,70	0,46%	0,21	0,15%	324,40%
Trade liabilities	29,99	19,95%	29,88	20,78%	100,36%
Liabilities due to current income tax	0,007	0,00%	0,113	0,08%	6,18%
Other liabilities	22,44	14,93%	16,90	11,75%	132,79%
Provisions due to employee benefits	0,58	0,39%	0,63	0,43%	92,67%
Other provisions	2,77	1,84%	3,59	2,50%	77,24%
TOTAL LIABILITIES	150,32	100%	143,83	100,00%	104,51%

Source: Issuer

Balance sheet of the LUG S.A. Capital Group in 2019 closed with the amount of PLN 150.32 million and this is the level higher by 4.51 percent than in the previous year. Current assets accounted for 53.67 percent of the company's assets, with fixed assets accounting for 46.33 percent of the total assets. Comparing y/y, fixed assets showed dynamics of +108.20 percent, while current assets showed dynamics of +101.52 percent. As at December 31, 2019, inventories accounted for approximately 27.64 percent of current assets. In the structure of fixed assets, the highest dynamics was shown by intangible assets (+125.10%), however, tangible fixed assets have the highest value share in the structure of fixed assets, showing the dynamics of 97.47%. In 2019, equity in the structure of liabilities accounted for 30.37 percent, long-term liabilities constituted 9.43 percent, and short-term liabilities - 60.20 percent. The greatest dynamics in the structure of liabilities was shown by exchange rate differences from consolidation, i.e. +568.90 percent. In 2019, prepayments in the structure of short-term liabilities showed a dynamics of +324.40 percent. It was mainly influenced by trade liabilities, which in 2019 accounted for 19.95 percent of the structure of short-term liabilities. As regards long-term liabilities, other provisions improved the most dynamically (+133.59 percent).

6. DESCRIPTION OF THE STRUCTURE OF MAIN CAPITAL DEPOSITS OR CAPITAL INVESTMENTS

In 2019, the LUG S.A. Capital Group used overnight deposits, as well as from term deposits not exceeding two weeks.

LUG companies did not make any investments or investments besides the indicated ones, either within the capital group itself, or in external entities.

7. DESCRIPTION OF SIGNIFICANT OFF-BALANCE SHEET ENTRIES, SORTED BY CONTRACTING PARTY, SUBJECT AND VALUE

The description of significant off-balance sheet items, including a description of contingent liabilities due to guarantees and sureties granted, is provided in note 26 of the consolidated financial statements of the LUG S.A. Capital Group of 2019.

In the opinion of the Management Board, there probability of the outflow of financial resources shown in off-balance/ conditional commitments in 2019 is negligible.

8. DESCRIPTION OF TRANSACTIONS WITH AFFILIATED COMPANIES

The parent company and its subsidiaries did not enter into transactions with related entities on other than market conditions. Detailed information on transactions with related entities is provided in note 32 of the consolidated financial statements of the LUG S.A. Capital Group of 2019.

9. INFORMATION ON LOANS GRANTED IN A GIVEN FINANCIAL YEAR

In 2019, the state of loans increased in comparison to 2018 by the amount of PLN 2.790 thousand. Loans granted in 2019 at the LUG S.A. Capital Group are indicated in the Separate Annual Report of LUG S.A.: loans granted by LUG S.A. to subsidiary LUG do Brasil Ltda. in the amount PLN 464 thousand and subsidiary BIOT Sp. z o.o. in the amount PLN 800 thousand. LUG S.A. for loans granted to LUG do Brasil Ltda made a write-off for the amount of PLN 464 thousand PLN. In addition, the subsidiary LUG Light Factory sp.z o.o. granted loans to the BIOT Sp. z o.o. in 2019 for a total amount of PLN 2.79 million.

10. INFORMATION ON AGREEMENTS CONCERNING CREDITS AND LOANS

Capital Group of LUG S.A. has long-term investment loan agreements, short-term loan agreements and current account overdrafts contracts, in PLN and in variable-rate Euro. Detailed information on credit agreements is provided in note no. 23 of the consolidated financial statements of the LUG S.A. Capital Group of 2019.

11. THE INFORMATION ON GRANTED AND RECEIVED WARRANTIES AND GUARANTEES IN THE FISCAL YEAR

As at December 31, 2019, there was no surety for the LUG S.A. Capital Group and the Capital Group did not grant any guarantees in 2019.

12. INFORMATION ABOUT CHANGING ACCOUNTING PRINCIPLES

In 2019, there were no changes to the accounting principles.

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STATEMENT OF THE MANAGEMENT BOARD

of the dominant entity from the business activity
of LUG S.A. Capital Group

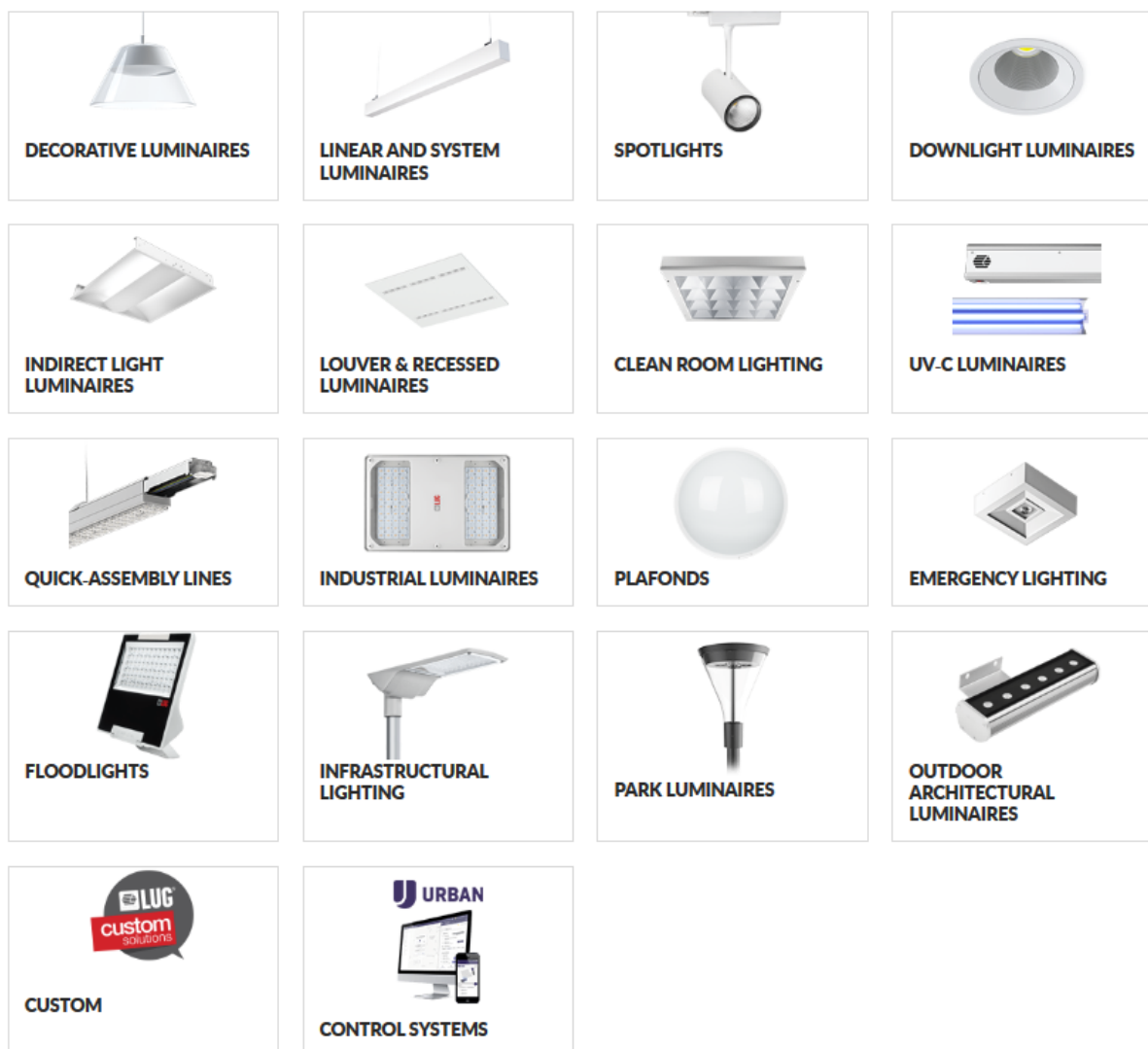
1. BASIC INFORMATION

1.1. Organization

1.1.1. Subject of activity

LUG S.A. Capital Group LUG is one of the leading producers of professional lighting solutions in Europe. The company's offer includes a wide range of outdoor lighting fixtures for illuminating buildings, street or parking lots, as well as indoor luminaires applicable in sales rooms, offices, shopping malls, hotels and supermarkets.

The LUG product offer includes luminaire families such as:



Predominantly, the subject of the activity of the LUG S.A. Capital Group according to PKD is:

- production of electric lighting equipment (according to PKD 2007 - 27.4);

The Issuer's business sector, according to the WSE classification:

- construction.

1.1.2. Description of the organization of the LUG S.A. Capital Group

The parent company of the LUG S.A. Capital Group ("Group", "Capital Group") is the company LUG S.A. ("Company", "Issuer"):

Native country	Poland
Headquarter	Zielona Góra
Legal form	Joint-stock company
Law regulations	Polish law, due to Commercial Companies Code
Headquarters address	Gorzowska 11 Street, 65-127 Zielona Góra
Communication numbers	tel no. (068) 45 33 200, fax. no. (068) 45 33 201 e-mail address lug@lug.com.pl
Website	www.lug.com.pl
Basic object of company's activity	consulting of central companies (head office) and related consultancy with management (according to PKD 2007 - 70)
REGON	080201644
Tax identification number	929-16-72-920
National Court Register	The company is registered in the Register of Entrepreneurs of the National Court Register kept by the District Court in Zielona Góra, 8th Commercial Division of the National Court Register under KRS number 0000287791
Duration of the capital group	The parent company LUG S.A. and other entities of the Capital Group have been created for an indefinite period.

The company is registered in the Register of Entrepreneurs of the National Court Register maintained by the District Court in Zielona Góra, 8th Commercial Division of the National Court Register under KRS number 0000287791.

On the day of publication of the report the LUG S.A. Capital Group consists of the following companies:

- LUG Light Factory Sp. z o.o.;
- LUG GmbH;
- LUG do Brasil Ltda.;
- LUG Lighting UK Ltd.;
- LUG Argentina SA;
- BIOT Sp. z o.o.;
- T.O.W. LUG Ukraina (business activity suspended);
- LUG Aydınlatma Sistemleri Anonim Sirketi (LUG Turkey);
- ESCOLIGHT Sp. z o.o.
- LUG West Africa Ltd.

Table 6. Data of entities related by capital with the Issuer

Company's name	Head office	Register data	Object activity	Basic capital	Percentage share in capital	Percentage share in voting rights
LUG Light Factory Sp. z o. o.	Zielona Góra, Gorzowska 11 Street	KRS 0000290498 NIP 929-17-85-452	Production of electric lighting equipment and electric lamps	29 000 000,00 PLN	100%	100%
LUG GmbH	10179 Berlin Wilhelmine-Gemberg-Weg 6, Aufgang G	KRS HRB12835 NIP 262127740	Production, distribution and installation of electrical equipment	25 000,00 EUR	100%	100%
T.O.W LUG Ukraina (business activity suspended)	ul. Diehtiarivska 62A, 03040 Kijów	KRS 10741020000154 70 NIP 34190214	Wholesale and retail trade with lighting equipment. Designing production of lighting equipment	160 233,00 UAH	100%	100%
LUG do Brasil Ltda	Al. Santos, 2480 Cj.51 - Cerqueira César, São Paulo	CNPJ/MF 15.805.349/0001-78	Wholesale and retail trade with lighting equipment. Designing production of lighting equipment	500 000,00 BRL	65%	65%
LUG Lighting UK Ltd.	The Building Centre, 26 Store Street, Londyn WC1E 7BT, UK	KRS 08580097 NIP 171766096	Wholesale and retail trade with lighting equipment. Designing production of lighting equipment	5 000,00 GBP	100%	100%
LUG Argentina SA	Calle 62 y 239 Paraje Nemesio Parma, Parque Industrial Posadas, CP 3300 Posadas, Misiones, Argentina	Zarejestrowana przez La Inspección General de Justicia (IGJ) pod numerem 17573 księgi 85 Spółek Akcyjnych (RPC)	Production, processing, assembly and assembly of lighting fixtures, commercial and consulting activities in lighting technology field.	8 700 000,00 ARS	50%	50%
BIOT Sp. z o.o.	Nowy Kisielin – Nowa 7 Street, 66-002 Zielona Góra	KRS 0000695926 NIP 9731045329	Activities related to software and consultancy in the field of computer science and technology.	200 000,00 PLN	51%	51%
LUG Aydınlatma Sistemleri Anonim ŞİRKETİ (LUG Turkey)¹	Anadolu Hisari, Ruzgari Bahce Mahallesi, Cumhuriyet Caddesi, Feragat Sokak, Demir Plaza, No:3/A Beykoz, Istanbul	Istanbul Trade Registry, Mersis number:060908488 2000001, Tax No: 6090848820	Commercial and consulting activities in lighting technology field.	50 000,00 TRY	66,8%	66,8%
ESCOLIGHT Sp. z o.o.	Mickiewicza 3A Street, 65-053 Zielona Góra	KRS 0000816193 NIP 9292024347	Comprehensive project service including preparation, financing, implementation and service of lighting investments	100 000,00 PLN	30%	30%

¹ On 12.11.2018, LUG S.A. acquired a block of shares in the Turkish company LUG Aydınlatma Sistemleri Anonim Şirketi (LUG Turkey) from one of the current shareholders - Mr. Ruhan Konsol. In connection with the purchase of the above package, the Issuer's share in the share capital and votes at the General Meeting of the Company increased from 50% to 66.8%.

LUG Services Sp. z o.o.	Gorzowska 11 Street 65-127 Zielona Góra	0000828305	Projects and execution of lighting installations and integration of cooperating software elements with lighting installations.	50 000,00 PLN	97%	97%
LUG West Africa Ltd. – in registration process	Lagos, Nigeria	In the process of registration	Commercial activity in the field of professional LED lighting solutions in Nigeria and West Africa	10 000 000,00 NGN	70%	70%

Source: LUG S.A.

In 2019, the LUG S.A. Capital Group expanded by new company named ESCOLIGHT Sp. z o.o., which is an entity related to LUG, based in Zielona Góra. It was communicated in the current report of ESPI No. 8/2019 of October 24, 2019. The company's share capital amounts to PLN 100,000, the Issuer has acquired 600 shares with a nominal value of PLN 50/ share and a total nominal value of PLN 30,000, which constitutes 30% of the share capital and entitles to the same number of votes at the Company's Shareholders' Meeting. The remaining shares in the company's share capital were acquired by JKI GK Sp. z o.o. ESCOLIGHT Sp. z o.o. has been established for an indefinite period, and the subject of its activity are lighting management services - Light-as-a-Service: comprehensive project service including preparation, financing, implementation and service of lighting investments. On December 5, 2019, a decision was received at the Issuer's registered office to make an entry in the register of entrepreneurs under the number KRS 0000816193, which was also announced in the current report ESPI 10/2019.

After the balance sheet date, this is January 27, 2020, LUG Services Spółka z ograniczoną odpowiedzialnością was established as a subsidiary of LUG S.A., what was announced in the current report ESPI 1/2020 of 27/01/2020. The share capital of the newly established company amounts to PLN 50,000.00, the Issuer acquired 970 shares with a nominal value of PLN 50/ share and a total nominal value of PLN 48,500.00. This constitutes 97% of the company's share capital and entitles to the same number of votes at the Company's Shareholders' Meeting. The remaining shares in the share capital of the Company were acquired by a natural person, Mr. Grzegorz Bartczak. The company was registered on February 11, 2020, number KRS 0000828305, what was announced in the current report No. 3/2020 of 02/11/2020.

On June 5, 2020, a new LUG S.A. subsidiary named LUG West Africa Limited was established and announced in the current report ESPI 4/2020 of June 5, 2020. The share capital of the newly established company amounts to NGN 10,000,000.00 (Nigerian Naira), with the Issuer acquiring 7,000,000 shares with a nominal value of NGN 1.0/ share and a total nominal value of NGN 7,000,000.00. It constitutes 70% of the company's share capital and entitles to the same number of votes at the Company's Shareholders' Meeting. The remaining shares in the share capital of the Company were acquired by Jintech Management Ltd. (15% of the share capital) and a natural person, Mr. Haidar Hussen Zein (15% of the share capital). The company is in organization.

As at the date of publication of the report, the Capital Group of LUG S.A. has no other associated entities.

All companies of the LUG S.A. Capital Group are fully consolidated. The exceptions are: T.O.W. LUG Ukraina, whose activities are suspended and therefore is not consolidated (the company does not generate any results) and the company ESCOLIGHT Sp. z o.o. established on October 24, 2019, being an associate of LUG S.A. consolidated by the equity method, communicated in the current report 8/2019 of 24/10/2019.

Chart 1 Structure of LUG S.A. Capital Group on the publication date, this is 26.06.2020.



* T.O.W. Ukraine is suspended for an indefinite period

Source: LUG S.A.

In 2019, there were no other changes regarding the structure of the LUG S.A. Capital Group.

1.1.3. Duration

- LUG S.A. is a company established for an indefinite period.
- LUG Light Factory Sp. z o.o. is a company established for an indefinite period.
- LUG GmbH is a company established for an indefinite period.
- T.O.W. LUG Ukraine is a company established for an indefinite period, on 31.12.2018 its business activity has been suspended.
- LUG do Brasil Artigos de iluminação Ltda. is a company established for an indefinite period.
- LUG Lighting UK Ltd. is a company established for an indefinite period.
- LUG Argentina SA is a company established for a period of 99 years, which is regulated by Argentinian law.
- BIOT Sp. z o.o. is a company established for an indefinite period.
- LUG Aydınlatma Sistemleri Anonim Şirketi is a company established for an indefinite period.
- ESCOLIGHT Sp. z o.o. is a company established for an indefinite period.
- LUG Services Sp. z o.o. is a company established for an indefinite period.
- LUG West Africa Ltd. is a company established for an indefinite period.

1.1.4. Share Capital

In 2019, there were no events that would affect the value of the share capital of LUG S.A.

As at 31.12.2019 r. and as at the date of this report, the share capital of LUG S.A. amounted to PLN 1 799 642,50 and was divided into 7.198.570 shares with a nominal value of PLN 0.25 each, including:

- a) 4 320 000 (four million three hundred twenty thousand) ordinary bearer shares of series A with nominal value of 0,25 PLN (twenty five polish penny) each;
- b) 1 438 856 (one million four hundred thirty eight thousand eight hundred fifty six) ordinary bearer shares of series B with nominal value of 0,25 PLN (twenty five polish penny) each;
- c) 1 439 714 (one million four hundred thirty nine thousand seven hundred fourteen) ordinary bearer shares of series C with nominal value of 0,25 PLN (twenty five polish menny) each.

Table 7. Structure of share capital as of the day of creating this report

	Shares numer (unit)	Share in the company's share capital (%)	Votes number	Share in the total number of votes (%)
A Series	4 320 000	60,01%	4 320 000	60,01%
B Series	1 438 856	19,99%	1 438 856	19,99%
C Series	1 439 714	20,00%	1 439 714	20,00%
Total	7 198 570	100%	7 198 570	100%

Source: LUG S.A.

Share capitals of Issuer's companies:

- As at December 31, 2019 and as at the date of this report, the share capital of LUG Light Factory Sp. z o.o. amounted to PLN 29,000,000.00 and was divided into 58 000 equal, indivisible shares with a nominal value of PLN 500,00 each.
- As at December 31, 2019 and as at the date of this report, the share capital of LUG GmbH amounted to EUR 25,000.00 and was divided into 500 equal, indivisible shares with a nominal value of EUR 50.00 each.
- As at December 31, 2019 and as at the date of this report, the share capital of LUG Ukraina Sp. z o.o. amounted to 160 233.00 Hryvnia and was divided into two shares with a nominal value of Hryvnia 80 116.50 each.
- As at December 31, 2019 and as at the date of this report, the share capital of LUG do Brasil Ltda. was 500,000.00 Brazilian Real and was divided into 500 000 shares with a nominal value of 1 Brazilian Real each. The Issuer held 65% of shares.
- As at December 31, 2019 and as at the date of this report, the share capital of LUG Lighting UK Ltd. amounted 5,000.00 British Pounds and was divided into 500 shares with a nominal value of 10.00 British Pounds each.
- As at December 31, 2019, the share capital of BIOT Sp. z o.o. amounted to PLN 200,000.00 (due to the capital increase presented in the ESPI report no. 8/2018) and is divided into 4 000 shares with a nominal value of PLN 50.00 each. The Issuer holds a 51% share in the share capital and in the votes at the shareholders' meeting. As at the date of this report, the Issuer's share in the share capital of BIOT Sp. z o.o. amounts to PLN 102 000.00 and is divided into 2040 shares with a nominal value of PLN 50.00 each.
- As at December 31, 2019, the share capital of LUG Argentina SA amounted to 8 700 000,00 of argentine pesos. The Issuer share in the share capital amounted 4 350 000 of argentine pesos and divides into 43 500 shares with a nominal value of 100 argentine pesos each.
- As at December 31, 2019, and as the date of this report, the share capital of LUG Aydinlatma Sistemleri Anonim Sirketi is 50 000 TRY, the Issuer acquied 33.400 A series shares with

nominal value of 1 TRY, which is 66,8% of the share capital and in the votes at the shareholders' meeting.

- As at December 31, 2019, and as the date of this report, the share capital of ESCOLIGHT Sp. z o.o. is amounted to PLN 100 000, the Issuer acquired 600 shares of nominal value PLN 50/ share, which is 30% of the share capital and in the votes at the shareholders' meeting.
- As at December 31, 2019, and as the date of this report, the share capital of LUG Services Sp. z o.o. is PLN 50 000, the Issuer acquired 970 shares of nominal value PLN 50/ share, which is 97% of the share capital and in the votes at the shareholders' meeting.
- As at December 31, 2019, and as the date of this report, the share capital of LUG West Africa Ltd. is 10.000.000,00 NGN, the Issuer acquired 7.000.000 shares of nominal value 1,0 NGN/ share, which is 70% of the share capital and in votes at the shareholders' meeting.

1.1.5. Shares on ownership structure

LUG S.A. shares

Securities of LUG S.A. debuted on the NewConnect market of the Warsaw Stock Exchange S.A. (WSE) on November 20, 2007.

- **A series ordinary bearer shares**, pursuant to Resolution No. 1 of the Extraordinary General Meeting of Shareholders of LUG S.A. of September 21, 2007, were converted from registered shares into bearer shares. A series shares are foundational shares. They were created on the basis of the provisions of the Commercial Companies Code regarding the establishment of a joint-stock company. Series A registered shares were created pursuant to the resolution of August 2, 2007 of the Extraordinary General Meeting of Shareholders of LUG Sp. z o.o., the legal predecessor of the Issuer. The date of registration of series A shares is September 3, 2007.
- **B series ordinary bearer shares** were created pursuant to Resolution No. 2 of the Extraordinary General Meeting of Shareholders of LUG S.A. of 21/09/2007 The issue of series B shares was registered by the commercial court competent for the registered office of the Issuer on 03.12.2007.
- **C series ordinary bearer shares** were created pursuant to Resolution No. 5 of the Extraordinary General Meeting of Shareholders of LUG S.A. on 23.03.2010, regarding the increase of the Company's share capital through public issue of C series ordinary bearer shares, as part of a closed subscription with pre-emptive rights, amendments to the Articles of Association, consent to their dematerialisation and introduction to organized trading in the Alternative Trading System "NewConnect". The subscription for series C shares lasted from 04.05.2010. until May 14.05. 2010. The allocation of shares was made on May 27, 2010. The issue price of series C shares has been determined at the level of PLN 0.15. For C series shares in exercise of pre-emptive rights, the subscription was submitted by 393 investors in basic subscriptions and 149 investors, as part of additional subscriptions. The reduction rate of additional subscriptions amounted to 93.5%.

In November 2012, pursuant to the provisions of the Extraordinary General Meeting of Shareholders of September 28, 2012, the shares were merged in a ratio of 25:1, while increasing their nominal value. This means that the nominal value of the shares of all LUG series was increased from PLN 0,01 (PLN 0,01) to PLN 0,25 (PLN 0,25). The merger was carried out with a proportional reduction in the total

number of shares, from 179.964.250 to 7.198.570, that is, by combining every 25 shares with the current nominal value of PLN 0,01 per one share of the Company, with a new nominal value of PLN 0,20. The entire procedure did not affect the share capital of LUG S.A. in the amount of PLN 1,799,642.50, which remained unchanged.

Table 8. Share structure before and after merging LUG S.A. shares

Shares series	Shares number before merger (nominal value of 0,01 PLN)	Shares number after merger (nominal value of 0,25 PLN)
A series	108 000 000	4 320 000
B series	35 971 400	1 438 856
C series	35 992 850	1 439 714
Total	179 964 250	7 198 570

Source: LUG S.A.

In 2019, there were no events affecting the share structure of LUG S.A.

Structure of the parent company's shares in subsidiaries of the LUG S.A. Capital Group.

Holdings of shares in the companies of the LUG S.A. Capital Group. being held by the parent company as at the date of this report, is as follows:

Table 9. Structure of LUG S.A. shares in the companies of the Capital Group

Company	Shareholder	Shares number	Shares value	Share capital share	Shares to votes ratio at GM
LUG Light Factory Sp. z o. o.	LUG S.A.	58 000	29 000 000 PLN	100%	100%
LUG GmbH	LUG S.A.	500	25 000 EUR	100%	100%
T.O.W LUG Ukraina	LUG S.A.	2	160 233,00 UAH	100%	100%
LUG do Brasil Ltda.	LUG S.A.	325 000	325 000,00 BRL	65%	65%
LUG Lighting UK Ltd.	LUG S.A.	500	5 000 GBP	100%	100%
LUG Argentina SA	LUG S.A.	43 500	4 350 000 ARS	50%	50%
BIOT Sp. z o.o.	LUG S.A.	2 040	102 000 PLN	51%	51%
LUG Turkey	LUG S.A.	33 400	33 400 TRY	66,8%	66,8%
ESCOLIGHT Sp. z o.o.	LUG S.A.	600	30 000 PLN	30%	30%
LUG Services Sp. z o.o.	LUG S.A.	970	48 500 PLN	97%	97%
LUG West Africa Ltd.	LUG S.A.	7 000 000	7 000 000,00 NGN	70%	70%

Source: LUG S.A.

LUG S.A. ownership structure

Table 10 and Chart 2 specify shareholders holding at least 5% of shares in the share capital of LUG S.A. as at the date of this report from activity.

Table 10. Structure of LUG S.A. ownership holding at least 5% Issuers shares – as of the day of the report.

Name and surname/ name	Shares Series	Number of shares	Share in the the share capital	Shares to Vote ratio at GMoS
Ryszard Wtorkowski	A, C	2 670 610	37,10%	37,10%
Iwona Wtorkowska	A	1 120 000	15,56%	15,56%
Funds managed by OPERA TFI	A, B, C	1 349 715	18,75%	18,75%
Other shareholders	B, C	2 058 245	28,59%	28,59%
TOTAL	A,B,C	7 198 570	100,00%	100,00%

Source: LUG S.A.

The shareholding structure was determined regarding to the following documents:

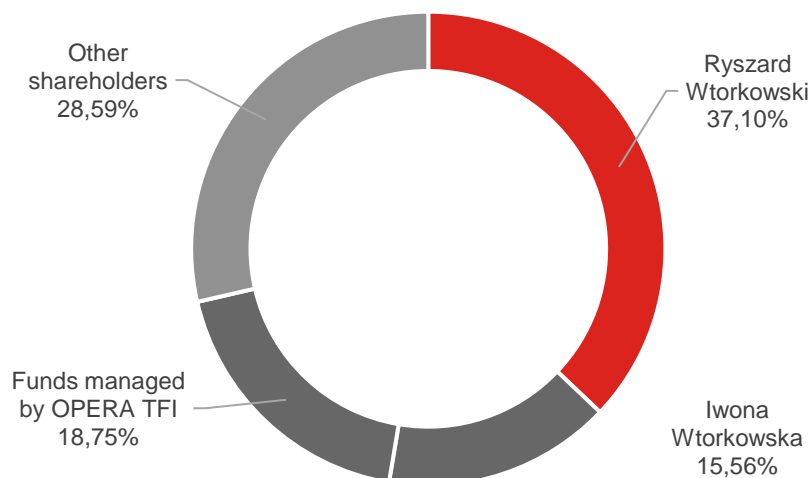
- Ryszard Wtorkowski – list of people entitled to participate in the Ordinary General Meeting of LUG S.A. on 28.06.2019 (12.06.2019: day of registration of participation in OGM of LUG S.A.);
- Iwona Wtorkowska – list of people entitled to participate in the Ordinary General Meeting of LUG S.A. on 28.06.2019 (12.06.2019: day of registration of participation in OGM of LUG S.A.);
- Funds manager by OPERA TFI – announcement of July 18, 2019, regarding corrections of the notification on the reduction of the share in the total number of votes at the General Meeting by NOVO Open-End Investment Fund managed by OPERA TFI S.A. - RB ESPI 6/2019.

In 2019, the Issuer received following information about the changes in the state of possession of LUG S.A. shares by the Funds manager by OPERA TFI:

- Notification of exceeding the threshold of 10% of votes at the general meeting. On July 5, 2019, the Issuer received an information about an increase in the share in the total number of votes at the General Meeting by NOVO Investment Open Fund managed by OPERA TFI S.A. based on the received notification made on 4 July 2019. This information was published in the current ESPI report 4/2019 of July 5, 2019;
- Notification on the reduction of the share in the total number of votes at the General Meeting of LUG S.A. below the corner of 10% - on July 10, 2019, the Issuer was informed about the reduction of the share in the total number of votes at the General Meeting by NOVO Open Investment Fund managed by OPERA TFI S.A. based on the received notification made on July 8, 2019. This information was published in the current report ESPI 5/2019 of July 10, 2019;
- Correction of the notification on the reduction of the share in the total number of votes at the General Meeting of LUG S.A. below the 10% threshold received on July 22, 2019. The Issuer received a correction to the notification previously prepared on July 8, 2019 by NOVO Open-End Investment Fund managed by OPERA TFI S.A. The correction concerned the reduction of the share in the total number of votes at the Issuer's General Meeting, communicated in the current report No. 5/2019 of 10 July 2019. The purpose of the correction was to supplement

by the shareholder the formal shortcomings of the notification indicated in points 5-9, art. 69 sec. 4 of the Act on Offer.

Chart 2 Graphic presentation of the shareholder structure of LUG S.A - as at the date of this report



Source: LUG S.A.

The dominant shareholder in the shareholding structure of LUG S.A. is Mr. Ryszard Wtorkowski, who holds 2,670,610 shares of LUG S.A., which constitutes 37.10% of the company's shareholding structure. Mr. Ryszard Wtorkowski is the founder of LUG S.A. leading the entire LUG S.A. Capital Group. The package of 1,120,000 shares, representing 15.56% of the shareholding structure, is owned by Mrs Iwona Wtorkowska, the wife of Ryszard Wtorkowski. The number of shares owned by Mr. Ryszard Wtorkowski and Mrs. Iwona Wtorkowska gives a total of 52.66%, which is a majority share in the shareholding of LUG S.A. The funds managed by Opera TFI hold in total 1,349,715 shares, this is 18.75% of the shareholding structure based on the update as of July 18, 2019, regarding the correction of the notification on the reduction of the share in the total number of votes at the General Meeting by NOVO Open Investment Fund (RB ESPI 6/2019). The remaining shareholders hold 2,058,245 shares in total, representing 28.59% of the shareholding structure.

As at the date of this report, shareholders of LUG S.A. they are not covered by a lock-up agreement.

Quotation of LUG S.A. for the period from 01.01.2019 – 31.12.2019

The first half of 2019 brought a stable valuation of LUG S.A. shares, which oscillated between PLN 6/ share and nearly PLN 9/ share. In the first quarter of 2019, on January 4, LUG S.A.'s share price recorded the highest value both for the first quarter and the entire 2019, reaching the price of PLN 8.88/ share. The lowest value of the exchange rate was recorded on August 19, 2019 and was equal to PLN 3.08/ share. At the turn of June, July and August 2019, a gradual decline in the valuation of LUG S.A. shares was observed. from PLN 7.80/ share to values oscillating between 3.08 - 4.24 PLN/ share. The third and fourth quarters of the year were characterized by a stable valuation of LUG S.A. shares, which turned out to be the company's trend until the end of the financial year.

Chart 3 Quotation of LUG S.A. shares for the period okresie 01.01.2019 – 31.12.2019 r.



Source: LUG S.A.

In 2019, the shares of LUG S.A., as in previous years, belonged to the NCIndex index, from December 2018 also qualified to the NC Base segment.

On September 19, 2019 LUG S.A. paid dividend in the amount of PLN 0,14 per share, in total amount of PLN 1 007 799,80.

1.1.6. Issuer's shares held by its management and supervisory staff

In the shareholding structure of companies belonging to the LUG S.A. Capital Group, the following persons are members of the management and supervisory bodies of LUG S.A. .:

Table 11. Shares of companies belonging to LUG S.A. Capital Group held by management and supervisory entities – as of the day of report preparation

Name and surname/ name	Function	Company shares	Shares number	Share in the share capital	Shares to votes ratio at the GMoS
Ryszard Wtorkowski	The CEO of LUG S.A Management Board	LUG S.A.	2 670 610	37,10%	37,10%
Małgorzata Konys	Member of LUG S.A. Management Board	LUG S.A.	15 200	0,21%	0,21%
Iwona Wtorkowska	The President of LUG S.A. Supervisory Board	LUG S.A.	1 120 000	15,56%	15,56%
Renata Baczańska	Member of LUG S.A. Supervisory Board	LUG S.A.	28 408	0,39%	0,39%
Eryk Wtorkowski	Member of LUG S.A. Supervisory Board	LUG do Brasil Ltda.	100 000	20,00%	20,00%

Source: LUG S.A.

1.2. Rules of the management of the LUG S.A. Capital Group

1.2.1. Managing authorities of entities from the LUG S.A. Capital Group

The Management Board of the dominant company

Composition of the Issuer's Management Board as at December 31, 2019 and as of the date of this report:

- Ryszard Wtorkowski - CEO of the Management Board
- Mariusz Ejsmont – V-ce President of the Management Board
- Małgorzata Konys - Management Board Member

The current term of office of the Management Board began on 07/05/2018, on the day of the Supervisory Board meeting and adoption of resolutions No. 11/05/2018, No. 12/05/2018 and No. 13/05/2018 appointing the current Management Board members for the next term of office.

Table 12. Term of office of the Management Board of LUG S.A..

Name and surname	Function in LUG S.A. Management Board	First term in office	Duration of current term in office
Ryszard Wtorkowski ¹⁾	CEO of the Management Board	02.08.2007	till 06.05.2021
Mariusz Ejsmont ²⁾	V-ce President of the LUG S.A. Management Board	02.08.2007	till 06.05.2021
Małgorzata Konys ³⁾	Member of the LUG S.A. Management Board	02.08.2007	till 06.05.2021

Source: LUG S.A.

¹⁾ Appointment to the Management Board of the first term of office on August 2, 2007. Appointment of the current term of office pursuant to resolution No. 11/05/2018 of the Supervisory Board of the Company adopted on 07/05/2018 (CR EBI 7/2018).

²⁾ Appointment to the Management Board of the first term of office on August 2, 2007. Appointment of the current term of office pursuant to resolution No. 12/05/2018 of the Supervisory Board of the Company adopted on 07/05/2018 (CR EBI 7/2018).

³⁾ Appointment to the Management Board of the first term on August 2, 2007. Appeal from the position of a Member of the Management Board pursuant to Resolution No. 1/03/2009 of the Supervisory Board of the Company adopted on March 16, 2009 (CR EBI 7/2009). Appointment to the Management Board of the current term of office pursuant to Resolution No. 13/05/2018 of the Supervisory Board of the Company adopted on 07/05/2018 (CR EBI 1/2014).

Experience and competences of Management Board members of the parent company

Ryszard Wtorkowski – The CEO of the Management Board

He is the founder and largest shareholder of LUG S.A. By education - electronics. In the years 2002-2007 he was the President of the Management Board of LUG Sp. z o.o. After changing the legal form to a joint-stock company in September 2007, he became the President of the Management Board of LUG S.A. Currently, he is also the President of LUG Light Factory Sp. z o.o., LUG GmbH and LUG Lighting UK Ltd. and LUG Services Sp. z o.o. Actively supports numerous organizations integrating the science and business environment, including in the years 2011-2013 he was the function of the Chancellor of the Lubusz Lodge at the Business Center Club and at the same time the Vice President of the Board of BCC. From June 2016, he is the Vice-President of the Western Chamber of Industry and Commerce. On March 28, 2018, he was elected a Member of the Supervisory Board of the Association of Stock Exchange Issuers. In 2020 he became a member of the Supervisory Board of Grono SSA.

Mariusz Ejsmont – V-ce President of the Management Board

Possesses a Master's degree in electrical engineering acquired at Zielona Góra University of Technology (current University of Zielona Góra). Vice President of the Management Board of LUG S.A. fully from January 31, 2011, earlier from 2007, he was a Member of the Management Board of LUG S.A. In addition, he is the Technical Director and a Member of the Management Board of the subsidiary LUG Light Factory Sp. z o.o. A specialist in the lighting industry, a board member of the Association of Lighting Equipment Manufacturers Pol-lighting associating leading producers of light sources and professional lighting equipment.

Małgorzata Konys – a Member of the Management Board

University of Zielona Góra graduate, specializing in Management and Marketing, and post-graduate studies in accounting at the University of Economics in Poznań. She also completed post-graduate studies in the field of Controlling at the University of Szczecin. In 2007, she became the Financial Director of LUG S.A. The organizational transformation of the company and the creation of a subsidiary resulted in a change of position for the Financial Director of LUG Light Factory Sp. z o.o. and a promotion for the Member of the LUG SA Management Board, which also performs functions now.

The detailed resumes of the Members of the Management Board have been published on the company's website: http://www.lug.com.pl/Relacje_inwestorskie/Spolka/Wladze_spolki and in the attachment to the current report EBI 7/2018.

Management rules of LUG S.A.

The LUG S.A. Management Board operates on the basis of the Act of 15.09.2000 "Code of Commercial Companies" and other legal regulations, as well as the provisions of the Articles of Association and the Regulations of the LUG S.A. Management Board. In addition, when performing their duties, Members of the Management Board of the Company are guided by the principles contained in the Best Practices of companies listed on NewConnect.

The President of the Management Board of the Company is entitled to a one-man representation. Making statements on behalf of the Company, it is also possible with the cooperation of two Members of the Board.

The LUG S.A. Management Board conducts the affairs of the Company and represents it in all court proceedings and extrajudicial. The competences of the Management Board also include all matters related to running the Company, which are not reserved by law, provisions of the Company's Statute, Regulations of the General Meeting and Regulations of the Supervisory Board.

President of the LUG S.A. Management Board manages the Company's business operations and makes decisions in all matters regarding the Company and not reserved for decisions of the Management Board or other supervisory authorities. In particular, the competences of the President of the Management Board include:

- conducting internal affairs of the Company and representing it in external contacts;
- coordinating all matters related to the activities of the LUG S.A. Management Board;
- supervising the work of subordinate areas of activity;
- issuing internal normative acts in accordance with the applicable rules;
- making decisions related to the current management of the Company;
- performing factual and legal actions aimed at achieving the Company's objectives;
- taking any other steps to ensure the smooth operation of the Company.

Other Members of LUG S.A. Management Board:

- conduct internal affairs of the Company and represent it in external contacts;
- manage the current business activity of the Company in the area entrusted and supervise the work of directly subordinated departments;
- make decisions on matters not reserved for the decision of the Management Board of the Company, as regards the functions entrusted, as well as other decisions under powers of attorney and authorizations granted to them by the Company's Management Board or the President of the Management Board;
- perform actual and legal activities aimed at achieving the objectives of the Company;
- take all other steps to ensure the smooth operation of the Company.

Management Board of LUG Light Factory Sp. z o.o.

The term of office of the Management Board of LUG Light Factory Sp. z o.o. acting in 2019, began its course on January 17, 2011, this is on the date of the Extraordinary Meeting of Shareholders and adoption of resolution No. 1/2011 appointing the Members of the Management Board. Moreover, in 2019 the composition of the Management Board of LUG Light Factory Sp. z o.o. has changed based on:

- Resolution no. 1 of the Extraordinary General Meeting of LUG Light Factory Sp. z o. o. of May 29, 2019 recalling Ms Beata Tustanowska from the position of a Member of the Management Board of the Company;
- Resolution no. 1 of the Extraordinary General Meeting of LUG Light Factory Sp. z o. o. of 03/06/2019 dismissing Mr. Wiesław Bielenin from the position of a Member of the Management Board of the Company;

The changes present respectively:

- Table 1: presenting the current composition of the Company's Management Board and
- Table 2: presenting the current condition of the Company's Management Board as at December 31, 2019 and as at the date of publication of this report.

Table 13 The terms of the Management Board of LUG Light Factory Sp. z o.o before the change¹⁾

Name and surname	Function in the Management Board of LUG Light Factory	First term in office	End of term in office ¹⁾
Ryszard Wtorkowski ²⁾	CEO of the Board	01.08.2007	-
Beata Tustanowska ³⁾	Board Member	17.01.2011	29.05.2019 ⁶⁾
Mariusz Ejsmont ⁴⁾	Board Member	17.01.2011	-
Wiesław Bielenin ⁵⁾	Board Member	17.01.2011	03.06.2019 ⁷⁾

Source: LUG Light Factory Sp. z o.o.

¹⁾ Pursuant to the Company's founding act, the Management Board is appointed for an indefinite period, and the members of the Management Board are appointed and dismissed by a resolution of the shareholders.

²⁾ Until 17.01.2011, LUG Light Factory Sp. z o.o. had a one-member Board, in the person of Ryszard Wtorkowski..

³⁾ Appointment to the Management Board pursuant to Resolution No. 1 of the Extraordinary General Meeting of Shareholders of LUG Light Factory Sp. z o. o. of 17/01/2011

⁴⁾ Appointment to the Management Board pursuant to Resolution No. 1 of the Extraordinary General Meeting of Shareholders of LUG Light Factory Sp. z o. o. of 17/01/2011

⁵⁾ Appointment to the Management Board pursuant to Resolution No. 1 of the Extraordinary General Meeting of Shareholders of LUG Light Factory Sp. z o. o. of 17/01/2011

⁶⁾ Recall from the position of a Member of the Management Board of Ms Beata Tustanowska under Resolution No. 1 of the Extraordinary General Meeting of LUG Light Factory Sp. z o. o. of May 29, 2019 recalling Ms Beata Tustanowska from the position of a Member of the Management Board of the Company;

⁷⁾ Recall from the position of a Member of the Management Board of Mr. Wiesław Bielenin pursuant to Resolution No. 1 of the Extraordinary General Meeting of LUG Light Factory Sp. z o.o. of 03/06/2019 dismissing Mr. Wiesław Bielenin from the position of a Member of the Management Board of the Company.

The composition of the Management Board of LUG Light Factory Sp. z o.o. as at December 31, 2019 and as at the date of preparation of this report are presented in Table 2.

Table 14 The terms of the Management Board of LUG Light Factory Sp. z o.o. on 31.12.2019.

Name and surname	Function in the Management Board of LUG Light Factory	First term in office
Ryszard Wtorkowski	CEO of the Board	01.08.2007
Mariusz Ejsmont	Board Member	17.01.2011
Tomasz Makarski ¹⁾	Board Member	01.07.2019
Paweł Karłowski ²⁾	Board Member	01.07.2019

Source: LUG Light Factory Sp. z o.o.

¹⁾ Appointment to the Management Board pursuant to Resolution No. 2 of the General Meeting of LUG Light Factory Sp. z o. o. of June 13, 2019.

²⁾ Appointment to the Management Board pursuant to Resolution No. 1 of the General Meeting of LUG Light Factory Sp. z o. o. of June 13, 2019

Composition of the Management Board of LUG Light Factory Sp. z o.o. it has not changed as at the date of publication of this report.

Competences and working principles of the Management Board of LUG Light Factory Sp. z o.o. have been specified in the following documents:

- The company's founding act in the form of a notary deed (Repertory A no. 3047/2007),
- The applicable laws.

Board of LUG GmbH

As at December 31, 2019 and as of the date of this report, LUG GmbH has a one-member Management Board in the person of Mr. Ryszard Wtorkowski. The composition of the Management Board in 2018 has not changed.

The competencies and working principles of the LUG Board of Directors have been set out in the following documents:

- The company's founding agreement in the form of a notarial deed (No. 1637 der Urkundenrolle für 2008),
- The applicable laws.

Board of T.O.W LUG Ukraine

As at December 31, 2019 and as of the date of this report, the activities of T.O.W LUG Ukraine were suspended.

Board of LUG do Brasil Ltda.

As at December 31, 2019 and as of the date of this report, LUG do Brasil Ltda. has a Management Board composed of: Andrzej Barski, acting President of the Management Board and Eryk Wtorkowski, acting as a Member of the Management Board and the Managing Director.

Competences and working principles of the Management Board of LUG do Brasil Ltda. have been specified in the following documents:

- The founding agreement of the company in the form of a notarial deed of June 28, 2012 and subsequent amending acts,
- The applicable laws.

Board of LUG Lighting UK Ltd.

As at December 31, 2019 and as of the date of this report, LUG Lighting UK Ltd. has a one-member Management Board in the person of Mr. Ryszard Wtorkowski. The composition of the Management Board in 2018 has not changed.

The competencies and working principles of the LUG Lighting UK Ltd. Management Board have been specified in the following documents:

- The company's founding agreement of June 21, 2013
- The applicable laws.

Board of LUG Argentina SA

As at December 31, 2019 and as of the date of this report, LUG Argentina SA has a Management Board in the form of the President of the Management Board, Mr. Rogelio Bertone.

The competencies and working principles of the Management Board of LUG Argentina SA have been set out in the following documents:

- The Articles of Association of LUG Argentina SA from 14/06/2017, The Articles of the Association of LUG Argentina SA from 14/06/2017,
- The applicable local laws (Argentinian Republic, Argentina)

Board of BIOT Sp. z o.o.

As at December 31, 2019, BIOT Sp. z o.o. had a two-person Management Board in the form of the President of the Management Board, Mr. Wojciech Lewandowski, representing the majority shareholder of LUG S.A. and Mr. Kamil Burzyński, Vice-President of the Management Board of BIOT Sp. z o.o., representing the partner: the company Toka Burzyński Guzowski Sp.j. As at the date of this report, i.e. on June 26, 2020, BIOT Sp. z o.o. has a two-person Management Board in the form of the President of the Management Board, Mr. Wojciech Lewandowski, who represents the majority shareholder of LUG S.A. and Mr. Tomasz Guzowski representing the partner, Toka Burzyński Guzowski Sp.j.

Competences and principles of work of the Board of BIOT Sp. z o.o. have been specified in the following documents:

- The founding agreement of BIOT Sp. z o.o. from 09/09/2017,
- The applicable laws.

Board of LUG Aydınlatma Sistemleri Anonim Sirketi (LUG Turkey)

As at December 31, 2019 and as at the date of this report, LUG Turkey has a one-person management board in the person of the President of the Management Board, Mr. Mariusz Ejsmont, who represents the majority shareholder, i.e. LUG S.A.

Board of ESCOLIGHT Sp. z o.o.

As at December 31, 2019 and as at the date of this report, ESCOLIGHT Sp. z o.o. has a one-person Management Board in the person of Mr. Paweł Krysztop.

Board of LUG Services Sp. z o.o.

As at the date of this report, LUG Services Sp. z o.o. has a one-person Management Board in the person of Mr. Ryszard Wtorkowski.

Board of LUG West Africa Ltd.

As at the date of this report, LUG West Africa Ltd. has a Management Board in the person of Mr. Ryszard Wtorkowski as the President of the Management Board and Mr. Imran Oladimeji Hamzat as the Vice-President of the Management Board.

1.2.2. Supervisory bodies for LUG S.A. Capital Group

The current term of the Supervisory Board of LUG S.A. commenced on 28.06.2019, this is the day of the meeting of the General Meeting of LUG S.A. and adopting resolutions No. 17-21, appointing existing members of the Supervisory Board for the next term in office. The current term of office of the Supervisory Board of LUG S.A. ends on June 27, 2022.

The composition of the Issuer's Supervisory Board as at December 31, 2019 and as at the date of this report:

- Iwona Wtorkowska - The President of the Supervisory Board
- Renata Baczańska - Member of the Supervisory Board
- Zygmunt Ćwik - Member of the Supervisory Board
- Eryk Wtorkowski - Member of the Supervisory Board
- Szymon Ziolo - Member of the Supervisory Board

Table 15. Term of Supervisory Board of LUG S.A.

Name and surname	Function in the Supervisory Board	First term in office	Current term in office	Term end date
Iwona Wtorkowska	President of the Supervisory Board	02.08.2007	28.06.2019	till 16.06.2019
Renata Baczańska	Supervisory Board Member	02.08.2007	28.06.2019	till 16.06.2019
Eryk Wtorkowski	Supervisory Board Member	02.08.2007	28.06.2019	till 16.06.2019
Zygmunt Ćwik	Supervisory Board Member	21.09.2007	28.06.2019	till 16.06.2019
Szymon Ziolo	Supervisory Board Member	21.09.2007	28.06.2019	till 16.06.2019

Source: LUG S.A.

Rules for appointing the Supervisory Board of LUG S.A.

As long as the shareholder Ryszard Wtorkowski holds at least 5% of the votes at the General Meeting, he appoints and dismisses, pursuant to Article 385 §2 of the Commercial Companies Code, one member of the Supervisory Board who acts as the Chairman of the Supervisory Board. He does so by submitting his written declaration on the matter to the shareholders' meeting. The remaining members of the Supervisory Board are appointed and dismissed by the General Meeting. The term of office of the Supervisory Board is three years, it is appointed for a joint term of office. The mandates of members of the Supervisory Board expire on the day of the General Meeting approving the report for the last financial year of the joint term of office.

The principles of operation of the Supervisory Board of LUG S.A.

The Supervisory Board provides permanent supervision over the Company's operations in all areas of its business activities.

The Supervisory Board consists of three to seven persons appointed for a three-year term of office. The term in office of the Supervisory Board is the same to all members. Pursuant to the Regulations of the Supervisory Board, its members are appointed and dismissed by the General Meeting.

The Supervisory Board of LUG S.A. operates on the basis of the Code of Commercial Companies, the Company's Articles of Association, the Regulations of the Supervisory Board, resolutions of the General Meeting and other applicable laws, as well observing the Best Practices for companies listed on NewConnect.

The Supervisory Board did not form any special committees or working teams from its members. The functions of the Audit Committee have been entrusted to all members of the Supervisory Board.

Experience and competences of Members of the Supervisory Board of the parent company

Iwona Wtorkowska – President of the Supervisory Board

She has been associated with the LUG company since its inception. Initially, she was a partner at LUG Wtorkowski i Spółka. In the years 2001 - 2007 she was a Proxy at LUG Sp. z o.o., and in the years 2003 - 2007 she was also the Plenipotentiary of the Management Board of LUG S.A. and continues to perform this function to this day. Ms Iwona Wtorkowska is also a Proxy of LUG Light Factory Sp. z o.o. Iwona Wtorkowska has higher pedagogical education: she graduated from the Pedagogical University in Zielona Góra. Moreover, she is a graduate of numerous courses and trainings for members of Supervisory Boards.

Renata Baczańska – Supervisory Board Member

She is a legal advisor and performs legal activities as "Kancelaria Adwokatów i Radców Prawnych Baczańska, Szarata" partnership. Since 2007, she has been a member of the Supervisory Board of LUG S.A. She has a university degree in law, graduated from the Faculty of Law of the University of Wrocław and postgraduate studies at the above-mentioned Faculty: "Tax Law". Renata Baczańska and the Issuer do not have an employment relationship. Renata Baczańska is a partner in the Law Firm, which, under a contract of mandate, provides services to the subsidiary LUG Light Factory Sp. z o.o.

There is no conflict of interest between Mrs Renata Baczańska's obligations as a member of the Issuer's Supervisory Board, and her obligations for other reasons.

The husband of Mrs Renata Baczańska, Mr Marek Baczański, is employed under an employment relationship with a subsidiary LUG Light Factory Sp. z o.o., as the Head of the IT Department. There are no family ties between Ms Renata Baczańska and members of the Supervisory Board and the Management Board.

Eryk Wtorkowski – Supervisory Board Member

Currently, he is employed by the subsidiary LUG Light Factory Sp. z o.o. under the employment relationship as the Development Director. In the years 2009 - 2012 he was Export Manager at LUG Light Factory Sp. z o.o., and from 2013 to 2015 he was a Member of the Management Board and Managing Director of the subsidiary LUG do Brasil Ltda. Eryk Wtorkowski is a member of the Management Board of LUNA limited liability company.

Eryk Wtorkowski has higher education, he is a graduate of the University of Zielona Góra in the field of Artistic Education in the field of Music Art. In addition, Eryk Wtorkowski graduated from the Higher School of Commerce and Law in Warsaw, major: Foreign Trade and the College of International Trade and Finance in Zielona Góra, major: International Trade.

Eryk Wtorkowski does not perform any other activity that could give rise to any conflict of interest. Eryk Wtorkowski is the son of Ryszard Wtorkowski - President of the Management Board of LUG S.A. and the son of Iwona Wtorkowska - Chairwoman of the Supervisory Board of LUG S.A.

Zygmunt Ćwik – Supervisory Board Member

Zygmunt Ćwik performs activities in the field of accounting and tax advisory services under the "A&TC Kancelaria Biegłych Rewidentów Zygmunt Ćwik, Jolanta Banaszczak" civil partnership. Zygmunt Ćwik has a university degree in economics: he graduated in finance at the University of Economics.

Zygmunt Ćwik and the Issuer do not have an employment relationship. There is no conflict of interest between the obligations incumbent on Zygmunt Ćwik as a member of the Issuer's Supervisory Board and the obligations incumbent on him for other reasons. There are no family ties between Zygmunt Ćwik and members of the Supervisory Board and the Management Board.

Szymon Ziolo – Supervisory Board Member

Szymon Ziolo performs legal activities under the "Kancelaria Adwokatów i Radców Prawnych Baczańska, Szarata" partnership. Since 2007, he has been a member of the Supervisory Board of LUG S.A. Szymon Ziolo has a university degree in law - he graduated from the Faculty of Law and Administration at the University of A. Mickiewicz in Poznań.

Szymon Ziolo and the Issuer have no employment relationship. Szymon Ziolo is a partner in the Law Firm which, on the basis of a mandate contract, provides services to the subsidiary LUG Light Factory Sp. z o.o. There is no conflict of interest between the obligations incumbent on Szymon Ziolo as a member of the Issuer's Supervisory Board and the obligations incumbent on him for other reasons. There are no family ties between Szymon Ziolo and the members of the Supervisory Board and the Management Board.

LUG S.A. Supervisory Board Competences

The competences of the Supervisory Board include:

- audit of the balance sheet and profit and loss account for a given financial year;
- examination of the Management Board's report on the Company's operations;
- submitting to the General Meeting a written report on the results of the above audit;
- selection of a statutory auditor;
- representing the Company in contracts and disputes between the Company and members of the Management Board;
- appointing and dismissing Management Board members;
- adopting the regulations of the Management Board;
- giving consent to the purchase and sale of real estate, perpetual usufruct or share in real estate or a perpetual usufruct right;
- giving consent to making expenses or incurring liabilities by the Company exceeding PLN 1.000.000 (one million PLN);
- determining the rules for remunerating members of the Company's Management Board;
- assessing the Management Board's motions regarding distribution of profit or loss coverage;

In other LUG S.A. Capital Group companies no supervisory bodies have been indicated.

1.2.3. Relations between members of the bodies of LUG S.A. Capital Group companies.

The LUG S.A. Management Board based on the statements of the Members of the LUG S.A. Supervisory Board, informs that between Members of the Supervisory Board and Members of the Management Board of LUG S.A. the following connections exist:

- Ms. Iwona Wtorkowska, President of the Supervisory Board of LUG S.A., is wife of Mr. Ryszard Wtorkowski, who performs the following functions: President of the Board LUG S.A., President of the Board LUG Light Factory Sp. z o.o., President of the Management Board of LUG GmbH, President of the Management Board of LUG Lighting UK Ltd ., President of LUG Services Sp. z o.o. and the President of LUG Westo Africa Ltd.;
- Mr. Eryk Wtorkowski, Member of the Supervisory Board of LUG S.A. and Member of the Management Board of LUG do Brasil Ltda. and Development Director of the LUG S.A. Capital Group. is a son of Mr. Ryszard Wtorkowski, who performs the functions indicated in the previous point.

Within the LUG S.A. Supervisory Board, between its individual Members, the following relationships exist:

- Mr. Eryk Wtorkowski, Member of the Supervisory Board, is a son of Ms. Iwona Wtorkowska, the President of the Supervisory Board.

There are no personal connections between members of the Issuer's Management Board.

1.2.4. Agreements concluded between the companies of the LUG S.A. Capital Group. and managing persons, providing a compensation in the event of their resignation or dismissal

There are no such agreements.

1.2.5. The value of remuneration and bonuses for performing functions in the authorities of the companies of the LUG S.A. Capital Group.

Information on the value of remuneration and bonuses for performing functions in the LUG S.A. and in the authorities of subsidiaries are presented in note 33. of the consolidated financial statements of the LUG S.A. Capital Group for 2019.

1.2.6. The rules of changing the Articles of Association

Every modification to the Articles of Association of the parent company LUG S.A. is adopted by the General Meeting. Amendment of the LUG S.A. Statute requires a resolution of the General Meeting of the Company and an entry in the Register of Entrepreneurs. This resolution of the General Meeting is adopted by an absolute majority of votes if the provisions of the Code of Commercial Companies (Articles 414 and 415 of the Code of Commercial Companies) do not provide otherwise.

The General Meeting of LUG S.A. may authorize the Supervisory Board to establish a uniform text of the Articles of Association. After entering changes in the Statute to the Register of Entrepreneurs, a current report is published.

In 2019, the General Meeting did not make any changes to the LUG S.A. Statute.

1.2.7. Internal control and risk management system in the process of preparing financial statements

Internal control system of the LUG S.A. Capital Group and risk management in the process of preparing financial statements is based on a number of procedures and internal regulations aimed at ensuring effective and efficient control and identification of and eliminate potential risks. In particular, this system is based on the following principles:

- application of accounting records procedures and control of their compliance;
- verification of the application of the uniform accounting policy by the companies of the LUG S.A. Capital Group in terms of recognition, measurement and disclosure in accordance with the International Financial Reporting Standards (IFRS), approved by the European Union;
- use of uniform patterns of individual and consolidated financial statements and annual verification of their correct application in the companies of the LUG S.A. Capital Group;
- applying the procedure of authorizing and giving opinions on annual financial statements prior to publication,
- auditing the annual financial statements of LUG S.A., the LUG S.A. Capital Group and the subsidiary LUG Light Factory sp. z o.o .;
- functioning in the subsidiary LUG Light Factory Sp. z o.o. Integrated Quality Management System, compliant with the requirements of the international ISO 9001 standard, the last recertification of which took place in February 2020;
- control performed as part of the supervision obligations over subordinate units

Records of economic events in the LUG S.A. Capital Group is carried out through an integrated financial and accounting system, the configuration of which is consistent with the accounting policy adopted by the Group. The security and availability of information contained in this financial and accounting system are controlled at all levels.

In order to reduce the risks associated with the process of preparing financial statements on an ongoing basis, the Issuer complies with the applicable regulations regarding the appointment of an auditor authorized to audit financial statements. Selection and change of the entity authorized to audit financial statements of LUG S.A., the LUG S.A. Capital Group and the subsidiary LUG Light Factory Sp. z o.o. is approved by the Supervisory Board.

The Issuer applies authorization procedures according to which, the periodic reports are submitted to the Management Board of the Company and the members of the Supervisory Board to give their opinion. After obtaining the opinion of the Supervisory Board and after completing the auditor's verification of the financial statements, they are approved by the Management Board of the Company for publication and then forwarded by an employee of the Investor Relations Section to the relevant capital market institutions and the public.

Until publication, periodic reports with financial statements are available only for those people participating in the process of its preparation, verification and approval.

2. GENERAL INFORMATION ABOUT THE CAPITAL GROUP

2.1. Issuer's and LUG S.A. Capital Group history

History of the LUG S.A. Capital Group dates back to 1989, when the LUG company was founded in Zielona Góra. Since then, the company has evolved from the family-owned company to the international LUG S.A. Capital Group, which is currently formed by the parent company and specialized Group companies:

- **LUG S.A.** is the parent company of the LUG S.A. Capital Group and holds 100% of shares in LUG Light Factory Sp. z o.o., LUG GmbH, T.O.W. LUG Ukraina, LUG Lighting UK Ltd., 65% in shares in LUG do Brasil Ltda, 51% shares in BIOT Sp. z o.o., 50% of shares in LUG Argentina SA and 66,8% shares in LUG Aydınlatma Sistemleri Anonim Sirketi, 30% in ESCOLIGHT Sp. z o.o, 97% in LUG Services Sp. z o.o and 70% in LUG West Africa Ltd. Since 2008, all production activities carried out previously by LUG S.A. was taken over by LUG Light Factory Sp. z o.o., and the activities of the parent company were focused on the supervision and control of subsidiaries and implementation of the strategy of extending the network of representative offices on the domestic and foreign markets. The company was established in 1989 in the form of a civil partnership. On September 3, 2007 LUG Sp. z o.o. transformed into a joint-stock company, and since 2008 the company has been operating as the parent company in the LUG S.A. Capital Group.
- Subsidiary **LUG Light Factory Sp. z o.o.** is a leading manufacturer of lighting fixtures, which specializes in the production of industrial and decorative luminaires. On August 1, 2008. The company took over business activities carried out by the Issuer and deals in the design, implementation, production and sale of lighting fixtures.
- Subsidiary **LUG GmbH** - from September 11, 2008 is a part of the foreign trade organization of the LUG S.A. Capital Group and focuses on the sale and promotion of products on the German market.
- Subsidiary **T.O.W. LUG Ukraine** - was established in 2005 and managed sales of LUG luminaires on the Ukrainian market. The Company's operations have been suspended for several years due to difficult business conditions in Ukraine, resulting from the poor financial and political situation of the country.
- Subsidiary **LUG do Brasil Ltda.** - was registered on June 28, 2012, while the official opening of the office took place on 24.04.2013. Its basic task is the distribution of LUG brand products in Brazil and more widely in the area of South America, thus increasing the share of the capital group in the global lighting market.
- Subsidiary **LUG Lighting UK Ltd.** - was registered on 21.06.2013, while the end of all formal and legal procedures related to the commencement of operating activities took place in 10.09.2013. Its basic task is to introduce LUG brands to the UK and Ireland market, export and sale of lighting fittings and systems.
- Subsidiary **BIOT Sp. z o.o.** - was registered on 09.09.2017. The main area of activity of the new entity is research and stimulation of development in the field of new lighting technologies in the field of IoT.

- Subsidiary **LUG Argentina SA** was registered on 30.08.2017. The company's goal is to carry out activities including production, processing, assembly and assembly of lighting fixtures, commercial activities, including sale of lighting fittings and accessories as well as advisory services in the field of lighting technology, including for projects related to energy saving.
- Subsidiary **LUG Aydınlatma Sistemleri Anonim Şirketi** - registered on August 6, 2018 in accordance with Turkish law based in Istanbul, Republic of Turkey. The company's purpose is to conduct commercial, production and advisory activities in the field of professional lighting solutions. The establishment of the LUG Turkey company results from the LUG S.A. Capital Group foreign expansion, whose element is the expansion of activities on the Turkish market and on the markets of other countries in the region.
- On October 24, 2019, a limited liability company was established as an entity related to LUG, operating under the name **ESCOLIGHT Sp. z o.o.** based in Zielona Góra. The company was established for an indefinite period of time, and the subject of its activity is the provision of lighting management services: Light-as-a-Service, consisting in comprehensive project management including preparation, financing, implementation and service of lighting investments.
- On January 27, 2020, a new company was created in the LUG S.A. Capital Group: **LUG Services Sp. z o.o.** based in Zielona Góra. The company was established for an indefinite period of time, and the subject of its activity is the design and construction of lighting installations and the integration of software components cooperating with lighting installations.
- On June 5, 2020, a subsidiary was established in the LUG S.A. Capital Group, operating under the name of **LUG West Africa Ltd.** with its registered office in Lagos, Nigeria. The company was established for an unlimited period, and its task will be to conduct commercial activity in the field of professional LED lighting solutions in Nigeria and other Sub-Saharan African countries.

On November 20, 2007, LUG S.A. had its debut on the NewConnect market managed by the Warsaw Stock Exchange S.A. and is included in the NCIndex index. Moreover, in the fourth quarter of 2012, LUG S.A. was qualified for the NC Lead segment, grouping the best companies meeting a number of quantitative and qualitative criteria, and in 2013 and periodically in 2014 and 2015, the Company was included in the NCIndex30 index - the most liquid companies. In 2017, the shares of LUG S.A., as in previous years, belonged to the NCIndex index, while from October 2016 and throughout 2017, shares were qualified to NC Focus segment. From December 2018 shares of LUG S.A. were qualified to NC Base segment.

Table 16 Stock exchange history of the Issuer

Event	Details
Quotation market/ segment	Building branch
IPO date	20.11.2007
IPO - securities placed on the market	27 000 000 A series shares 8 922 850 B series shares
Issue value	PLN 20,6 mln
Original nominal price	PLN 0,04
Split date 1:4	26.03.2010
Shares amount after split	143 971 499 units
SPO date	19.07.2010
SPO – securities placed on the market	35 992 850 C series shares
Issue value	PLN 5,4 mln
Shares amount	179 964 250

Number of votes on GM	179 964 250
Nominal price	PLN 0,01
Shares capital	1 799 642,50
Integration date of 25:1	23.11.2012
Number of shares after integration	7 198 570 units
Nominal price	PLN 0,25

Source: LUG S.A.

2.2. Specification of the activity

LUG S.A. Capital Group is a leader among Polish producers of professional LED luminaires and the largest Polish exporter of lighting solutions with over 30 years of experience. LUG sells its products both in Poland and in over 70 countries around the world, investing in innovations and expanding its activities with the latest technologies, such as smart city light management systems. The business model of the LUG S.A. Capital Group is based on the design, production and sale of innovative lighting solutions as well as the implementation of design and consulting services for architects, designers and contractors and wholesalers, as well as to offer light services (Light as a Service).

The company's offer includes a wide range of infrastructure, industrial and architectural luminaires used in areas such as city and park lighting, street lighting, illumination of buildings, lighting of gas stations, large shopping malls, sales networks, offices, cultural and public facilities). The vast majority of LUG luminaires are LED luminaires, whose share in the LUG sales structure in 2019 was 99%, compared to 1% of conventional luminaires.

LUG lighting fixtures combine modern design with functionality and excellent lighting parameters, meeting the requirements of individual markets and satisfying the tastes of users all over the world. This is confirmed in the light illuminations of many spectacular objects completed in recent years.

Table 17 Chosen foreign LUG completions of 2019

Foreign completions	
College of King Edward School, Oxfordshire	Great Britain
Pavlov First State Medical University, Petersburg	Russia
International Airport Oran AS-Sanija	Algeria
Phizer Pharmaceuticals production plant, Cork	Ireland
New building of Parliament	Egypt
ToysRUs Shop	Spain
Vejlehavn shipyard	Denmark
Hobbs Printers plant, Southampton, Hampshire	Great Britain
Airport control tower Sir Seewoosagur Ramgoolam International Airport	Mauritius
Expedia Fürstenriederstraße Office	Germany
Production plant Tvätthall Fiskarhedens Trävaru	Sweden
Milaha Project, Maliha Residential Community, Doha	Qatar
Iglesia Nuestra Señora de la Salud Church	Spain

Data Centre Digital Realty, Frankfurt	Germany
Fakeeh University Hospital	United Arab Emirates

Source: LUG S.A

Table 18. Chosen domestic LUG completions of 2019

Domestic completions	
The tallest skyscraper in the European Union – Varso Tower	Warszawa
Lighting for the Provincial Specialist Healthcare Team	Wrocław
Lighting of the modernized L-VI shaft of KGHM	Rynarcice
City lighting	Suchowola
Lighting of the newly built Ambulance Aviation base	Sokołów Podlaski
Modernization of the lighting in Przymorze Gallery	Gdańsk
Lighting of the C07 Młynów metro station	Warszawa
Comprehensive indoor and outdoor lighting of Zakłady Farmaceutyczne Polpharma S.A.	Duchnice
Production and warehouse building of the American manufacturer of the chemical industry Jost Chemical Poland	Kościan
Industrial lighting for the plant of MESTIL Sp. z o.o	Gorzów Wielkopolski
Lighting at the Wolski Hospital Dr. Anna Gostyńska	Warszawa
Circle K station chain	Wrocław

Source: LUG S.A

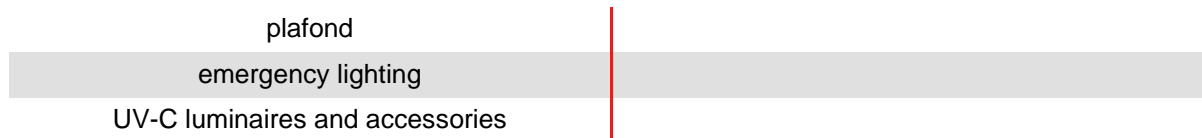
2.3. Assortment

Lighting fixtures of the LUG S.A. Capital Group are designed and manufactured in the Issuer's factory located in the Kostrzyn-Słubice Special Economic Zone in Zielona Góra and in the so-called a research and development center with a production complex located in Nowy Kisielin near Zielona Góra.

The LUG assortment includes the following categories of luminaires:

Table 19. Lighting luminaires of LUG S.A. Capital Group categories

Interior lighting	Exterior lighting
luminaires and decorative systems	floodlights
spotlights	infrastructural lighting
downlight luminaires	outdoor architectonic luminaires
indirect light luminaires	
raster and module luminaires	
clean surfaces luminaires	
quick-assembly lines	
industrial luminaries	



Source: LUG S.A.

A separate category is Smart Lighting and SmartCity solutions that LUG develops thanks to its subsidiary – BIOT Sp. z o.o.

High lighting parameters of the luminaires are confirmed by quality certificates, including: TUV, CE, GOST, ENEC and numerous awards and compliments.

At the turn of the first and second quarter of 2020, LUG's offer was expanded to include luminaires providing UV-C radiation under the name PURELIGHT LUG. These solutions are a well-thought-out product adapted to the current needs, used for disinfecting air and surfaces. Ultraviolet UV-C radiation belongs to short-wave electromagnetic radiation, as are X-rays, radio waves and light. It is one of the most effective methods of disinfecting air and surfaces (walls, countertops, objects, etc.). It reaches the most inaccessible places as reflected rays, eliminating up to 99.9% of bacteria and viruses in the room.

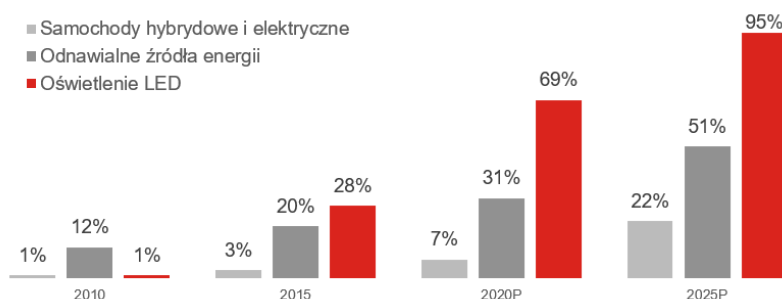
2.4. Lighting market and perspectives of its development

2.4.1. Industry characteristics

The lighting industry is very diverse and comprehensive, and its products are used in many different areas. The European lighting sector is relatively large and has an international reputation. Over 150 000 people are employed there, and its revenues account for around 30% of the global revenues of the lighting industry. A characteristic feature of the European lighting market is a high level of innovation and high fragmentation - in addition to a number of entities with a significant position on a global scale, it includes several thousand enterprises from the SME sector, which operate primarily in the area of distribution of lighting fittings.

Within the entire lighting market there are three significant segments: backlighting (lighting used, among others, in LCD technology), automotive lighting (lighting used in the automotive industry) and general lighting (general lighting - that is the segment of the Issuer's operations).

LED lighting is a technology with the highest rate of penetration market among environmentally friendly solutions



Source: Raport Golden Sachs Global Investments Research

Currently, the most popular technology that occurs on the market is semiconductor lighting. It is based on light-emitting semiconductor materials that convert electrical energy into light (LED and OLED lighting). LEDs are the fastest growing segment with the highest rate of penetration market among environmentally friendly

solutions. Currently, lighting based on LED solutions is the most energy-efficient and versatile technology in general lighting which let to reduce energy consumption and CO2 emissions to the environment.

The latest LEDinside report shows that in the years 2018-2023, the value of the global LED lighting market will grow steadily to eventually reach USD 56.6 billion in 2023, with a CAGR of 9%. The Global Market Insights report indicates that the European LED market alone will grow at 15.5% CAGR in 2017 - 2024 and will reach more than USD 30 billion in 2024². The assessment of the market situation and forecasts formulated before 2020 may be largely outdated due to the failure to take into account the impact of the coronavirus pandemic on the global economy and individual industries..

The main growth factors for the European LED market are the growing demand for energy-efficient lighting solutions, the need to reduce electricity costs, high disposable income, growing infrastructure investments, including roads, offices, residential complexes, parks, hotels, etc. All this has connection with population growth, progressive urbanization and climate change stimulating the desire for energy efficiency and respect for the natural environment.

The highest growth rate is forecast for India, the Asia-Pacific region, Latin America and Africa.³ Europe is the world's largest LED lighting market. The share of the European lighting industry in the global LED market is approx. 23%.⁴.

Professionally organized lighting market in Poland, like other markets in Central and Eastern Europe, is characterized by high fragmentation. On the market we observe a full cross-section of lighting suppliers, ranging from small family-owned small businesses specializing in home lighting, through large domestic companies with a shaped position and a wide assortment (including the LUG S.A. Capital Group), and ending with the largest international corporations.

The energy efficiency of LED luminaires grows every year. The solutions based on the Internet of Things are becoming more and more popular. The leading position of LED in the lighting market is due to its high development potential, while the energy efficiency of LED luminaires constantly exceeds current limits. The innovations that are emerging are progressively more compatible with control systems, where, according to experts' estimates, the value of the lighting management systems market in the five-year period was to grow at a rate exceeding 20% per annum. In 2018, we observed in Poland a megatrend "Smartification of everyday life", which manifested itself by popularisation of solutions such as: lighting sensors, Human Centric Lighting and lighting system monitoring, so-called. Predictive maintenance.⁵

The year 2019 brought even greater dissemination of digitization related to the emphasis on energy efficiency in industries offering installation solutions for commercial facilities. In the lighting sector, the intensive development of LED technology and the automation of the services offered are sustained.

The main trends in 2019 were primarily:

- cost optimization,
- looking for savings using LED technology,
- intelligent and economical management of street lighting,
- progressive automation.

The predicted 30% increase in electricity prices forces manufacturers of professional lighting to offer their users more and more advanced systems that, thanks to remote control, will not only allow for convenient control, but also pay back investment costs within a few years.

² "Europe LED Lighting Market Report, 2024", Global Market Insights, www.gminsights.com

³ "Global LED Lighting Market Update, 2017", Frost & Sullivan, 2017

⁴ „Global LED lighting market to reach US \$25.7 billion in 2015" (Globalny rynek oświetlenia LED osiągnie 25,7 miliardów USD w 2015 roku), LEDinside, 4.12.2014r.

⁵ www.lighting.pl, Główne trendy w oświetleniu przemysłowym jakie przyniósł 2018 r., 29.01.2019 r.

The popularity of energy-saving lighting is constantly growing, and entrepreneurs more and more often decide to modernize the traditional system with LED replacements. Managers looking for savings will first find them in the lighting installation. Although the investment in modern LED technology is much higher at the beginning than in the case of traditional light sources, it pays off faster, not only in the form of real savings, but also convenience and longer life of the luminaires. Currently available LED luminaires can replace traditional light sources in a 1: 1 ratio, which will generate profits of up to 50% compared to conventional lighting.

The Internet of Things is successfully used in smart cities. In addition to a series of advanced services in agglomerations (detection of crimes and attacks of vandalism, monitoring of vibrations of consumption states of building materials or bridges) IoT improves the lighting control, adapting them to the time of day, the presence of users or current weather conditions. Modern LED luminaires dedicated to street lighting are equipped not only with communication modules that allow them to be combined with other systems, but also characterized by advanced optical technology, increasing road safety. At night or in difficult weather conditions, LED technology eliminates the phenomenon of unpleasant glare, i.e. dazzling road users. Modernization of street lighting can be financed from state funds. This is favored by the trend of ecological use of urban infrastructure and improvement of energy efficiency of outdoor lighting systems. Thanks to LED lighting, municipalities will be able to save up to 40% on electricity expenditure.

Manufacturers of lighting systems are increasingly opting for flexible solutions that allow financing the modernization of so-called ESCO formula leasing lighting. It involves a reorganization that will reduce operating costs resulting from lighting the space. The ESCO service reduces the costs associated with the maintenance of devices, reduces system failure and allows you to achieve maximum efficiency. Both private entrepreneurs and local government units can benefit from the formula. The whole practice consists in non-cash modernization of lighting. The user covers the investment cost in monthly installments, which are generated by the savings resulting from the operation of the new system. This trend is a continuation of the energy-saving idea of LED lighting, which guarantees real profits for investors.

Permanent modernization of the work space is closely related to the dynamic development of Human Centric Light (HCL), which technology takes into account the effect of light on the human body and psyche. Currently, we spend more time in artificially lit spaces with limited access of natural light, which often leads to dysregulation of the natural circadian rhythm. This results in insomnia, problems with concentration or chronic fatigue. Bearing in mind the current "civilization diseases", LED lighting manufacturers are looking for a technology that will help employees to function in spaces with limited natural light. The result of the search is the HCL configuration, which reproduces daylight in the most accurate way possible. The concept combines a stimulating blue light with a warmer, more pleasant color. The ability to automate this technology has allowed us to create light that follows the human and adapts to its circadian rhythm. The point-by-point user allows the user to turn it on when we feel a drop in energy or sleepiness.

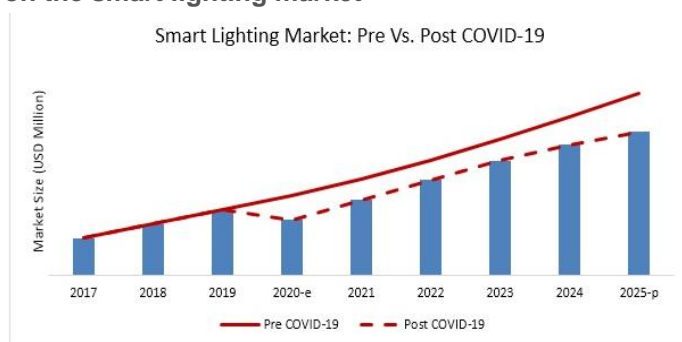
The lighting industry is a mature segment, which is distinguished by a stable market of recipients. The main distribution channel here is specialized electrotechnical wholesalers another is sales directly to architecture projects.

To sum up, similarly to the entire LUG S.A. Capital Group, the target market of LUG Light Factory Sp. z o.o., is the general lighting segment, focused around production of lighting fittings aimed at a professional client. The added value of LUG, which builds its competitive position, is a comprehensive service in the field of design services and delivery of complete lighting solutions, as well as customization, i.e. ready-made solutions tailored to the needs of individual customers.

2.4.2. Market development prospects

The coronavirus pandemic has a huge impact on the forecasts for the pace of development of economies around the world after the balance sheet date, i.e. after December 31, 2019. Experts estimate that the pandemic has revised downward all forecasts for the development of the lighting market by 21% compared to the pre-pandemic forecasts. The projected growth rate of the smart LED lighting market in 2020-2025 is to amount to 18% CAGR, and the value of the market in 2025 is estimated at USD 30.6 billion.

The impact of the COVID-19 pandemic on the smart lighting market



Source: Press Release, Investor Relation

New factors driving the development of the lighting market are: growing demand for specialized lighting, such as gardening

and UV disinfection lighting, the need for a large number of healthcare facilities to treat the growing number of patients, and the increasing demand for sterile production - areas in the pharmaceutical and food industries.

The COVID-19 pandemic affects the entire economy, including industry and services. Lockdown did not directly affect Polish factories producing lighting products. Currently, investments launched before the pandemic continue and the industry continues to seek new orders, some of which may face financing problems. It is determined by the condition of the economy and the duration of the pandemic in Poland and in the European Union. The negative effects of the industrial pandemic will be visible in the second quarter and beyond, with the second quarter not being as good as the first.

The largest Polish manufacturers of the lighting industry estimate that many of the so-called government anti-crisis shields is addressed primarily to micro, small and medium-sized enterprises, so their support does not reach large entities responsible for the condition of the entire industry. In relation to large enterprises (over 250 employees), there are still solutions under the PLN 100 billion package under the Liquidity Fund. For the lighting industry, an important indirect support tool will also be the launch of large public investments as part of the replacement of lighting in cities. In this way, the costs of electricity in the budgets of cities and municipalities may be significantly reduced (from 40 to 70 percent a yearly reduction in electricity bills), and industry companies will receive a significant development stimulus. Hope is also placed on the development of programs such as Sowa LED and their greater funding.

The largest industry organization, Pol-lighting, points out that the uncontrolled inflow of lighting products that do not meet EU standards and regulations to the European market will be a big problem that the lighting industry will struggle with after the pandemic. The purchase of low-quality and non-standard lighting products may generate additional, unnecessary costs.⁶

The preventive and remedial measures taken by the Issuer in the face of the COVID-19 pandemic are described in detail in subchapters 3.4.4., 3.7.1 and in chapter 4 of this report.

⁶ www.rynekelektryczny.pl, Branża oświetleniowa opiera się koronakryzysowi, 16.04.2020 r.

Despite the limitations caused by the outbreak of the pandemic, the following factors that positively stimulate the development of the lighting market remain valid:

Regulatory factors and related to the need for modernization:

- The target set in the Europe 2020 strategy assuming the increase of energy efficiency by 20% by 2020. Currently, 19% of total energy consumption is used for lighting in Europe.
- Approximately 75% of lighting installations in Europe are older than 25 years, which will further stimulate the process of universal replacement of lighting with energy-efficient ones.
- The pressure to reduce the cost of electricity for purposes related to the maintenance of the building and infrastructure.
- The priority of energy security
- Investment expenditures on infrastructure that contribute to the emergence of new roads, parks, office buildings, apartment buildings, hotels and other facilities

Technological factors:

- Fast development of LED technology, which leads to better and better parameters in terms of efficiency and durability, with simultaneous price drop of LED light sources;
- Development of the IoT concept;
- Development of new business models based on the development of new technologies;
- Human Centric Lighting;
- Service automation.

In 2019, in the global lighting industry, the offer evolved from exposing the issues of energy efficiency related to the use of LED lighting to the continuation of the current, main development trends related to the digitization of LED lighting systems. There has been a further development of trends related to lighting responding to human needs (Human Centric Lighting) and Li-Fi technology - technology of data transmission via lighting.⁷

Experts forecast further demand for smart luminaires - a trend derived from IoT. The Internet of Things is also successfully used in smart cities. In addition to a number of advanced services in agglomerations, IoT improves the lighting control, adapting them to the time of day, the presence of users or current weather conditions. Modern LED luminaires dedicated to street lighting are not only equipped in communication modules that allow to connect them with other systems, but also are characterized by advanced optical technology, increasing road safety. Modernization of street lighting can be financed from state funds. This is favored by the trend of ecological use of urban infrastructure and improvement of energy efficiency of outdoor lighting systems. Thanks to LED lighting, municipalities will be able to save up to 50-70% on electricity cost.

Continuous modernization of work environment is closely related to dynamic development of Human Centric Light (HCL), a technology that takes into account the effect of light on the human body and psyche. Artificially lit spaces with limited access of natural light lead to dysregulation of the natural circadian rhythm, which results in insomnia, problems with concentration or chronic fatigue. LED lighting manufacturers are looking for a technology that will help employees operate in spaces with limited natural light.

⁷ Najważniejsze trendy w branży oświetlenia profesjonalnego w 2018, www.lighting.pl, M.Kołodowski, 06.02.2018

However, mega-trends and phenomena occurring on a global scale have an impact on the development of the industry:

- dynamic population growth, especially in developing countries, and an increase in income of people who are willing to spend more money on lighting:
The population will grow from 6,9 billion in 2010 to 7,7 billion in 2020. The Issuer also observes that higher incomes in developed countries stimulate demand for lighting products - especially in relation to solutions with a sophisticated design and energy-saving properties.
- progressing urbanization, which ensures an increase in demand for lighting:
Forecasts indicate that the global economy will increase by 3-4% in 2010-2020. The largest increases (around 60% of global GDP) will be driven by cities that directly stimulate the growth in demand for lighting, in particular in the general lighting segment. In urban areas, the demand for lighting is much higher than in rural areas, that is why cities will be an important growth driver for the lighting industry. In addition to Asia, the strongest urbanization will be seen in South America, Eastern Europe and Central Asia, the Middle East and North Africa and Sub-Saharan Africa.
- irreversible climate change
Climate change and scarcity of resources, including limited energy resources, promotes the spread of energy-efficient products to a global trend, that leads to a gradual departure from the cheapest solutions to more expensive but energy-efficient lighting options. It is important that in contrast to the other methods of reducing CO2 emissions, exchanging energy-intensive lighting for energy-efficient solutions has no negative impact on the global economy, on the contrary, it positively stimulates it.
- high increases in electricity prices
Autumn is the time of energy purchases for the next year, and the year 2018 brought record high prices. They increased on the wholesale market by up to 80% for the rotating part compared to the previous year. This translates into an increase in energy prices from 35% to even 45%. Analysts emphasize that due to the growing rates of CO2 emission allowances, there is no indication that this trend will change. In turn, up to 40% of the energy consumed by self- overnment units is allocated to public lighting.

2.5. Main operating markets and branch information

LUG S.A. Capital Group provides solutions in the field of professional lighting technology with high technical and utility parameters for investment projects in Poland and all over the world, through their trade offices in the country and foreign representations.

In 2019 the local commercial structure of the Issuer consisted of 12 regional offices in the largest Polish cities:

Warszawa, Poznań, Gdańsk, Wrocław, Lublin, Kraków, Katowice, Łódź, Szczecin,
Rzeszów, Tarnów, Białystok

In 2020, as part of the Project to optimize the costs of regional offices within the Polish commercial structure, the organization of work of selected regional offices was changed, as a result of which the Group reduced the number of offices to the largest urban centers. It was possible thanks to the

reorganization of the operating mode in other locations. The final summary of this project will be possible after its completion in the second half of this year.

The dominant distribution channels for LUG products on the Polish market are wholesale networks and electrotechnical wholesalers and general construction.

As part of the foreign trade structure of the LUG SA Capital Group, in 2018 there were foreign branches located in the following cities:

Berlin, London, Dubai, Sao Paulo

Branches in Berlin, London and Sao Paulo operate through subsidiaries, branch in Dubai is functioning as a foreign representation. Headquarters of LUG do Brasil Ltda., LUG Lighting UK Ltd., LUG GmbH, in the regional office in Warsaw and the headquarters of the Company in Zielona Góra feature showrooms of LUG luminaires. There, the latest LUG luminaires can be seen in a close-to-natural environment. In addition, in the third quarter of 2018, LUG and partners opened two new showrooms for customers in North Africa: LUG and LUMISPHERE joint showroom in Casablanca in Morocco and a joint LUG and EURL CFEA Electricité & Domotique showroom in Algiers, Algeria.

LUG S.A. Capital Group through its companies operates on the Polish market, as well as on European and global markets. The most important directions of the export countries are European countries, whose share in the total revenue from sales was in 2019 was 37%.

Table 20. The main sales markets of the LUG S.A. Capital Group.

	2019 [PLN mln]	2018 [PLN mln]	2017 [PLN mln]
Poland	66,80	81,89	61,96
Other countries in total, including:	101,70	88,90	80,34
Europe	62,28	63,46	62,28
Near East and Africa	8,36	8,46	6,57
Others	31,06	16,99	11,48

Source: LUG S.A.



Lighting luminaires of the LUG S.A. Capital Group illuminate the interiors and create light illuminations in nearly 70 countries around the world.

The export strategy of the company assumes the concentration of activities on selected strategic markets, the choice of which is based on the analysis of the following factors:

- conclusions resulting from the observation of market trends;
- analysis of the LUG portfolio in terms of products corresponding to the needs and tastes of customers, in accordance with the life cycle of the professional lighting sector products on individual markets;
- previous experience - in order to limit the risk resulting from entering new markets, the LUG company chose the markets where it has been operating for several years as strategic, hence the premises - opportunities and limitations that may arise on a given market are known;
- geographic analysis and segmentation - the choice of several different markets results from the necessity to ensure an appropriate level of sales (different countries, from different parts of Europe and the world allow for the diversification of the foreign exchange risk);
- dynamics of economic growth and potential market value;
- political stability;
- respecting international contracts and standards.

In 2019, the goal of the LUG S.A. Capital Group was to maximize revenues by using the potential of the markets in which LUG companies were present. An additional element supporting the realization of the goal were the effects of investment outlays from previous years in building a commercial network, launching showrooms and building the LUG brand on individual markets.

Within the LUG S.A. Capital Group production activities are carried out by:

- subsidiary company LUG Light Factory Sp. z o.o. as part of plants located in Zielona Góra and Nowy Kisielin;
- LUG Argentina SA at a plant located in Posadas in the Misiones Province in Argentina.

The main suppliers of components for the production of LUG luminaires are world-class suppliers of electronic equipment.

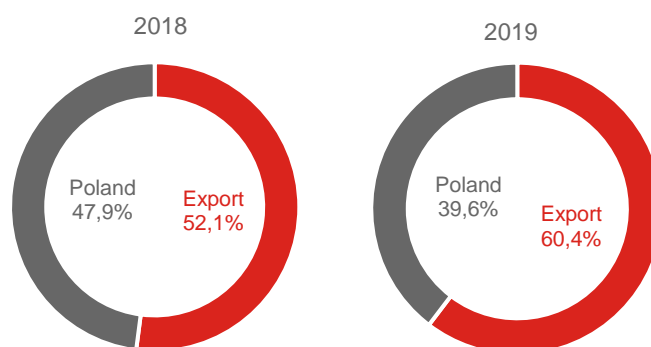
2.6. The Issuer's income structure

Starting from 2013, the level of sales revenues achieved by LUG S.A. Capital Group on foreign markets holds above 50%: in 2017 – 56,5%, in 2018 – 52,3%, in 2019 - 60,4%.

In 2019, the share of export revenues increased to 60,4%, mainly due to the significant strengthening of foreign sales in the first and second quarter of 2019, caused by the finalization of postponed foreign investments. In 2019, export revenues increased by 14.49% to PLN 101.70 million, while domestic revenues decreased by 18.43% to PLN 66.80 million. Thus, the LUG Group is the largest Polish exporter in the lighting industry.

The purpose of LUG S.A. Capital Group is an increase of export's share in total revenues, exceeding in 2021 the level of 75% of consolidated revenues from foreign markets.

Chart 6 The structure of sales revenues in a cumulative approach



Source: LUG S.A.

Table 21. The structure of sales revenues of LUG S.A. Capital Group y/y

	2019		2018	
	Value [thousand PLN]	Share [%]	Value [thousand PLN]	Share [%]
Poland	66,80	39,6%	81,89	47,9%
Export	101,70	60,4%	88,90	52,1%
TOTAL	168,50	100%	170,79	100%

Source: LUG S.A.

In 2019, the company sold its products to 70 countries (given in alphabetical order):

Algeria, Saudi Arabia, Argentina, Armenia, Australia, Austria, Azerbaijan, Bahrain, Belgium, Belarus, Bosnia and Herzegovina, Brazil, Bulgaria, China, Chile, Croatia, Montenegro, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Greece, Georgia, Spain, the Netherlands, India, Iraq, Iran, Ireland, Iceland, Israel, Qatar, Kazakhstan, Kenya, South Korea, Kuwait, Lebanon, Lithuania, Luxemburg, Latvia, Macedonia, Malta, Morocco, Mauritius, Moldova, Germany, Norway, New Zealand, Oman, Peru, Poland, Portugal, South Africa, Russia, Romania, El Salvador, Serbia, Slovenia, Switzerland, Sweden, Turkey, Ukraine, Hungary, United Kingdom, Vietnam, Italy, Curacao Islands, United Arab Emirates.

Table 22. The dynamics of sales revenues of LUG S.A. Capital Group according to IAS / IFRS

Year	Dynamics Poland	Dynamics Export	Total dynamics
2017 / 2016	+11,45%	+23,11%	+17,75%
2018 / 2017	+31,41%	+11,24%	+20,02%
2019 / 2018	-18,00%	+13,80 %	-1,34%

Source: LUG S.A.

Structure of the recipients of the LUG S.A. Capital Group in the period from 01/01/2019 to 31/12/2019 it was significantly diversified, both subjectively and geographically, which was an important factor

stabilizing its financial situation. The Group cooperated with a large number of regular customers, among which there were no entities clearly dominant in business dealings with the company.

2.7. Competitive environment

On the Polish lighting market, a full cross-section of lighting suppliers can be observed, from small companies specializing in home lighting, through large domestic companies with a well-established position and a wide assortment (including the LUG S.A. Capital Group), and ending with the largest international corporations.

In addition to small manufacturers and importers, the industry can distinguish a group of a dozen or so entities operating in the field of professional lighting technology. Companies from this group specialize in the production of luminaires for commercial use, including illumination of industrial, commercial, sports, office, hotel and road infrastructure. The indicated segment is the domain of activity of LUG S.A. Capital Group, therefore, the group of entities competing in relation to the Issuer should only be the producers of professional lighting fittings and systems on an international scale.

In addition to professional lighting manufacturers, Polish lighting companies also compete with foreign suppliers of cheap and poor-quality solutions, mainly from the region of Central and Eastern Europe and Asia (mainly China). Despite the lack of any comparability of products, this situation is due to the immaturity of the Polish consumer and investor and the omission of aspects such as high quality, energy efficiency or minimizing the negative impact on the environment when making purchasing decisions. Thanks to numerous educational campaigns and implemented trainings, however, this situation is systematically improving.

2.8. Share in the lighting market

Sales revenues of LUG luminaires in 2019 amounted to PLN 168,50 mln. Due to the lack of unambiguous data on the value of the Polish lighting market, originating from the Central Statistical Office and the lack of data on the value of individual foreign markets, the Issuer does not publish information on the current market share of LUG S.A. Capital Group.

At the same time, the Management Board of LUG S.A. undertook a number of maintenance activities in 2019 and expanding the share in the lighting market, including:

- Deep penetration of the markets on which the Issuer is present;
- LUG organizational changes concerning the consolidation of commercial structures;
- Establishment of two new Group companies: ESCOLIGHT Sp. z o.o. and LUG Services Sp. z o.o.;
- The activities of LUG Argentina SA in South America and LUG Aydinlatma Sistemleri Sirketi, based in Istanbul, in the Turkish and related markets.
- Intensified efforts to disseminate broadly understood smart lighting and intelligent light management technology;
- Staying ahead of market trends and readiness to adopt new technologies, which resulted in a systematic increase in the share of LED luminaires in sales revenues;
- Intensive development of the product range and investments in new lighting solutions, an example of which is the launch of BIOT Sp. z o.o., dealing with development in the IoT area;
- Work on the introduction of LUG to the markets of Sub-Saharan Africa and, consequently, the creation of LUG West Africa Ltd. in 2020.

3. IMPORTANT EVENTS AFFECTING THE ACTIVITIES OF LUG S.A. CAPITAL GROUP IN 2019

3.1. The most important circumstances and event affecting the business

The most important events that affected the operating activities and financial results of companies from the LUG S.A. Capital Group in 2019 were:

LUG as a member of the World Economic Forum

In January 2019, LUG joined the group of members of the World Economic Forum. By gaining the status of a Member of the World Economic Forum, LUG has become a member of the global community of companies, international organizations and other institutions whose goal is to improve the general condition of the world around us. As a company specializing in the design, development and production of comprehensive LED lighting solutions for professional applications such as infrastructure facilities or urban spaces, LUG offers ready-made answers to selected challenges faced by the modern world by increasing energy efficiency, reducing the emission of harmful gases into the atmosphere or improving the safety and comfort of ours and those around us.

Notification of exceeding the 10% threshold at the General Meeting of LUG S.A.

The Management Board of LUG S.A. on July 5, 2019, received an information about an increase in the share in the total number of votes at the General Meeting by NOVO Open-End Investment Fund managed by OPERA Fund Investment Company S.A. based on the received notification made on July 4, 2019, as following:

"Acting pursuant to Art. 69 sec. 1 in conjunction with Article 87 par. 1 point 2 letter a and sec. 3 letter b of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies, OPERA Towarzystwo Funduszy Inwestycyjnych S.A. hereby informs that NOVO Open Investment Fund managed by OPERA Towarzystwo Funduszy Inwestycyjnych S.A. holds a total of 720,505 shares of LUG S.A. representing 10.01% of votes at the company's general meeting. The reason for the change in the share in the total number of votes were the purchase transactions of LUG S.A. shares. settled on May 28, 2019. Before the change, NOVO Fundusz Inwestycyjny Otwarty held a total of 719,155 shares of LUG S.A., which constituted 9.99% of votes at the company's general meeting. At the same time, the Society announces that the funds managed by the Society hold a total of 1,350,415 shares of LUG S.A., which constitutes 18.76% of votes at the company's general meeting. Before the change in the share, the investment funds managed by the Society had a total of 1,349,065 shares of LUG S.A., which constituted 18.74% of the company's share capital. "

Notification on the reduction of the share in the total number of votes at the General Meeting of LUG S.A. below the 10% threshold.

On July 10, 2019, the Issuer undertook, pursuant to Art. 69 sec. 1 point 2 of the Act of On July 29, 2005 on the public offering and the conditions for introducing financial instruments of the organized trading system and on public companies (Journal of Laws 2018, item 512, as amended), information on the reduction of the share in the total number of votes at the General Meeting by NOVO Fundusz Inwestycyjny Otwarty managed by OPERA TFI SA based on the received notification made on July 8, 2019 with the following wording:

"Acting pursuant to Art. 69 sec. 1 in conjunction with Article 87 par. 1 point 2 letter a and sec. 3 letter b of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies, OPERA Towarzystwo Funduszy Inwestycyjnych S.A. hereby informs that NOVO Open Investment Fund managed by OPERA Towarzystwo Funduszy Inwestycyjnych S.A. (hereinafter "the Society") holds a total of 719,805 shares of LUG S.A. which is 10.00 percent. votes at the company's general meeting. The reason for the change

in the share in the total number of votes was the sale transactions of LUG S.A. shares. settled on July 8, 2019. Before the change, NOVO Open Investment Fund held a total of 720,505 shares of LUG S.A., which constituted 10.01 percent. votes at the company's general meeting. At the same time, the Society announces that the funds managed by the Society hold a total of 1,349,715 shares of LUG S.A., which is 18.75 percent. votes at the company's general meeting. Before the change in share, the investment funds managed by the Society were held in total 1,350,415 shares of LUG S.A., which constituted 18.76% of the share capital of this company. Before the change of share, the shares owned by the investment funds managed by the Society gave a total of 1,350,415 votes at the general meeting of LUG S.A., which constituted 18.76 percent. the total number of votes at the general meeting of this company.

"

Correction of the notification on the reduction of the share in the total number of votes at the General Meeting of LUG S.A. below the 10% threshold.

On July 22, 2019, the Issuer's registered office received an amendment to the notification previously prepared on July 8, 2019 pursuant to Art. 69 sec. 1 point 2 of the Act of 29 July 2005 on public offering and the conditions for introducing financial instruments to an organized trading system and on public companies (Journal of Laws 2018, item 512, as amended, "Act on Offer") by NOVO Fund Inwestycyjny Otwarty managed by OPERA TFI SA This adjustment concerned the information communicated in the current report no. July 10, 2019 reduction in participation in the total number of votes at the Issuer's General Meeting. The purpose of the correction was to supplement by the shareholder the formal shortcomings of the notification indicated in points 5-9, art. 69 section 4 of the Act about the offer. The full text of the correction to the notification is available as an attachment to the ESPI current report 6/2019 of 22/07/2019.

Appointment of members of the Supervisory Board for a new term

On June 28, 2019, the Ordinary General Meeting of Shareholders adopted resolutions on the appointment of Members of the Supervisory Board for a new, fifth term. The following were appointed to the Supervisory Board:

- Iwona Wtorkowska - Chairwoman of the Supervisory Board of LUG S.A.
- Renata Baczańska - Member of the Supervisory Board of LUG S.A.
- Eryk Wtorkowski - Member of the Supervisory Board of LUG S.A.
- Zygmunt Ćwik - Member of the Supervisory Board of LUG S.A.
- Szymon Ziolo - Member of the Supervisory Board of LUG S.A.

The term of office of the Supervisory Board is joint and lasts 3 years.

Dividend of 2018

On September 19, 2019, the fourth dividend in the history of LUG was paid based on the decision of the General Meeting of Shareholders, which positively considered the request of the Management Board of LUG S.A. and adopted a relevant resolution to enable the payment process to be carried out. The Shareholders received PLN 1,007,799.80 of the generated profit for 2018, i.e. PLN 0.14 per share.

Detailed parameters of the dividend paid:

- dividend amount: PLN 1,007,799.80
- dividend value per share: PLN 0.14
- number of shares covered by the dividend: 7,198,570 shares
- record date: September 12, 2019
- dividend payment date: September 19, 2019

Establishment of a related company ESCOLIGHT Sp. z o.o.

On October 24, 2019, a limited liability company was established, which is an entity related to LUG, operating under the name ESCOLIGHT Limited Liability Company with its registered office in Zielona Góra. The company's share capital is PLN 100,000.00, and the Issuer took up 600 shares with a nominal value of PLN 50 each and the total nominal value of PLN 30,000.00, which constitutes 30% of the share capital and entitles to the same number of votes at the Company's Shareholders' Meeting. The remaining shares in the company's share capital were acquired by JKI GK Sp. z o.o. The company ESCOLIGHT Sp. z o.o. has been established for an indefinite period, and the subject of its activity will be the provision of Light-as-a-Service lighting management services, consisting in comprehensive project service including preparation, financing, implementation and service of lighting investments. The first Management Board of the Company consists of the President of the Management Board in the person of Mr. Paweł Krysztop (RB ESPI 8/2019).

On December 5, 2019, the decision of the District Court in Zielona Góra, 8th Commercial Division of the National Court Register of November 27, 2019 on entry into the register of entrepreneurs under the number KRS 0000816193 (RB ESPI 10/2019) was received at the Issuer's registered office.

Signing a contract with an entity authorized to audit the annual financial statements of LUG S.A. and the LUG S.A. Capital Group for the years 2019-2020.

On November 26, 2019, the Issuer concluded with the auditing company PKF Consult Spółka z o.o. k. with its registered office in Warsaw, an agreement for the performance of attestation services in the scope of auditing annual financial statements, respectively, by LUG S.A. and the LUG S.A. Capital Group for the years 2019-2020 (RB EBI 15/2019).

LUG S.A. as a double laureate of Golden Website Contest XII

On June 5, during the Investor Relations Congress XI, statuettes were presented to the winners of the Issuer's Golden Website XII competition. This is another edition that allows participants to compete in two competition categories: Best IR service and Online communication leader. Among the winners, LUG S.A. was awarded the double prize of the winner of two categories. This is the company's 8th victory in the competition, the first in both possible categories. The event is organized by the Association of Stock Exchange Issuers. The aim of the Golden Website competition is to promote high standards of investor relations websites and communication of the company with investors and shareholders.

iF DESIGN AWARD 2019 for AVENIDA luminaire

For the third time, LUG has won the prestigious international design competition iF DESIGN AWARD 2019 thanks to the AVENIDA luminaire, which won in the lighting product category. AVENIDA is a professional solution for lighting public spaces, which are a strategic area of the company's development. It complements the comprehensive portfolio of LUG products for this application segment, being a response to the needs and problems of today's cities - its use allows to increase the safety and comfort of users of the surrounding space, while ensuring high energy efficiency of the municipal lighting system.

The best lighting investment of 2019

The competition committee organized by the Polish Lighting Industry Association awarded in the next edition of the competition for the Best Illuminated Municipalities and Cities 2019 the projects by LUG Light Factory Sp. z o.o., which received the following titles:

- The Best Lighting Investment of 2019 for the illumination of Hotel Europejski,
- 2nd place in the Indoor lighting category for HUB HUB Nowogrodzka Square and
- 2nd prize in the Roads and Public Areas Lighting category for national road no, European route E261 (section in Komorniki).

The competition for the Best Lighting Investment is a prestigious event that was organized for the twenty-first time. The competition aims to promote investment activity in the field of lighting. Its task is to reward

the best lighting investments, and to promote and disseminate good, innovative and energy-saving technical solutions, which enable achieving significant savings in electricity consumption.

LUG with the Best Annual Report 2018 distinction

In 2019, LUG S.A. it was recognized for the fifth time in the competition The Best Annual Report in the category of NewConnect companies. The distinction was awarded for the best activity report. The aim of the competition organized by the Institute of Accounting and Taxes is to promote annual reports with the highest utility value for shareholders.

LUG Lubuskie Innovation Leader 2019

On October 28, 2019, the award ceremony for the winners of the 11th edition of the Lubuskie Business Leader competition took place. The jury awarded the best companies from the Lubuskie Province. The title of Lubuski Leader of Innovation in the Large Companies category went to LUG Light Factory from Zielona Góra. This is the company's second victory in the poll in this category.

President of LUG is the Man of the 30th Anniversary of Free Poland

November 9, 2019, the selected Lubusz citizens were awarded the Man of the 30th Anniversary of Free Poland. The President of LUG S.A., Ryszard Wtorkowski, received the honorable title from the Marshal of the Lubuskie Voivodeship, Ms Elżbieta Anna Polak.

LUG as International Champion as Exporter

On December 3, 2019, the awards ceremony was held in the Polish Company - International Champion competition. The event promotes not only the activity of Polish companies on international markets, but also emphasizes their ability to effectively compete with foreign companies, while building a positive image of Poland on the international arena.

LUG as a finalist and laureate of Emerging Europe Awards 2019

LUG was nominated for the final of the Emerging Europe Awards 2019 competition and finally received the main prize in the Global Champion of the Year category. The jury consisting of over a dozen international experts selected the finalists of the Emerging Europe Awards (EEA) 2019 competition. The aim of the EEA is to award the best companies, institutions and local governments from as many as 23 countries in Europe. The LUG company received the main award in the Global Champion of the Year category, showing the greatest achievements in the field of internationalization. The awards gala in the Emerging Europe Awards 2019 competition took place on June 28, 2019.

Distinction for LUG of its 30th anniversary

Year 2019 is a special year for LUG, as it is the 30th anniversary of its existence. LUG S.A. Capital Group has been appreciated by independent experts, receiving a distinction on the occasion of the 30th anniversary of operations for the 30th anniversary of the beginning of the Polish transformation. The competition jury awarded companies that start operations in a difficult time of transformation, start without capital and business knowledge, which proved that within three decades it is possible to build a business capable of competing with global giants, also on international markets.

Lubuskie European Entrepreneur of 2018

On May 9, 2019, Collegium Polonicum awarded municipalities, schools and entrepreneurs for obtaining EU funds. The leaders of local governments, schools and entrepreneurs were those who for 15 years showed the greatest activity in obtaining funds and implementing projects. The aim of the "Lubuski Entrepreneur European" competition is to promote the most European young companies from the Lubuskie Voivodeship. The provincial government wants to appreciate the companies that were established in 2004 and later and were distinguished by their activity in obtaining funds from the European Union. The winner in the Lubuskie European Entrepreneur category was LUG Light Factory Sp. z o.o.

LUG nominated to the Economic Award of the President of Republic of Poland

The LUG company was among the 21 enterprises nominated by the Chapter of the Economic Award of the President of the Republic of Poland in the 17th edition of the competition in the Family Business category. For the second year in a row, LUG was among the awarded companies. The official presentation of diplomas and statuettes took place on October 7, 2019 during Congress 590 in Rzeszów.

The presented events concern LUG S.A. and activities related to the performance of supervisory functions over the entities in the capital group. However, full information on the functioning of the capital group is presented in the Consolidated Report of the LUG S.A. Capital Group. for 2019.

3.2. Achievements in research and development

The absolute condition for the competitiveness of the LUG Light Factory Sp. z o.o. there is continuous development, which in 2019 was implemented on the basis of several fundamental elements:

- research and development works related to the design of new solutions,
- investments in a research and production center in Nowy Kisielin,
- technological development based on a new company in the Group - BIOT Sp. z o.o.,
- improving the qualifications of the internal LUG laboratory,
- Integrated Management System based on ISO certification,
- improvement of internal processes,
- cooperation with new companies in the LUG Group (ESCOLIGHT Sp. Z o.o. and LUG Services Sp. Z o.o.) in order to create a chain of added value for customers.

Research and development works of LUG Light Factory Sp. z o.o. mainly concern the design of new lighting solutions, not only by creating completely new lighting products, but also by improving the parameters and improving the lighting fixtures already on offer.

In 2019, many new products were implemented, all of them were based solely on LED technology and modern design. The offer was enriched with completely new architectural lighting fixtures and a new line of hotel and decorative fixtures. Industrial luminaires and continuous line solutions have been significantly improved to achieve high performance and a competitive price. The offer was also expanded with new solutions in the field of infrastructure, road and park lighting.

For 12 years, research and development has been carried out by LUG Light Factory Sp. z o.o. in the internal laboratory at the headquarters in Zielona Góra. In the laboratory, luminaires and components are tested mainly in terms of safety in use and the obtained lighting parameters. Among other things, thermal conditions, tightness of luminaires (IP degree), resistance to mechanical shock (IK degree), aging of plastics, as well as all electrical parameters are tested. Laboratory of the LUG S.A. Capital Group It is equipped with a draft-free chamber for thermal tests of lighting fixtures in accordance with the PN-EN 60598-1 standard and a device for testing the flammability of materials using the hot wire method (GWT) in accordance with the PN-EN 60695-2-10 standard. In addition, the thermal test chamber allows for aging tests, which, in combination with the exposure of samples to UV light, enables simulation of the durability of luminaires and their components over time. The laboratory also includes a photometric darkroom equipped with a high-class automatic system for very precise measurements of the light distribution curves of lighting fixtures and other light sources (Goniophotometer type C-Gama). For the needs of the electronics department, the Laboratory was equipped with a multifunction generator for EMC electromagnetic compatibility tests with accessories, including: immunity to radio-frequency conducted disturbances and impulse waveforms. The laboratory is fully adapted to the needs of a wide range of product quality control, and in 2018 the facility obtained ISO 17025 approval by the TUV SUD unit.

The Research and Development Division is not only laboratory tests, but also design, analytical activities, simulations, construction works and, finally, implementation processes. Not without significance this department also includes customization activities, ie developing solutions and innovations "tailored" according to the customer's expectations. The Customization Department works on projects submitted by a specific client and develops unique products and solutions that meet the individual needs of the stakeholder.

In 2019, LUG Light Factory Sp. z o.o. continued activities in the field of intellectual and industrial property protection as a result of research and development works and implementation. In 2019, 21 RCD industrial designs were submitted to the European Union Intellectual Property Office (EUIPO) and the official search procedure for the European Patent Office EPO for 4 inventions was completed. Registered designs and reported inventions were created as part of the aforementioned project co-financed by the EU under the name "An innovative set of specialized luminaires for cooperation with an intelligent management system - from research to prototypes." The project ended in March 2019.

In 2019, a development project was launched, co-financed by the national funds of the National Center for Research and Development, under Measure 4.1. Scientific research and development works of the Intelligent Development Operational Program 2014-2020 entitled "Industrial research and experimental development work on the development of a safe lighting point" with a total value of PLN 5,249,832.36 and the amount of co-financing: PLN 3,827,141.04. Its purpose is to develop an innovative, safe lighting pole integrated with the lighting fixture, constituting the so-called safe lighting point (BPO). The project will last until mid-2021. It assumes close scientific cooperation with research units, popularization of research results and 4 patent applications. As part of this project, the Laboratory was equipped with laboratory equipment and another apparatus necessary for professional research: a light aging chamber and a photometric and colorimetric test system.

Activities for environmental protection are among the priorities of the LUG. The implemented and used System of Environmental Management according to the international standard ISO 14001: 2015 and System of Energy Management according to ISO 50001: 2011 confirm that LUG Light Factory Sp. z o.o., meets the legal requirements related to environmental protection. Both the Environmental Management System Certificate according to ISO 14001: 2015 and the Energy Management System Certificate according to ISO 50001: 2011, LUG Light Factory Sp. z o.o. has since 2018. The certificates complement the existing Integrated Quality Management System based on the ISO 9001 standard, which has been operating in the company for many years. Both in 2019 and 2020, all the above-mentioned ISO standards were subject to a successful audit.

In 2019, the process of implementing the BS OHSAS 18001 standard (responsible for occupational health and safety) was also started and was successfully completed at the beginning of 2020. In 2021, the OHSAS standard will be replaced by the ISO 45001: 2018 standard.

Another direction of the implemented development activities is cost optimization and increasing of process efficiency. As part of these activities, a number of actions were implemented, including the most important ones: the implementation of the KAIZEN philosophy and the 5S method. The KAIZEN philosophy, as a concept of continuous improvement, entered LUG in the context of the involvement of all employees of the company, regardless of the level, in the constant search for ideas to improve all areas of the organization. From the entire organization, the implementation team received over 250 rationalization applications from very different areas relating to: cost optimization, work ergonomics, product quality and environmental impact. Out of 278 applications, 181 were applied to the organization, and many other activities are implemented through a high degree of self-actualization. The 5S Method (selection, systematics, cleaning, standardization and self-discipline) turned out to be the most important of the implemented techniques, which resulted in significant improvements in work. The 5S program is the basis of the Lean and Kaizen systems. As part of it, the necessary training and workshops were conducted and areas were selected where it was then implemented. The selection of

workstation equipment in terms of suitability for the performance of duties has put the workplace in order with the optimal use of the working space.

The introduced changes helped to increase the quality, efficiency and safety at workplaces. The introduced 5S standards led, among others, to uniform zone marking, division into areas of responsibility and uniform material flow. Employees were involved in the process by introducing land ownership, ensuring their direct impact on changes in a specific area and the ability to independently initiate changes. The 5S methodology, and thus standardization, mean that changes introduced in one area are also introduced in others. Compliance with the 5S rules is verified during periodic audits.

In 2019, there were organizational changes at LUG Light Factory Sp. z o.o., which were supported by activities in the field of 5S. As part of the program, it was possible to:

- implement new procedures for the areas: assembly, paint shop and office part,
- conduct internal trainings for the areas of assembly, paint shop and office part,
- update the areas of responsibility,
- carry out a 3S action in the above areas - removing all unnecessary tools and equipment from the areas, thanks to which the material flow process has become more transparent,
- start systematic 5S audits in the areas described above.

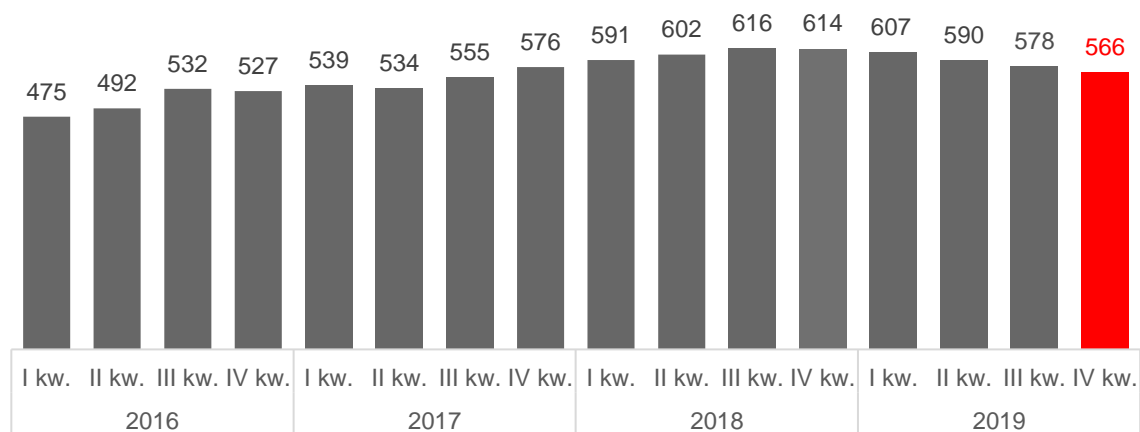
3.3. Essential information and non-financial data

Pursuant to Article 55 para. 2b and 2c of the Accounting Act, the Company prepared a separate report of the LUG Capital Group S.A. on non-financial information, which is attached as a separate document.

3.3.1. Human resources

LUG S.A. Capital Group as at 31.12.2019 employed 566 people in relation to 614 people at the same time in the previous year.

Chart 7 Employment level at the LUG S.A. Capital Group in 2016 - 2019 in quarterly terms (employment based on a contract of employment)



Source: LUG S.A.

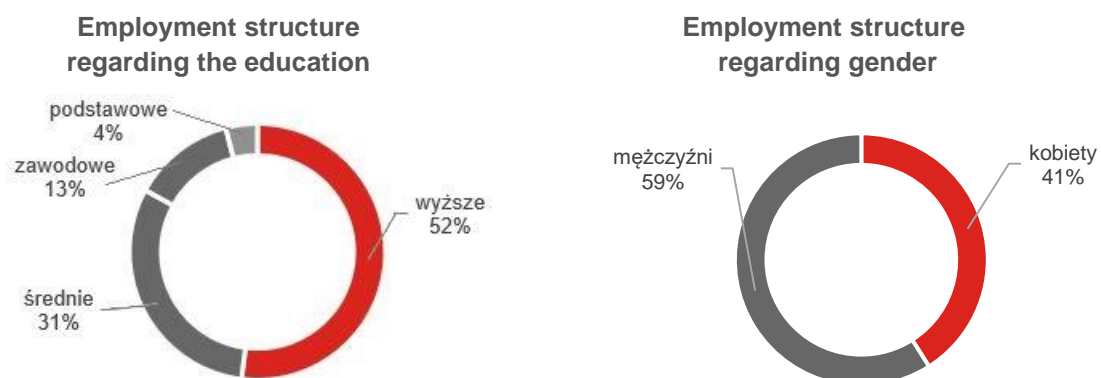
Detailed information regarding the employment in the LUG S.A. Capital Group presents the table no. 23.

Table 23. Human resources of the LUG S.A. Capital Group and LUG S.A. on December 31, 2019

Specification	LUG S.A. Capital Group	LUG S.A.
Number of employees (full-time)	566	0
Number of employees (part-time job)	3	0
Other forms of employment	23	0
Average age of employees	39 lat 0 m-cy	-

Źródło: LUG S.A.

Chart 8 Employment structure regarding gender and education



3.3.2. Corporate social responsibility

All entities of the LUG S.A. Capital Group they implement the idea of a socially responsible business, taking into account legal regulations, ethical norms as well as social interest. In its daily business activities, the company cares about high standards and harmony of functioning in the environment. In addition, the Company engages in initiatives of local communities and charities.

One of the elements of building relationships with the local community is charity work carried out by LUG. It is targeted donation for purposes carried out by non-governmental organizations and support in kind.

Operating within the LUG S.A. Capital Group, in 2019 the Issuer once again supported the County Children's Home in Żary. As part of a deliberate Christmas initiative, employees and the company, in response to children's letters to Santa Claus made children's dreams come true.

In 2019, the LUG S.A. Capital Group provided donations with a total amount of PLN 40,667.30. Among the recipient organizations and institutions there are:

- The Association Warto jest Pomagać.
- People for People Association: Patronage of the Golden Heart.
- Christian Educational Association.
- County Orphanage in Żary.
- Care and Educational Center no. 4 in Zielona Góra.
- Museum of the Lubuskie Region.

In addition, LUG Light Factory Sp. z o.o. supported:

- sponsorship of cultural and entertainment events.
- individual allowances.

LUG also provided material support, which has so far taken various forms:

- annual employee volunteering in the form of preparing Santa and Christmas gifts for children from the Orphanage in Żary, as well as supporting other material needs of the entire Home;
- funding T-shirts for volunteers of the Great Orchestra of Christmas Charity during the last three editions (2017, 2018, 2019).

In addition to the above-mentioned activities, at the beginning of 2019, the LUG Group financed luminaires for the Christian Educational Association from Zielona Góra. The Christian Educational Association leading in Zielona Góra. The primary school "Salomon" also opened a kindergarten, for which LUG luminaires worth over PLN 16,000 were donated.

In 2019, the LUG Group also carried out activities in the field of sponsoring industry and cultural events with a total value of PLN 850 thousands, including:

- Halls and Warehouses Łódź 2019
- Muniexpo 2019
- Otwarte Wnętrza 2019
- Smart City Forum 2019
- BIM WEEK 2019
- XIV Conference of Street Lighting and Lighting of public places Wisła 2019
- Moldenergy 2019
- Polish Architecture XXL 2018
- European Congress of local governments Kraków 2019

- Middle East Lighting Design Summit 2019
- Poznań Design Festival 2019
- Stadt- und Außenbeleuchtung Dresden 2019
- Straßen und Außenbeleuchtung Hannover 2019
- 20-20 urban innovation meeting Prague
- Regional Congress Wrocław 2019
- Multimodal 2019
- EXPOARCON 2019
- MEB Elettroforniture 2019
- EXPO Energia 2019
- ENERGETAB 2019
- Architectural Days in France, Austria, Switzerland 2019
- Diplomatic Opening of the Year 2019
- World Economic Forum on the Middle East and North Africa 2019
- India Economic Summit 2019
- Sustainable Development Impact Summit 2019
- World Economic Forum on Africa 2019
- Annual Meeting of the New Champions 2019

The LUG Group focuses its activities on events that provide space for substantive debate on the role of professional lighting solutions, IoT, Smart Lighting and Smart City technologies in areas such as architecture, design, infrastructure, and urban / public space development. As an industry leader with 30 years of experience, LUG experts share their know-how and promote good practices among stakeholders involved in the implementation of projects in these areas, offering them professional support in their undertakings.

Social responsibility in the field of environmental protection

A responsible approach to environmental impact is one of the key elements of the LUG Group's organizational culture. With extensive knowledge and design toolsthrough optimization of its projects and many innovations introduced in them, LUG has a real impact on limiting the negative influence on the environment, resulting from both,its own operational and production activities and the use of LUG products. This is mainly due to high energy efficiency of LEDs compared to traditional light sources. High energy efficiency results in reduction of indirect greenhouse gas emissions into the atmosphere. Installation of LED luminaires is the most economically justified way to reduce negative impact on the environment by virtually any company or institution that uses various forms of lighting in its operation.

The companies of the LUG SA Capital Group carry out a responsible policy in the field of environmental protection and make due care that both the activities and investments implemented are in line with the requirements, as well as take into account technological developments in environmental protection.

Spreading knowledge in the field of lighting technology and modern marketing tools lead to increase energy-saving culture in society, and consequently to changes in the assortment structure for energy-efficient products with higher utility standards. Fourteen leading companies from the lighting industry in Poland, combining their own pro-development goals with the postulate of environmental protection, created a joint organization: Association of Lighting Equipment Manufacturers "Pol-lighting", of which LUG Light Factory Sp. z o.o. is an active member (including participation in the Promotion Committee) and a partner of the "Good Light" project implemented by the aforementioned Organization.

The foundation of activities for environmental protection are the ISO systems: Environmental Management System according to the international ISO 14001: 2015 standard and Energy Management System according to ISO 50001: 2011. These systems confirm that the Issuer's subsidiary, LUG Light Factory Sp. z o.o., meets the legal requirements related to environmental protection.

Both the Environmental Management System Certificate according to ISO 14001: 2015 and the Energy Management System Certificate according to ISO 50001: 2011, the company LUG Light Factory Sp. z o.o. has been in operation since 2018.

Companies of the LUG S.A. Capital Group did not incur any criminal sanctions in 2019 for breach of environmental protection requirements.

Social responsibility in the area of human resources development

Capital Group LUG S.A. pays great importance to the promotion of such values as equality, honesty and dialogue. Bearing in mind social justice and gender equality, the Issuer cares for balance in terms of the gender structure of human resources, and also opposes all forms of discrimination and racism. The ratio of female employees to male employees is 41% to 59%. In the Management Board and in the Supervisory Board of LUG S.A. beyond all members are women as well. The employees of the company are people of different nationalities.

In 2019, the Company's employee training program resulted in 1,884 training hours for managers or managers. In the case of employees belonging to the senior management, the number of training hours in 2019 was 444. In the group of other employees, the number of training hours reached 8,073 training hours. The training programs held in 2019 concern the improvement of the language skills of employees as part of the LUG Speaks English project, professional development, introductory training and internal projects developing employee competences.

As part of the development path, employees of the companies of the LUG S.A. Capital Group participate in numerous trainings to raise professional qualifications and expand their competences at language courses organized at the company's premises. In addition, each person starting work in the company undergoes a several-day series of training in the field of lighting technology. The company also supports the sports activity of employees associated with the LUG TEAM runners' team and the LUG MTB TEAM mountain bike team.

Business responsibility as part of local sport support

In 2019, the Capital Group of LUG S.A. was one of the sponsors of the basketball team Stelmet BC Zielona Góra - current Polish Champion.

3.3.3. Awards

In 2019, the Issuer and the companies of the LUG S.A. Capital Group, including in particular LUG Light Factory Sp. z o.o. received prizes and distinctions presented in the table below.

Table 24. Awards and distinctions of 2019.

Award	Description	Organizer
The Best Lighting Investment 2018	<p>Winne Wzgórza (Palm House and Wine Park) and the illumination of the castle ruins in Zatonie received the first prize in the category "Illumination of public, private and sacred buildings".</p> <p>The Bałtyk Office Building was awarded the 2nd prize in the category "Indoor lighting of public facilities, shopping centers and commercial buildings as well as service and hotel facilities".</p>	Polski Związek Przemysłu Oświetleniowego (Polish Association of Lighting Industry)
iF Design Award 2019	<p>The LUG company was the winner of the prestigious international design competition iF DESIGN AWARD 2019 thanks to the AVENIDA luminaire, which won in the lighting product category. This is the third iF Design award for LUG in the history of the competition.</p>	iF International Forum Design
The man of the 30th anniversary of Independent Poland	<p>The title of the Man of the 30th Anniversary of Free Poland for Ryszard Wtorkowski, President of the LUG.</p>	Urząd Marszałkowski Województwa Lubuskiego (Lubuskie Marshall Office)
Lubuskie European Entrepreneur 2019	<p>The aim of the "Lubuski Entrepreneur European" competition is to promote the most European companies from the Lubuskie Voivodeship. The provincial government wants to appreciate the companies that were established in 2004 and later and were distinguished by their activity in obtaining funds from the European Union.</p>	Samorząd Województwa Lubuskiego (The local government of Lubuskie Voivodeship)
Lubuskie Voivodeship of Innovation Leader 2019	<p>Lubuskie Innovation Leader title for LUG Light Factory Sp. z o.o.</p>	Zachodnia Izba Przemysłowo – Handlowa (Western Chamber of Industry and Commerce)
The Best Annual Report	<p>Distinction in the category of companies from the NewConnect market for the best report on activities</p>	Instytut Rachunkowości i Podatków (Accounting and Taxes Institute)

Issuer's Golden Website XII	Double prize for best IR service and as a communication leader in small companies of regulated and alternative market of NewConnect	Stowarzyszenie Emitentów Giełdowych (Association of Stock Exchange Issuers)
Global Champion of the Year	Main prize in the Global Champion of the Year category in the Emerging Europe Awards 2019 competition.	Emerging Europe Awards
Nomination for the Economic Award of the President of RP	Nomination in category of Family Business	Kapituła Nagrody Gospodarczej Prezydenta Rzeczypospolitej Polskiej XVII (The Chapter of the Economic Award of the President of RP Contest)
Business Leader of 30-anniversary	30-anniversary Leader	Gazeta Rzeczpospolita (Rzeczpospolita)
Polish Economy Brilliant of 2018	Independent ranking based on business intelligence data	Instytut Europejskiego Biznesu (European Business Institute)
Zasłużony dla Eksportu RP Merited for Polish Export	LUG S.A. Capital Group received the medal in Companies category representing Lubusz voivodeship	Krajowe Stowarzyszenie Eksporterzy Rzeczypospolitej Polskiej (Polish Exporters Association)

Source: LUG S.A.

3.3.4. Trade and conferences

LUG Light Factory Sp. z o.o., as a subsidiary of the Issuer and an entity implementing design, production and trade activities, represented the LUG S.A. Capital Group in 2019 at many trade fairs and industry meetings:

LUG is a partner of the diplomatic opening of 2019

On January 17, 2019, the fifth edition of the Diplomatic Opening of the Year organized on the initiative of the Polish Chamber of Commerce took place. LUG took part in the event as a Partner.

LUG is a partner of the 5th edition of the European Local Government Congress

The next edition of the European Local Government Congress was held on April 8-9 at the ICE Congress Center in Krakow. It is an event that every year creates a space for many meetings with local leaders and regional elites and for exchanging views with representatives of public administration and non-governmental organizations. The company LUG Light Factory Sp. z o.o. was a partner of this event.

LUG at the World Economic Forum on the Middle East and North Africa

The LUG delegation took part in the World Economic Forum on the Middle East and North Africa 2019, which took place on April 6-7 in Jordan. Organized by the World Economic Forum, the event brought together leaders of government, business and society with the aim of enabling collaboration on key challenges facing the region. The intense, two-day agenda of the Forum covered a wide range of topics such as energy policy, ways to reduce the negative impact on the environment, and planning the sustainable development of cities and infrastructure in the region.

SENCON fair in Dakar

LUG Light Factory participated in the largest construction industry fair in West Africa, SENCON Senegal 2019. For the fourth time, the SENCON fair attracted representatives of leading West African development and construction companies, architects and representatives of local authorities in the capital of Senegal. In addition to the fair part, this year's edition of the event will also include a forum on renewable energy. At the stand organized by the Polish Trade and Investment Agency, we will familiarize the participants of the event with both the economic and environmental dimensions of the benefits of using professional LED lighting solutions.

LUG is the golden sponsor of the Middle East Lighting Design Summit 2019

On April 29–30, the international Middle East Lighting Design Summit, sponsored by LUG, was held for the eighth time in Dubai. It was a space that gathered over 350 delegates from all over the world specializing in topics related to lighting: designers, sustainable development experts, town planners and architects. The aim of the conference was to create a field for discussion on the challenges related to the implementation of innovative lighting design techniques, as well as trends and opportunities that are closely related to them.

LUG is a partner of the 6th edition of Poznań Design Festival

On May 10-19, the sixth edition of the Poznań Design Festival, with LUG Light Factory as a partner, took place. The meeting was a space for discussion on issues related to the shape and functioning of modern cities and how to protect them from overexploitation and wisely manage their various aspects so that they are environmentally friendly. During one of the debates, Mariusz Ejsmont (Vice President of the Management Board, Technical Director of LUG S.A.) presented the benefits of using modern LED lighting technologies and talked about the importance of light in the process of city design.

LUG is a partner of the 10th Congress of Regions

On 11–12 June, the Congress of Regions was held in Wrocław for the tenth time under the slogan: More for less. Local government ready for new times. The aim of the Congress is to create a space for discussion on topics related to the most important issues for the functioning of cities, communes and counties and provinces. LUG Light Factory was the partner of the event.

LUG at the international MULTIMODAL fair in Birmingham

On 18-20 June, LUG representatives participated in the MULTIMODAL fair in Birmingham, which last year attracted nearly 9,000 visitors. During the event, over 250 exhibitors from around the world presented solutions aimed at increasing the efficiency of processes related to the functioning of all sectors of the supply chain, and thus increasing cost savings associated with it.

LUG at Expoarcon 2019 in Peru

On July 3-6, 2019, LUG representatives took part in the EXPOARCON 2019 fair in Peru – an international meeting of suppliers from the construction sector, infrastructure development, real estate development, architecture and engineering. Together with Ceyesa, LUG presented the latest solutions of LED technology. In separate zones, lighting fixtures for the retail sector and offices, as well as industrial and street luminaires are presented.

LUG at the Annual Meeting of the New Champions 2019

The LUG delegation took part in the Annual Meeting of the New Champions 2019 organized by the World Economic Forum, which took place on July 1-3 in Dalian, China. This meeting, also known as the Davos Summer Meeting, is one of the largest gatherings of business, government, society and science leaders in the world. This year's, 13th edition of the event gathered around 1,800 participants from over 120 countries, who during over 200 working sessions on the 3-day agenda of the meeting discussed topics related to technology, sustainable development, responsibility and flexibility in business.

LUG at the India Economic Summit 2019

On October 3-4, the LUG delegation took part in the India Economic Summit 2019. Organized by the World Economic Forum, the India Economic Summit (IES) is one of the most important events devoted to India, the fastest growing large economy in the world. The agenda of the event was focused on accelerating the adoption of India's Fourth Industrial Revolution technology to support the country's achievement of advanced economy status.

LUG at MEB Elettroforniture

On October 4-6, 2019, LUG representatives participated in the MEB Elettroforniture fair in Vicenza, Italy. They presented the latest solutions of LED technology there.

LUG at WETEX 2019

On October 21-23, LUG representatives visited the International Congress and Exhibition Center in Dubai, participating in the WETEX (The Water, Energy, Technology and Environment Exhibition) fair. During the event, the Issuer presented solutions for public space, industry and smart city class solutions.

LUG at the World Economic Forum on Africa 2019

On September 4-6, 2019, LUG participated in the World Economic Forum on Africa in Cape Town, South Africa. The event gathered over 1,000 regional and global leaders in politics, business, society and science. Participants discussed topics related to, among others with sustainable development, environmental protection and the continent's readiness for the 4th Industrial Revolution.

3.3.5. Investor Relations

Transparency and high quality of information policy are the most important elements of the LUG S.A. Capital Group communication with the capital market environment. For this purpose, the Issuer uses two types of instruments. The first of these are obligatory activities, the second is alternative communication tools. The Issuer's Management Board makes every effort to act in accordance with the highest standards in both areas. In carrying out obligatory information duties, LUG S.A. it complements them with a range of corporate communication activities that allow investors to get to know the Issuer as well as make rational investor decisions.

In the area of complementary communication activities, the following should deserve particular attention:

- **Publication of the annual report for 2018 in the online version**

In 2019, LUG S.A. as one of the few companies on the NewConnect market have published the 2018 annual report in an online version. This form of the report, in addition to the traditional printed version, is a modern form of communication corresponding to global trends in digitization of all spheres of business. It is a standard that has permanently entered the canon of communication

of LUG S.A. Capital Group. starting from 2012. The annual online report is available, both in Polish and English language.

- **Double victory in the Issuer's Golden Side competition**

In 2019, the investor relations service of LUG S.A. once again won the 12th edition of the Issuer's Golden Website competition, for the second time in a combined category for small companies from the regulated market and the NewConnect alternative market. The results of the plebiscite organized by the Association of Stock Exchange Issuers were announced in June 2019. The Issuer's Golden Website Award is granted for high standards in website management and the company's communication process with investors.

LUG S.A. investor relations website for the tenth time in a row was in the top three laureates, the winner for the seventh time in a row and for the eighth time in the history of the competition (awards in 2009, 2013, 2014, 2015, 2016, 2017, 2018). This time LUG S.A. received two titles: "Best Investor Relations Service" and "Online Communication Leader". In the justification of the verdict, such features of the LUG S.A. investor relations website were mentioned. such as the current update of the content, a very attractive graphic design, as well as the functionality that is unique among websites of companies listed on the NewConnect market, which is the ability to synchronize the calendar of events important for investors with the Google calendar.

- **The Best Annual Report award for the activity report**

LUG S.A. was recognized for the fifth time in the competition "The Best Annual Report" in the category of NewConnect companies. The distinction was awarded for the best activity report. The aim of the competition organized by the Institute of Accounting and Taxes is to promote annual reports with the highest utility value for shareholders.

3.3.6. Marketing activities

In 2019, activities in the area of marketing of the LUG S.A. Capital Group. remained focused on supporting the implementation of the Strategic Development Directions of LUG for 2017-2021 and the celebration of the 30th anniversary of the company's operation. Both the selection of activities and the preparation of new marketing materials were primarily aimed at the best possible response to the needs of strategic target groups, taking into account the three decades of LUG experience.

The selected activities carried out in the area of marketing in 2019 were:

- Continuation of the new products campaign - continuation of the marketing campaign in online and offline channels aimed at presenting the latest solutions in the product portfolio dedicated to strategic target groups.
- Brand awareness campaign - implementation of an online marketing campaign aimed at increasing the awareness of the LUG brand and knowledge about the value proposition among representatives of strategic target groups. The campaign continues in 2020.
- 30th anniversary event for employees and clients - organization of two events to celebrate the celebration
- 30th anniversary of LUG for employees and key business partners.
- Preparations for the light + building 2020 fair - the largest industry lighting fair in the world organized every two years in Frankfurt am Main.
- Development of project support tools dedicated to strategic target groups, incl. BIM Object model libraries used at work by architects.

- Development of the P Zone - especially as regards the implementation of tools to improve internal communication in the LUG S.A. Capital Group. and self-improvement of employees' qualifications.
- Continuation of the implementation of a uniform project management system - implementation stage of the project started in 2018.
- Coordination and implementation of activities related to LUG membership in the World Economic Forum.

In 2019, the LUG Group took part and was involved in a number of industry and cultural events, which were coordinated by the Marketing Division. More information in this regard is available in Chapter 3.3.4. Trade fairs and conferences.

3.3.7. Proceedings in a court of justice

In the reporting period, i.e. from 01.01.2019 – 31.12.2019 and as of the date of this report, LUG S.A., and other companies forming the LUG S.A. Capital Group did not conduct other significant proceedings before a court, a competent arbitration authority or a public administration body.

After the bilans date, i.e. on June 18, 2020, the Management Board of LUG S.A. received an information about the conclusion of the proceedings and receipt of the judgment on the appeal against the decision of the President of the Energy Regulatory Office on the imposition of a fine of PLN 1,000 (say: one thousand zlotys) on the subsidiary LUG Light Factory Sp. z o.o. for non-compliance with the restrictions on the supply and consumption of electricity introduced on August 10-31, 2015 (during 2 hours, August 10, 2015). The court dismissed the complaint of LUG Light Factory against the decision of the President of the ERO imposing a fine of PLN 1.000 on the company and charged the above-mentioned the company with the costs of the proceedings in the amount of PLN 720 (say: seven hundred and twenty zlotys). About receiving the above-mentioned The Issuer informed about the judgment in the current report No. 6/2020 dated June 18, 2020

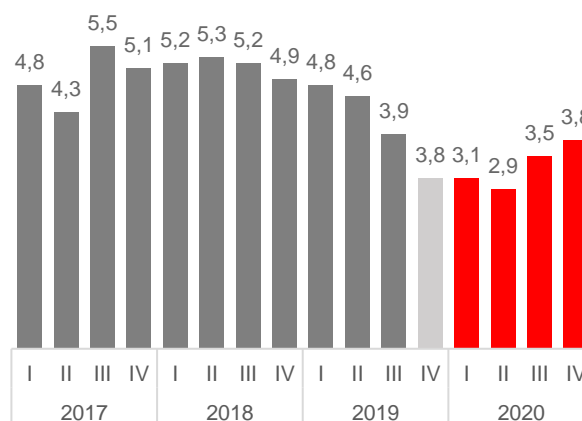
3.4. Current and projected financial situation of the LUG S.A. Capital Group

3.4.1. Macroeconomic background

The Capital Group of LUG S.A. in 2019 operated in an environment characterized by the following economic indicators:

According to the preliminary estimate of the Central Statistical Office, the GDP growth rate in the entire 2019 reached 4.0%. It means that GDP decreased compared to the previous two years (2017-2018), but was higher than in several previous years (2012-2016). The growth rate of 4 percent was below expectations. According to the estimates of the Institute of Economic Forecasts and Analyzes, the fourth quarter brought GDP growth by 3.8%. y/y It was the sixth consecutive quarter in which the economic growth rate was lower than in the previous quarter. It was also the lowest in the last twelve quarters. Looking at the seasonal factors, the GDP growth rate in the period from October to December reached 0.7% compared to the previous quarter.⁸

Chart 8. Historical, estimated and forecasted growth rate of GDP in Poland [y/y, %]



Source: NBP, IPAG

The main factor of economic growth, both in the entire 2019 and in its last quarter, was domestic demand. The Polish economy is behind the peak of the boom. In the opinion of IPAG, in the years 2020-2021 a further decline in GDP growth should be expected.

Year 2019 brought a revival in inflation, which finally was stronger than forecast, e.g. due to weather anomalies and disturbances in food supply. Core inflation grew driven by firms' efforts to defend/ rebuild margins. The preliminary reading of December's inflation level turned out to be much higher than expected reaching 3.4%. y/y. Experts estimate that core inflation net of food and energy prices increased to 3.2 percent from 2.6%, i.e. it was the highest in over 17 years.

At the end of 2019, the construction output sold was much below expectations. In enterprises employing more than nine people, it decreased by nearly 4 percent in the last quarter of the year, while the increase for the entire year was only 2.6 percent. In the opinion of IPAG, the situation was slightly better in the entire construction sector, including smaller enterprises, and the increase in construction production amounted to 6.7%. According to preliminary estimates of the Central Statistical Office, the added value in construction in 2019 increased by 2.8%⁹

In 2019, the growth rate of exports (in terms of national accounts) was higher than the growth rate of imports. According to IPAG, exports increased by 4.7% during this period, and imports by 4.3%. This means an improvement in Poland's foreign trade balance, and the impact of the foreign trade balance on the economic growth rate was positive. In the fourth quarter, the growth rates of exports and imports amounted to 3.6 and 4.3%, respectively, which proves that the growth rate of imports exceeded the growth rate of exports.

⁸ Stan i prognoza koniunktury gospodarczej nr 1/2020, IPAG, luty 2020 r.

⁹ *Ibidem.*

In the fourth quarter of 2019, the assessment of demand in the enterprise sector remained at a very good level. For about two years, the production capacity utilization ratio has been close to the historical maximum. Retail sales as well as industrial and construction-assembly production remained stable in the last quarter of the year.

In 2019 Q4, the assessments of the economic situation of the surveyed enterprises deteriorated quite significantly, however, reaching a level close to the median of the results for the entire survey period. Deterioration of moods was recorded primarily in services, including trade and transport, as well as in construction and mining. The most frequently mentioned problem by companies was quickly and unfavorably, in their opinion, changing regulations and dynamically growing operating costs. Both of the above-mentioned barriers increased in the last quarter of 2019. The barrier of high and rapidly growing labor costs also clearly increased. Moreover, the demand barrier slightly increased, but against the background of historical data, problems of this type remain relatively small. In the fourth quarter of 2019, the uncertainty felt by enterprises increased significantly compared to the previous quarter, and its assessment exceeded the long-term average, but still remained at a relatively low level.

In the light of the financial data of enterprises, a slowdown in investment activity took place in Q3 in two main areas. Growth in public enterprise investment was hampered from high levels. The activity of enterprises, which were more dependent on foreign markets, also decreased. Against the background of the stable results of the enterprise sector, the construction sector stood out negatively, as the scale of disinvestment began to accelerate strongly. As a result, in Q3 it was the highest in this sector since 2012.

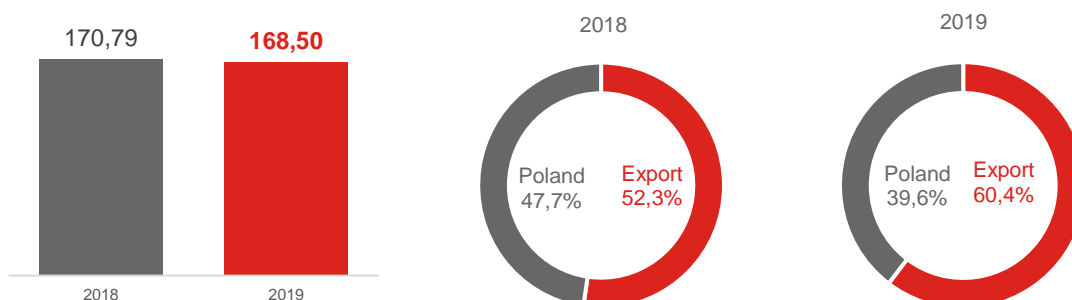
The first quarter of 2020 in the lighting industry was significantly different from the corresponding periods in previous years. The COVID-19 pandemic, exerting an increasingly stronger impact on the global economy, led to a global recession, also affecting the correction of forecasts for 2020 and 2021.

In the circumstances of a pandemic, the prediction of macroeconomic indicators is currently subject to high uncertainty.

3.4.2. Financial situation

Revenues

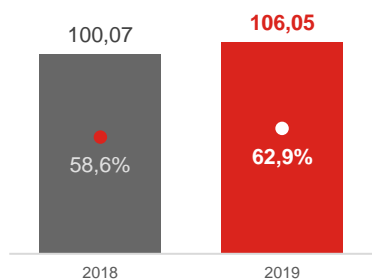
Chart 9 Sales revenues and its geographical diversification [mIn PLN, %]



In 2019, the consolidated revenues of LUG S.A. Capital Group amounted to PLN 168.50 million and were by 1.3% lower than in the previous year. The share of exports amounted to 60.4% and was by 8.0 pp higher than in the previous year. This is compatible with the strategic development directions target of striving for a 75% share of exports. The difficult situation on the domestic construction market, including the delayed start of many local government investments in the field of streetlighting, contributed to the decrease in revenues throughout the year.

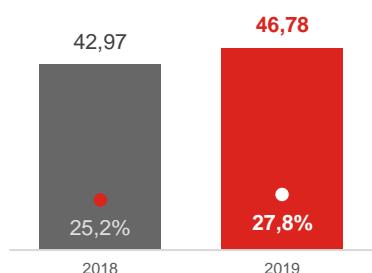
Costs and investments

Chart 10. Costs of products, goods and materials sold [mIn PLN, %]



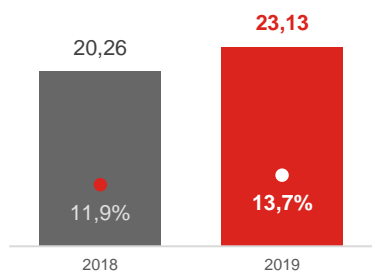
The costs of products, goods and materials sold in 2019 amounted to PLN 106.05 million and were by 6.0% higher than in the previous year. The increase in costs was mainly due to the last months of the year, when there was a trend related to an increase in the Group's revenue structure of material-intensive products. Moreover, the requirements concerning the necessity to conduct costly certification tests of luminaires on individual foreign markets are becoming more common, which means that each luminaire model introduced to the offer requires costly tests adapted to the requirements of a given market. In 2019, the Group carried out activities related to the optimization of production processes aimed at better control of the costs of products, goods and materials sold.

Chart 11. Sales costs [mIn PLN, %]



Selling costs in 2019 amounted to PLN 46.78 million and were by 8.9% higher than in the previous year. The increase in selling costs was influenced by the optimization of sales structures, increased expenses necessary to maintain relations and acquire new customers as part of the Group's internationalization strategy, and higher costs of participation in trade fairs and industry conferences.

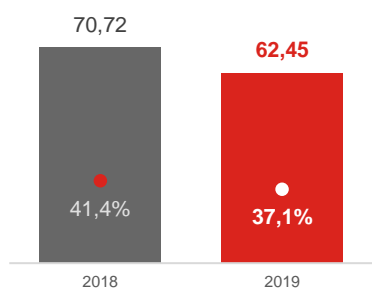
Chart 12. General administrative expenses [mln PLN, %]



General and administrative costs in 2019 amounted to PLN 23.13 million and were higher by 14.2% than in the previous year. The increase in overheads was mainly due to the increased expenditure on research, in particular the launch of several new research projects, including developing solutions for a Safe Lighting Point. While the costs of development works are assigned to individual projects, the costs of research works cannot be allocated to individual projects, but their implementation serves the long-term increase of the Group's competitive abilities, which contributes to its future development.

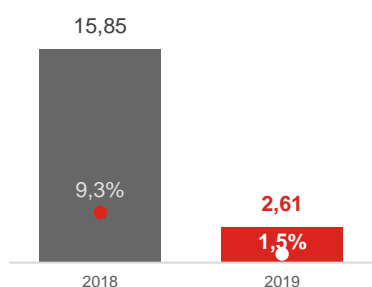
Profit

Chart 13. Profit and gross margin on sales [mln PLN, %]



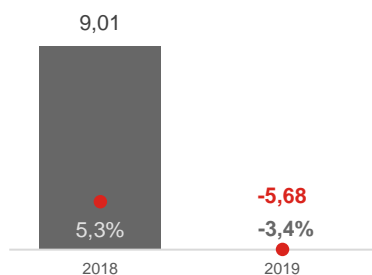
Gross profit on sales in 2019 amounted to PLN 62.45 million and was by 11.7% lower than in the previous year. The gross margin on sales decreased to 37.1% (by 4.3pp) y/y, which was caused by higher costs of products, goods and materials sold, including the need to stock up in advance for the implementation of projects finalized in 2020 .

Chart 14. Profit and EBITDA margin [mln PLN, %]



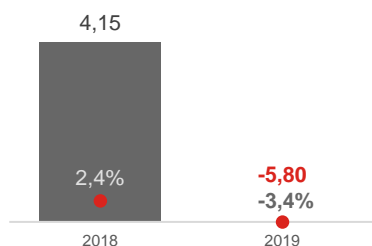
In 2019, the EBITDA result amounted to PLN 2.61 million and was by 83.5% lower than in the previous year. The EBITDA margin decreased by 7.7pp to 1.5%. The lower EBITDA result was mainly influenced by, apart from lowering the gross profit on sales, increased selling costs and general administrative expenses.

Chart 15 Profit and operational margin [mln PLN, %]



The operating result in 2019 amounted to PLN -5.68 million, which means the operating margin at the level of -5.3%

Chart 16 Profit and net margin
[mln PLN, %]



In 2019, the Group recorded a net loss for the shareholders of the parent company of PLN -5.80 million. The operating loss played a key role in shaping the result.

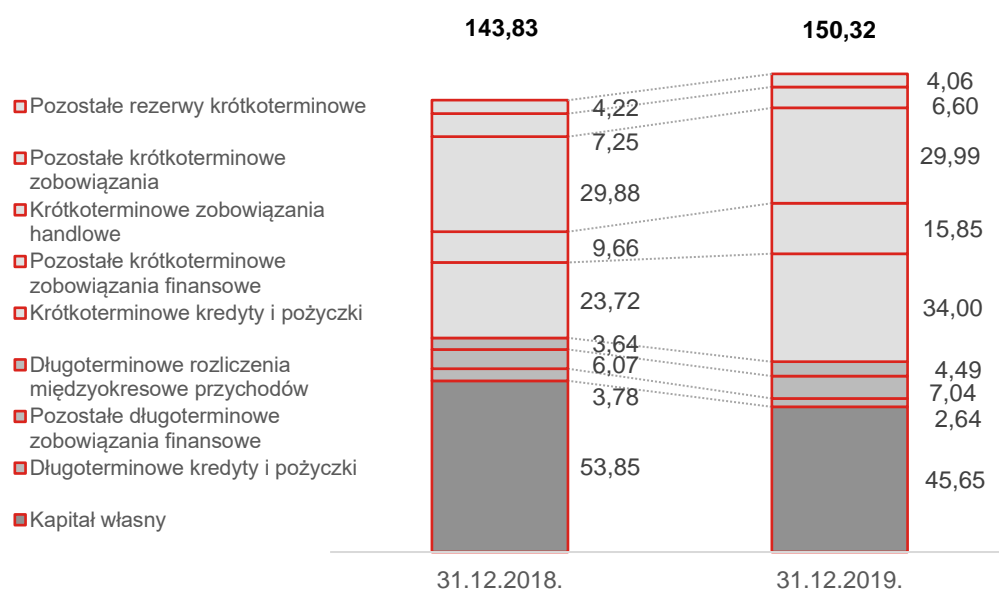
Chart 17 The composition of EBITDA result in 2019
[mln PLN, %]



The decrease in the EBITDA result in 2019 was mainly caused by the decrease of gross profit on sales by PLN 8.27 million. Moreover, the EBITDA result was negatively affected by sales costs higher by PLN 3.81 million and general and administrative expenses higher by PLN 2.87 million. The increase in depreciation by PLN 1.45 million and the reduction of other operating costs by PLN 0.51 million had a positive impact on the EBITA result.

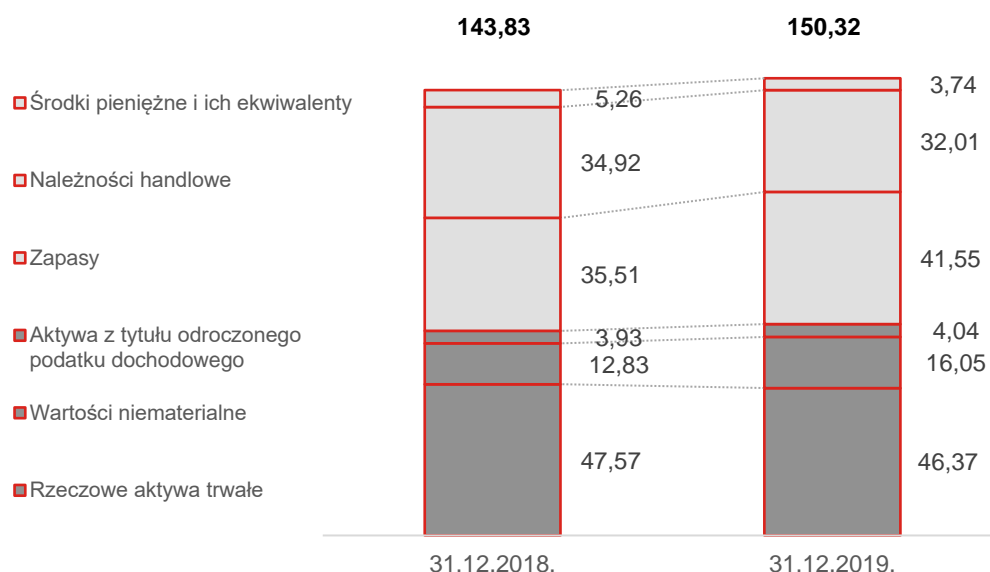
Balance sheet

Chart 18. Selected liabilities
[mln PLN, %]



The balance sheet total as at December 31, 2019 amounted to PLN 150.32 million and was 4.5% higher than in the previous year. The book value per share at the end of 2019 was PLN 20.88. In the structure of liabilities, the weight of short-term liabilities increased, they increased by 20.6% to the level of PLN 90.50 million. This was mainly due to the greater use of the working capital loan (short-term loans and credits increased by 43.3% to the level of PLN 34.00 million) and the greater use of leasing (other short-term financial liabilities increased by 64.1% to the level of 15.85 million PLN). Short-term trade liabilities remained almost unchanged (increase by 0.4% to the level of PLN 29.99 million). Long-term liabilities decreased by 5.1% to the level of PLN 14.17 million), which was mainly due to the continued repayment of long-term loans (item decreased by 30.2% to the level of PLN 2.64 million).

Chart 19. Selected assets
[mln PLN, %]



The share of non-current assets in the structure of assets increased (an increase by 8.2% to the level of PLN 69.64 million), which was mainly due to the increase (by 25.1% to the level of PLN 16.05 million) of intangible assets with a simultaneous slight decrease (by 2.5% to the level of PLN 46.37 million) of tangible fixed assets. In the structure of current assets, which increased by 1.5% to the level of PLN 80.68 million, the most important was the increase by 17.0% to the level of PLN 41.55 million in inventories, which is related to the scale of the Group's operations and preparations for the implementation of projects in 2020. At the same time, trade receivables were reduced by 8.3%, i.e. to PLN 32.01 million.

Cash flow

Table 25 Cash flow [mln PLN]

	2019	2018
Cash at the beginning of the period	5,26	2,62
Net cash flow from operating activities	-2,34	+10,74
Net cash flow from investing activities	-6,24	-8,88
Net cash flow from financial activities	+7,05	+0,77
Cash at the end of the period	3,74	5,26

In 2019, the Group recorded negative cash flows from operating activities in the amount of PLN - 2.34 million. Investing activities were associated with negative cash flows in the amount of PLN 6.24 million, which included capital expenditure in the amount of PLN 8.37 million with simultaneous proceeds from the sale of intangible assets in the amount of PLN 2.13 million. The financial activity generated PLN 7.05 million net, which is the result of the increase in debt and leasing financing of the Group. Net cash flows in the entire 2019 amounted to PLN -1.52 million, which resulted in a decrease in cash from PLN 5.26 million at the beginning of the period to PLN 3.74 million at the end of the period.

Indicators analysis

Table 26 Selected consolidated financial ratios of the LUG Capital Group S.A. for 2019 and comparable indices for 2018 [% , pp]

	2019	2018	Change y/y
Gross margin on sales	37,1%	41,4%	-4,3pp
EBITDA profitability	1,5%	9,3%	-7,7pp
Operational profitability	-3,4%	5,3%	-8,6pp
Net profitability	-2,9%	2,1%	-5,0pp
Return on equity (ROE)	-10,6%	6,7%	-17,3pp
Return on assets (ROA)	-3,2%	2,5%	-5,7pp
Overall liquidity ratio	89,1%	105,9%	-16,7pp
General debt ratio	69,6%	62,9%	+7,1pp
Net debt / EBITDA	21,38	2,40	+18,98
EV/EBITDA (at the end of the period)	31,28	5,94	+25,33

As a result of the factors described above, profitability decreased at all levels of the income statement. The Group also recorded a decrease by 16.7 pp to the level of 89.1% of the total liquidity ratio and an increase by 7.1 pp to the level of 69.6% of the total debt ratio.

Explanation of the indicators:

Gross margin on sales

Formula: gross result on sales/sales revenues

Description: determines the level of basic margin obtained from the sale of services and products

EBITDA profitability

Formula: (result on operating activity + amortization)/sales revenues

Description: measures the effectiveness of conversion of revenues into profit from continuous activity, against interest on loans taken, taxes, depreciation and amortization cost and before deduction the cost of any exceptional items

Operational profitability

Formula: result on operating activity/sales revenues

Description: determines how much net profit (after tax) is assigned to 1 PLN of company revenues

Net profitability

Formula: Net result/sales revenues

Description: informs investors what percentage of sales revenues is net profit

Return on Equity

Formula: Net result equity capital, where Equity capital = Total assets – Liabilities (short and long-term)

Description: determines the profitability rate on the equity invested in the company

Return on Assets

Formula: Net result/total assets

Description: informs about the profitability of all company assets in relation to the profits generated by them, or - in other words - how much net profit brings every 1,- PLN spent on financing the assets

Overall liquidity ratio

Formula: assets/current liabilities

Description: informs about the company ability to settle liabilities based on all current assets

General debt ratio

Formula: Total liabilities/total assets

Description: informs about the share of debt and liabilities in the financing of company assets

Net debt/EBITDA

Formula: Net debt/EBITDA, where Net debt = Total financial liabilities (short and long-term) – Cash; in the denominator the sum of EBITDA for the last four quarters

Description: informs about the company ability to repay the debt with operating profits

EV/ EBITDA

Formula: Enterprise value / EBITDA, where: Enterprise value = Capitalization (number of X shares, share price on a given day) + Total liabilities (short and long-term) - Minority capital - Cash, with capitalization determined according to the share price on the last day of a given quarter; in the denominator the sum of EBITDA for the last four quarters

Description: informs about the profit coverage of the company value and as a dynamic indicator (depending on the company's share price), it indicates how many investors are ready to pay for this unit of this kind of profit.

3.4.3. Implementation of the forecast for 2019 rok

The Issuer did not publish financial forecasts for the period from 01.01.2019 to 31.12.2019.

3.4.4. Expected financial situation

Due to the unprecedented situation, both in Poland and around the world, related to the COVID-19 pandemic, the Management Board of LUG S.A. makes cautious forecasts regarding the future financial results of the LUG S.A. Capital Group resulting from the uncertainty of the epidemiological situation, and hence the economic situation. Thanks to the mitigating measures, LUG ensures the continuity of project implementation at the invariably highest level in terms of the products and services offered, while taking care of the health and safety of the entire team of employees, as well as of people directly cooperating with them. Management Board of LUG S.A. and a dedicated crisis team constantly monitor the company's environment and the development of the pandemic, adjusting activities to the guidelines of the World Health Organization (WHO) and national authorities. Preventive actions taken at a very early stage made it possible to implement protective measures in all locations of LUG's operations, minimizing the risk of virus emission among employees and affecting the supply and level of services provided to customers and business partners. In the opinion of the Management Board of the Company, prudent actions will allow the LUG S.A. Capital Group to flexibility of reaction to changes in market conditions, at the same time guaranteeing stability and continuity of operations.

LUG S.A. Capital Group constantly monitors the situation in the lighting industry and tries to respond to new market challenges. Until the publication of this report, the Issuer's Management Board:

- did not record a decrease in orders in subsidiaries, however, the implementation of some of them was postponed due to the limited possibilities of implementing individual elements of projects and investments.
- does not diagnose disruptions in the supply of components - in preparation for the upcoming threats and the level of orders, the subsidiary increased orders for components, which allowed it to function smoothly in the first weeks of the pandemic. Currently, the largest deliveries have resumed operations and are able to deliver.
- Identifies a delay in the collection of receivables at the level of approx. 20% of the monthly turnover. Payment terms are extended by approximately 30 days, and delays are inversely proportional to the size of the contractor. The biggest delays are related to projects in the Middle East, in Poland and Western Europe the delays are smaller and the construction sector is relatively efficiently resuming operations.

Sold production of construction, affecting the financial situation of LUG S.A. and its subsidiaries, was below expectations at the end of 2019. In enterprises employing more than nine people, it decreased in the last quarter of the year by nearly 4 percent, while the increase for the entire year was only 2.6 percent. In the assessment of IPAG, the situation was slightly better in the entire construction sector, including also smaller enterprises, and the increase in construction production was 6.7 percent. According to preliminary estimates of the Central Statistical Office, added value in construction in 2019 increased by 2.8 percent. IPAG predicts that in 2020-2021 the pace of growth in construction will accelerate compared to 2019. Thus, construction will regain its position as the fastest growing sector of the economy. These forecasts could be heavily adjusted by the impact of the COVID-19 pandemic on the global economy, which could collapse into recession.

In addition to the current financial condition of the LUG SA Capital Group future financial results depend on other external factors, the most important of which are:

- The need to reduce the level of electricity consumption in Poland in order to fulfill obligations towards the European Union, which may make the process of replacing obsolete conventional lighting with LED technology products more dynamic;
- Compliant with the projected development of the general lighting segment, ie the segment of LUG S.A. According to the latest forecasts, general lighting will be the fastest growing segment of the industry in the coming years. In its scope, the most important role is played by the LED segment, whose value is estimated at 80 billion dollars in 2020 (over 80 percent of the lighting market) ¹⁰;
- Legal regulations in the area of limiting the impact of industry on the natural environment and in the area of increasing the energy efficiency of buildings and infrastructure facilities;
- The growth rate of the IoT segment (Internet of Things) and lighting control;
- Consumer maturity, which will result in a tendency to pay for an additional functionalities under intelligent lighting in the general ecosystem of related services with IoT and the "human centric lighting" trend;

and from **internal factors that deserve attention:**

- implementation of the „Strategic Directions of LUG Development for 2017-2021” assume that the most important for the condition of LUG is cooperation with the basic groups of decision-makers, i.e. architects, stewards and interior designers,
- expanding the portfolio in line with market needs based on the ideas of innovation and design at the highest global level;
- evolution of the organizational structure following the implemented development directions and allowing the organization to adapt to the changing operating conditions;
- further improvement of the effectiveness of customization processes as a result of absorption of the Customization Section by the R&D Division;
- expansion into new markets and internationalization of revenues.

Both, external and internal factors are taken into account by the LUG S.A. Management Board in the process of managing subsidiaries and implementing Strategic Development Directions of the Capital Group of LUG S.A. As part of these Development Directions, the Issuer has adopted the main objective to achieve, which assumes the growth rate of LUG S.A. Capital Group sales revenue at the level of 10% CAGR till 2021.

3.5. Development directions of the LUG S.A. Capital Group

In 2017, the Issuer published the Strategic Development Directions of LUG, which take into account the time perspective for 2017 - 2021.

Within the framework of strategic development directions, three basic areas of organization's development have been designated, five groups of stakeholders have been defined as well as a main objective and three supporting objectives. At the same time, the philosophy of action is redefined, which is reflected in the new mission and vision of the Company.

LUG S.A. Capital Group aims at dynamic development, whose "driving force" is a human-centered approach, both internally and in the market. A decision was made about the support of the operating philosophy and management methodology of management by values, the selection of which with the participation of employees of the entire organization has become a fundamental tool to support the future development of the organization.

¹⁰ McKinsey&Company, „Lighting the way: Perspectives on the global lighting market”, second edition, 2012.

Three development paths have been identified:

- **Internationalization** – is based on introducing business models that meet the requirements of the individual markets. It involves building local structures, which will allow to effectively cooperate with the local community of a given country and thus dynamically increase. Center of interest of the Capital Group of LUG S.A. will be South American markets.
- **Innovation** – introduced through every aspect of the organization's operation, ranging from a portfolio based on advanced lighting management systems, through technological innovation, to the emphasis on research and development, implemented in cooperation with scientific units and young companies that bring high intellectual potential. In the period of implementation of development directions designated for 2017-2021, the Company plans to implement R&D projects worth approximately PLN 25 million.
- **Organizational culture** – is an element of increasing the comfort and satisfaction of stakeholders, as well as those working in the structures of the organization, as those that are clients and investors of LUG. The key element of development in the area of organizational culture is management through values in the meaning of the tool for triggering the organizational development potential.

Organization development within designated development areas will become the foundation for the evolution of the current business model based on trade and production assumptions towards a service model. The development of business models based on the light management service will generate higher margins and extend the value chain (from the design and production of components, through installation to system management, maintenance and future improvements).

Designated directions of development will be implemented through strengthening relationships with stakeholder groups, including in particular:

- Architects
- Stewards
- Interior Designers
- Owners
- Employees

The strategic directions of development set out by the Management Board of the Company assume the following goals in the perspective up to 2021:

- Main objective: Achieving the growth rate of sales revenues of the LUG S.A. Capital Group at 10% CAGR over the next 5 years.
- Supporting goals:
 - Growth - share of completed projects with a value of more than EUR 1 million in sales revenues at the level of 10% in the perspective up to 2021;
 - Globalization - an increase in the share of export revenues to the level of 75% in the Capital Group's revenues in the perspective up to 2021;
 - Margins - increase and lasting maintenance over a few years of gross margin on sales at the level exceeding 40%.

In the opinion of the Management Board of the Company, the implementation of the adopted strategic development directions for 2017-2021 will allow for a sustained increase in sales and financial results, which will translate into an increase in the fundamental value of the LUG S.A. Capital Group.

Presented information and goals regarding strategic development directions of LUG S.A. Capital Group did not constitute a forecast of financial results.

3.6. Acquisition / sale of own shares

According to art. 49 par. 2 point 5 of the Accounting Act, the report on the entity's operations should contain information about the purchase of own shares, in particular the purpose of their acquisition, the number and the nominal value, with an indication of what share of the share capital they represent, the purchase price and selling price of these shares in case of its sale. However, in the case of a consolidated report, information about own shares must be provided by the dominant company, entities comprising the capital group and persons acting on their behalf (vide: Article 55, paragraph 2 of the Accounting Act).

In the period from 01.01.2019 r. – 31.12.2019 r. the Issuer did not acquire or sell its own shares. Persons acting on behalf of entities forming the LUG S.A. Capital Group are indicated in point 1.2.1. of this report.

3.7. Events and circumstances materially affecting the operations after December 31, 2019

After the end of the financial year, i.e. after 31.12.2019 until the date of approval of the financial statements, the following events occurred that affected the operations of the LUG S.A Capital Group:

- **LUG Services Sp. z o.o. established**

On January 27, 2020, a limited liability company was established as a subsidiary of LUG S.A., with its registered office in Zielona Góra, with a share capital of PLN 50,000, in which the Issuer acquired 970 shares with a nominal value of PLN 50/ share and the total nominal value of PLN 48,500, which constitutes 97% of the share capital and entitles to the same number of votes at the Company's Shareholders' Meeting. The remaining shares in the share capital of the Company were acquired by a natural person, Mr. Grzegorz Bartczak. The company LUG Services Sp. z o.o. was created for an unlimited period, and the subject of its activity will be the design and construction of lighting installations and the integration of software elements cooperating with lighting installations. The first Management Board of the Company will consist of the President of the Management Board in the person of Mr. Ryszard Wtorkowski. The above information was published in the current report No. 1/2020 of January 27, 2020. On February 11, 2020, the Issuer learned about the decision of the District Court in Zielona Góra, 8th Commercial Division of the National Court Register of February 11, 2020 on entry in the register of entrepreneurs under the number KRS 0000828305 (RB ESPI 3/2020).

- **Best lighting investment 2019**

The competition committee organized by the Polish Lighting Industry Association awarded in the next edition of the competition for the Best Illuminated Municipalities and Cities 2019 the projects by LUG Light Factory Sp. z o.o., which received the following titles:

- The Best Lighting Investment of 2019 for the illumination of Hotel Europejski,
- 2nd place in the Indoor lighting category for HUB HUB Nowogrodzka Square and
- 2nd prize in the Road and Public Area Lighting category for national road No. 5, European route E261 (section in Komorniki).

The competition aims to promote investment activity in the field of lighting. Its task is to reward the best lighting investments and promote and dissemination of good, innovative and energy-saving technical solutions, which give the possibility of achieving significant savings in electricity consumption.

- **LUG at the Polish Economic Exhibition**

On January 16, 2020, representatives of LUG Light Factory Sp. z o.o. took part in the Polish Economic Exhibition.

- **LUG Light Factory at the exhibition of Sähkö Valo Tele AV in Finland**

On February 5-7, 2020, representatives of LUG Light Factory Sp. z o.o. took part in the Sähkö Valo Tele AV exhibition in Finland. It is one of the most important meetings dedicated to the electrical industry in the region, during which participants will be able to take part in numerous seminars and information sessions.

- **LUG West Africa Limited establishment**

On June 5 2019, a new subsidiary of the Group was established under the name LUG West Africa Limited with headquarters in Lagos, Nigeria. The share capital of the Company amounts to NGN 10 million and is divided into 10 million ordinary shares with a value of 1.0 NGN/ share. The Issuer acquired 70% of the shares in the share capital entitling to the same number of votes at the General Meeting, and the remaining shares in the share capital of the Company were acquired by Jintech Management Ltd. - 15% of the share capital and a natural person, Mr. Haidar Hussien Zein - 15% of the capital share. LUG West Africa Limited has been established for an indefinite period. The company's goal will be to operate mainly in Nigeria, but also in other Sub-Saharan/ West African countries. The main subject of activity will be commercial activity in the field of professional LED lighting solutions in Nigeria.

3.7.1. The impact of the COVID-19 virus pandemic on the operations of the LUG S.A.Capital Group

As a consequence of the announcement by the World Health Organization of the COVID-19 pandemic, on March 13, 2020, an epidemic emergency was implemented in Poland, followed by an epidemic. Governments around the world have introduced a number of restrictions in almost every aspect of a business and social life. The restrictions significantly affected the global economy, and the condition of the Polish economy. Due to the unpredictability and unprecedented nature of the situation related to COVID-19 and in response to the first symptoms of the global recession, the Management Board of the Company introduced procedures and a savings plan, which is described in detail in the Financial Statements of the LUG S.A. Capital Group. for 2019, Note 37.

Implemented in the entire LUG S.A. Capital Group the activities consisted of:

- 1) Establishing a Crisis Team that reports the impact of the epidemic on the organization on a daily basis.
- 2) Implementation of procedures for the prevention of coronavirus, identification of the risk of occurrence and counteracting the spread of the virus.
- 3) Changing the organization of work, including:
 - Resignation from business trips,
 - Suspension of the organization of external and internal meetings (replacing direct meetings with online communication,
 - Resignation from external catering and vending machines,
 - Restrictions and special procedures for couriers and external visitors
 - Division of office teams and remote work for some office and administrative employees,
 - Introducing additional changes in production and organizing work in a way that allows isolation between changes and maintaining the recommended social distance,
- 4) Implementation of personal protection measures in the form of:
 - Hand disinfection every min. 2h with the use of 60 dispensers of disinfectants and the purchased liquid for disinfecting hands in the amount of 1425 liters,

- Daily disinfection of workstations and door handles and additional guidelines for the cleaning company,
 - Equipping production stations with sprinklers with surface disinfectants,
 - Cyclic body temperature measurements throughout the day,
 - Equipping employees with visors, protective masks and nitrile gloves,
 - Temperature measurement with a thermal imaging camera before entering LUG plants,
 - Introducing social distancing guidelines (1.5m) and not saying hello by shaking hands.
- 5) Conducting an information campaign (bilingual) for employees devoted to prevention and health protection, using communication channels such as: online newsletters, posters, online training materials, instructions, surveys.
- 6) Covering employees with special insurance coverage against the effects of coronavirus, as a result of which the employee will receive in the event of falling ill with COVID-19:
- specific compensation,
 - hospital services,
 - medical transport,
 - support during the convalescence period,
 - psychological care.

Also LUG foreign subsidiaries in Great Britain, Germany, Turkey and Brazil have been covered by the procedures and changes in work organization, including remote work, the so-called home office.

The Argentine subsidiary was hit the hardest by the pandemic, had to stop the production in accordance with a local government restrictions. In Argentina, a ban on the movement of people and leaving their places of residence was introduced, which resulted in the suspension of production from March 30, 2020 to May 5, 2020. After May 5, the situation in Argentina improved and LUG Argentina was granted special permission to resume work and return to achieving its goals.

Management Board of LUG S.A. constantly monitors the situation and tries to respond to new market challenges. There was no decrease or withdrawal of orders, but the implementation of some of them was postponed. Due to the unpredictability and unprecedented nature of the COVID-19 situation, and seeing the first symptoms of a global recession, the Management Board introduced a savings plan.

Its basic elements implemented in subsidiaries concerned:

- 1) Budget revision consisting in limiting the cost implementation plan in all areas of the organization, and then full budget discipline.
- 2) Temporary limitation of remuneration on the basis of agreements changing the terms of the employment contract and annexes to contracts with entities cooperating with the company.
- 3) Project to optimize the costs of regional offices as part of a Polish trade organization.

As a result of the COVID-2019 virus pandemic, the largest industry trade show, Light + Building, originally scheduled for March 2020, has been moved to the end of September 2020 and has been canceled. This decision was made public on May 5, 2020. Holding the fair in September 2020 in the circumstances of a pandemic would be associated with a high risk of their success and meeting the expectations of the world's leading trade fairs for the lighting sector. Taking into account the priority of protecting the health of the participants of the event, exhibitors and guests, the organizers decided to cancel this year's edition. The new date for the organization of the Light + Building fair is the date of the next edition, which is March 13-18, 2022.

In preparation for the canceled edition of the fair, the LUG Group incurred costs in the amount of PLN 839 thousand. PLN, of which the amount of 573 thousand. PLN was transferred and will cover the costs of organizing participation in the next edition.

Using the experience in international activity and contacts, LUG coordinated the process of purchasing and preparing the transport to Poland of 50 tons of personal protective equipment, including:

- 25,180 sets of personal protection (inner suit, outer suit, goggles, KN95 mask, gloves, shoe covers, medical waste bags).
- 76,000 surgical masks,
- 37,800 KN95 masks,
- 14,000 goggles,
- 4,100 helmets,
- 1,006,100 gloves.

Equipment purchased and imported to Poland is necessary to ensure the safety of employees of medical facilities and emergency services in the Lubuskie Voivodeship. The equipment was purchased through LUG Light Factory by the Marshal of the Lubuskie Voivodeship, the President of Zielona Góra and the Head of the Świdnica Commune in the Voivodeship Lubuskie Voivodeship. The total value was approximately PLN 5,300,000 gross.

Looking for development opportunities and in response to the needs of customers in the time of the COVID-19 pandemic, LUG Light Factory, a subsidiary of LUG S.A. has designed and implemented to its offer a new family of PURELIGHT luminaires that use ultraviolet light to reduce health hazards. The use of UV-C luminaires is one of the most effective methods of air and surface cleaning. The proven effectiveness of the use of 253.7 nm wavelengths allows for an effective disinfection effect.

So far, no case of COVID-19 infection among employees and their family members has been reported.

3.8. Information about the auditor

Information on the remuneration of the entity authorized to audit the financial statements of LUG S.A. is provided in note 38 of the consolidated financial statements of the LUG S.A. Capital Group for year 2019.

2019

consolidated annual
REPORT



STATEMENT OF THE MANAGEMENT BOARD

of the LUG S.A. - dominant entity
regarding to risk factors

4. RISK MANAGEMENT

Managing a business is inseparably connected with the risk that results in opportunities and threats to the whole organization. Being an internationally operating organization, we define risks at the level of LUG S.A. Capital Group. Entities operating within the Capital Group of LUG S.A. actively manage risk to optimize all business processes within the Group and maximize its market value. Each of the companies is burdened with only selected types of risk, which make up a comprehensive list of risks of the LUG S.A. Capital Group, grouped into two categories: risk factors related to the environment and factors related to the business activity.

4.1. Risk factors related with the environment of LUG S.A. Capital Group

4.1.1. Risk related to macroeconomic and industry situation

Development of the lighting industry and the activity of the LUG S.A. Capital Group are directly correlated with the economic situation in the country and in the world. For the financial situation of the Issuer's Capital Group operating both on the Polish market and exporting professional lighting systems to foreign markets, the most important macroeconomic variables are: the rate of economic growth, the rate of development of the construction industry and the level of investment in its individual segments, interest rates, fiscal policy and the level of foreign currency exchange rates against the PLN.

One of the main factors determining the level of economic activity of the LUG S.A. Capital Group in 2019 was a dynamics of GDP growth on a global scale. The growth rate of gross domestic product in the entire 2019 reached 4.0%. This means that it has decreased compared to the previous two years (2017-2018). The growth rate of 4 percent was below expectations.¹¹

In addition, the risk related to the macroeconomic situation and the industry situation for the LUG S.A. Capital Group. in the following months of operation it is associated with:

- The unpredictable short and long-term impact of the COVID-19 pandemic on the global economy and possible recession.
- Possible reduction in investment dynamics in Poland and on international markets.

In order to adequately respond to positive and negative changes in the economic situation, the Issuer, while supervising the activities of subsidiaries, makes investment decisions and manages their costs, guided by the criterion of operational efficiency and optimization of all business processes taking place in the LUG S.A. Capital Group. Moreover, the Issuer is strengthening its position on the existing ones and enters new markets, thus ensuring the geographic diversification of revenues and increasing its share in the sold production of the global lighting industry.

As expected, Polish economy began to slow down in 2019. After better than expected first half of the year, the growth dynamics slowed down significantly in the third quarter (from 4.8-4.6% to 3.9% y/y). Downward revisions of economic growth forecasts for 2020 have begun. This is largely related to the difficult economic situation caused by the COVID-2019 pandemic, which paralyzed the activities of many economic entities and effectively inhibited the development of the economy around the world. As at the date of publication of this report, optimistic moods were prevailing related to the gradual unfreezing of the economy and undertaking a several-stage plan to return to functionality, related to the need to tame the new situation and the implementation of daily obligations in accordance with the new sanitary and epidemiological order.

¹¹ Stan i prognoza koniunktury gospodarczej nr 1/2020, IPAG, luty 2020 r.

4.1.2. Risk of volatility of the legal environment

Legal regulations, their interpretations and legal practice are still subject of relatively frequent changes in Poland, including also process of adapting to the requirements of the European Union. Legal provisions that may have a positive and negative impact on the business activity of the Issuer and companies of Capital Group, are primarily: tax law, public procurement law, construction law, environmental law, labor law and social security law, commercial law, international law and law regarding public trading in securities.

In the period of the ongoing COVID-19 pandemic, the volatility of the legal environment remains at a high level, due to legal acts being a response to the extraordinary conditions of operation and emerging needs.

In order to prevent potential doubts and ambiguities in the interpretation of legal provisions, LUG S.A. Capital Group uses the services of professional advisers and law firms.

4.1.3. Risk of changes in tax regulations and their interpretation

The Polish tax system is characterized by frequent changes of regulations, many of them have not been formulated in a sufficiently precise manner and there is no unambiguous interpretation. Interpretations of tax regulations are subject to frequent changes, and both the practice of tax authorities and judicial decisions in the sphere of taxation are not uniform. Due to divergent interpretations of tax regulations, in the case of a Polish company, there is a risk that the company's operations and its tax treatment in tax declarations and declarations may be considered by the tax authorities as inconsistent with tax regulations. In the case of operating companies in more stable tax systems, the risk is smaller.

Due to frequent changes in tax regulations and the multiplicity of interpretation of regulations, the Issuer, like other entities, is exposed to the negative impact of the above situation. In order to prevent potential doubts and ambiguities in the interpretation of tax regulations with respect to the Issuer, the Issuer used the services of a professional tax advisor and the subsidiary LUG Light Factory Sp. z o.o. he also applies for individual tax interpretations directly to the Ministry of Finance.

The Issuer estimates that in the post-pandemic period, the probability of this risk may increase.

4.1.4. The risk of incorrect assessment of the macroeconomic situation and trends in the lighting industry

The possibility of changing market trends and trends in the field of professional lighting with high technical parameters makes the Issuer's Capital Group exposed to the risk of deteriorating sales results. Difficulty in predicting and interpreting industry trends in 2020, it is all the greater because for the first time in modern history the world is facing a factor as unpredictable as a pandemic.

Considering the scope of the risk presented, the Issuer identifies the following threats:

- Improper predictions about the pace and sources of economic growth (in particular as regards investment activity) in the markets on which the LUG Group operates or the markets in which it intends to start operations.
- Incorrect assessment of future market trends in the field of professional lighting. Higher rate of development of the lighting market may result in the fact that production capacity and processes supporting sales will not be adjusted, which will cause the Group to lose its current share in the market.

- Incorrect assessment of technological novelties and their inclusion in long-term plans that may lead to deterioration of sales results.
- Incorrect assessment of customer preferences.

To minimize this risk, customer preference surveys are conducted, the results of which are enriched with the knowledge and experience of sales staff and management staff. Employees responsible for introducing new products to the Group's offer are present at the most important fair events in the world as well as symposia and lighting meetings. Thanks to such activities, the LUG brand fixtures are adapted to current trends. In addition, a modern, automated machine park allows flexible adaptation of production orders to current customer orders and the production of short series of fittings, as well as the so-called customization, that is adjusting individual lighting solutions to the requirements of an individual customer.

Over the years, the LUG Group has had the ability to be highly flexible, which was revealed by, for example, LUG's immediate response to new market needs - i.e. the family of luminaires for disinfection implemented in May this year.

4.1.5. Risk related to financing with foreign capital and changes in interest rates

The companies of the LUG S.A. Capital Group use, among others, financing from bank loans when implementing development projects. Therefore, indicated in the financial statements, short-term and long-term credit agreements are constructed on the basis of variable interest rates, the Issuer, like other entities, is exposed to the risk of changes in the level of interest rates. In order to minimize this kind of risk, long-term planning is carried out and every investment is preceded by in-depth financial analysis. Taking into account the financial results of the Issuer's Capital Group and the correct size of debt ratios, the risk of making loan liabilities payable is unlikely.

4.1.6. The risk related to the downtime of LUG suppliers and contractors

In connection with the global COVID-19 pandemic, the Issuer identified the risk associated with a possible downtime in the activities of LUG's suppliers and business partners, which could be related to the limited availability of components for the Issuer's core production activities and a lower number of orders from contractors.

In order to minimize the risk, the Issuer, guided by its many years of experience in the lighting industry and on the Polish market, diversified its suppliers, including geographically so as to ensure continuity of production. The group has at least two independent and proven suppliers. Risk is also minimized through ongoing monitoring of the components market, which enables the observation of trends and early identification of possible threats. The Issuer constantly monitors the development of the epidemiological situation in order to be able to manage the orders as effectively as possible. According to the current needs, orders are accelerated or delayed.

4.1.7 Credit, liquidity and funding risk

Due to the difficult economic situation connected to the COVID-19 pandemic, many economic entities may face financial difficulties, causing additional credit risk, higher-than-usual bad debt and even potential impairment and write-offs. It can also affect reducing cash flow, and the uncertainty in the financial and capital markets can have a significant effect on the availability of funding.

In order to minimize the risk, the companies of the LUG S.A. Capital Group effectively manage incoming orders and systematically monitor the collection of receivables from contractors. The company's management board monitors the development of the epidemiological situation and signals received from capital markets around the world that determine the activities of financing institutions.

4.1.8 Risk of administrative restriction of activities by the authorities

If the COVID-19 pandemic will get worse, or in the case of its strong recurrence in the fall and winter season months, which will prevent normal functioning in the public and economic space, there is a risk that state authorities will decide to limit or completely freeze economic activity. This will result in the necessity to close LUG's production plants and suspend the execution of orders for contractors.

The Issuer tries to minimize this risk through effective management of incoming orders, ongoing monitoring of the increase in the number of cases in the country and following reports coming directly from the state administration.

4.2. Risk factors related to the operations of the Issuer's Capital Group

4.2.1. Risk related to the seasonality of sales

The basic assortment sold by the LUG S.A. Capital Group are lighting fittings. These products are most often used in the final stage of the investment process in the construction industry.

Seasonality is a factor characteristic for the entire construction industry. This process traditionally starts in the spring season, and most finishing works fall into the autumn and winter season. Therefore, the lowest revenues of entities from the industry are recorded in the first half of the calendar year, and their significant increase in the second. The Issuer's Capital Group is prepared to work in the conditions of sales seasonality and takes appropriate actions in advance to prepare for the respective quarters. Employment policy taking into account the seasonality and the warehouse management model of components and finished products mitigate the effects of this type of risk.

In 2020, the seasonality may change due to the delay in investments due to the impact of the pandemic on the economy, and the peak season in the lighting industry may be postponed.

4.2.2. Risk related to the increase of operating costs

A significant part of costs by type is fixed or subject to increases and can not be quickly adjusted if the future sales revenues of the Issuer's Capital Group prove to be lower than expected, the increase in costs will be faster than the increase in sales revenues or unforeseen costs will occur. Correspondingly, if the sales revenues of the Issuer's Group in any period are significantly lower than expected, adjustment of basic costs in an appropriate proportion may be impossible enough, which may affect the profitability of the Issuer's Capital Group.

In addition to the value of products, goods and materials sold, which constitute the largest part of costs according to the type of LUG S.A. Group, the operating and financial results of the LUG S.A. Capital Group are affected by other significant costs just like consumption of materials and energy, employee benefits and external services. The increase in the above-described costs of the Issuer's Group depends to a large extent on factors beyond the control of the Company. Factors that may result in higher costs include in particular: inflation, changes in the tax system (in particular higher taxes), transport costs, increase in oil prices, increase in minimum wage (which will affect the average labor cost in LUG S.A. Capital Group and may affect the cost of services provided by external entities), changes in government policy, changes in the labor code and other regulations or other regulations. The increase in the aforementioned and additional costs may directly affect the results of the LUG S.A. Capital Group and its financial position.

4.2.3. Risk associated to the repayment of receivables by contractors

In the current economic conditions, the preservation of liquidity is one basic conditions that ensure the stability of functioning and development for enterprises. Financial liquidity of the LUG S.A. Capital Group is inextricably linked to the timely repayment of receivables by contractors, therefore the Issuer's Management Board tightened the debt collection policy implemented and undertook a number of activities aimed at minimizing the risk associated with timely payment of receivables, such as:

- insuring receivables resulting from all contracts with domestic recipients and foreign ones;
- inclusion of an incomplete factoring agreement for key contractors of the LUG S.A. Capital Group up to the amount of insurance granted;
- in the event of insuring the contract, an order processing system based on prepayments is used.

Regarding to the Covid-19 pandemic, the Issuer's Management Board identifies delays in the collection of receivables at the level of approx. 20% of the monthly turnover. Payment terms are extended by approximately 30 days, and delays are inversely proportional to the size of the contractor. The biggest delays are related to projects in the Middle East, in Poland and Western Europe the delays are smaller and the construction sector is relatively efficiently resuming operations.

4.2.4. Risk associated with the competition

The financial results achieved by the Issuer's Capital Group may be affected by lower prices of offered products or even dumped prices used by competitive companies. Currently, almost all major global lighting companies operate in Poland, which affects to tighten competition on the market of lighting fixtures and light sources. It should be noted that good prospects for the demand for lighting products are exacerbating competition, resulting in a price battle and the possibility of lowering sales margins.

An additional element of the risk associated with competitiveness is the expansion of companies from the Far East, which more and more often copy European solutions more often and bring to the market products characterized mostly by low quality, but also by a low price. The LUG Group reduces the risk related to competition by constantly expanding the offer with luminaires technologically advanced and interesting in design. Higher product quality is also guaranteed by continuous investments in the R&D department of LUG Light Factory Sp. z o.o. and reducing the production costs of luminaires, thanks to the investment in their own production line of LED components. In addition, LUG Light Factory introduces smart lightning solutions that are dynamically developed by entities in the LUG Group.

4.2.5. Risk of rising prices of raw materials and components

The production costs of lighting fixtures depend on the prices of raw materials whose prices are determined they are based on international commodity exchanges indices (aluminum, steel, glass, copper, crude oil - as raw materials for the production of plastics and powder paints used in the paint shop). In addition, the Group purchases various electronic components for production. The huge demand from fast-growing economies, including Asian ones, and the geopolitical situation in resource-rich countries or production limitations caused by the COVID-19 pandemic increases the risk of a rise in the prices of raw materials and components.

In order to minimize this risk, the Issuer monitors the prices of strategic raw materials. A threat for the Issuer resulting from the situation on the raw materials market is the difficult availability of electronic components. In order to minimize the risk indicated, the Issuer monitors the prices of strategic raw materials. The supplier qualification system under ISO procedures is also used, and cooperation with component suppliers is based on long-term purchase plans, which are specified at the time of delivery.

4.2.6. Risk associated with penalties for non-performance or untimely performance of orders

In connection with the activities of the Issuer's Capital Group in the lighting industry, the Group may be exposed to the risk of penalties for delayed execution of orders. This risk comes with the possibility of such factors as the suspension of construction works (due to the need to reorganize the supply chain, lack of components, problems with the availability of labor) during a pandemic.

LUG S.A. Capital Group secure this risk by careful contract analysis with contractors and long-term cooperation with component suppliers based on contracts. The companies of the Capital Group of LUG S.A. do not sign contracts providing unfavorable delivery deadlines, in extreme situations, it renegotiates the terms of the contract. There is also ongoing supervision over contracts containing clauses on contractual penalties for failure to perform or untimely delivery of luminaires.

Moreover, during the COVID-19 pandemic, the Issuer carried out full mobilization immediately and in advance introduced protective measures and procedures that made it possible to properly allocate and separate labor resources. Thanks to this, throughout the entire duration of the epidemic, it was possible to maintain the continuity of production, which was the overriding goal of the Issuer's Management Board.

4.2.7. Exchange rate risk

Foreign exchange risk is an inseparable element of functioning of any company that performs transactions in foreign currencies. In 2019 over 60% of LUG S.A. Capital Group's sales revenues came from exports, where the main settlement currency is the euro. Taking into account that 80% of components for the production of lighting were accounted for in euro, it should be emphasized that to a large extent the LUG S.A. Capital Group is characterized by natural currency hedging. In addition, the financing of the Group's operations takes place using loans taken out in euros. Among other currencies, the fluctuations of the Argentine peso exchange rate have moderate influence on the Group's results, where a high coefficient of variation may have an impact on the valuation of selected components of the balance sheet. The Issuer makes every effort to mitigate the risk of exchange rate fluctuations by operating a part of trade in stable currencies such as the Euro or the US dollar.

The proceeds from the export of products to a large extent offset the purchase of imported materials for production. In order to limit the currency risk of LUG S.A. also applies forward hedging transactions. Each time the decision on the selection of the instrument is preceded by in-depth analysis and financial planning, and these instruments are used only to secure payments.

To the best of the Issuer's knowledge as at the date of publication of the Annual Report for 2019, the valuation of futures contracts has no material impact on the results of the LUG S.A. Capital Group operations.

4.2.8. Risk of deterioration of reputation and loss of customer confidence

The quality and good image of the producer are of fundamental importance in building lasting relationships with the customer, based on the attachment to the product. Deterioration of the organization's image and loss of consumer confidence in LUG services and products may cause a drop in sales, which could have a negative impact on the results of the LUG S.A. Capital Group. In order to maintain the trust of customers, the LUG luminaires undergo rigorous testing before launch, and each new product is subject to verification with the assessment of customer expectations and validation. In addition, the Issuer in its day-to-day activities minimizes the risk related to deterioration of reputation by responsibly managing relations with all its stakeholders and adheres

to the recommendations contained in the document "Good practices of companies listed on NewConnect".

4.2.9. Risk of non-achieving strategic goals

Exposition of the LUG S.A. Capital Group to the risk related with the implementation of strategic goals is related to failure to achieve the assumed growth parameters and lack of expected results in the case of achieving objectives or achieving goals based on erroneous analyzes and forecasts of the macroeconomic situation or development trends in the industry. In both cases, non-returnable expenditures incurred for the implementation of incorrectly defined objectives may affect the financial condition of entities of the LUG S.A. Capital Group.

The Management Board of the Company reserves that it cannot be ruled out that the ongoing COVID-19 pandemic and its effects - unpredictable at the time of the LUG Group's annual report for 2019 - may in the future result in the need to change or completely revise the Company's and Group's strategy and strategic goals.

4.2.10. Risk related to the supply chain

LUG S.A. and its subsidiaries pursue a policy of purchasing components based on the idea of diversification, therefore, exposure to the risk of addiction to the supplier is limited. In terms of each component, the Group has at least two independent and proven suppliers. Risk minimization is also carried out through ongoing monitoring of the components market, which allows trends to be observed and early identification of possible threats.

The system of qualifications of suppliers under ISO procedures and cooperation is also applied with component suppliers is carried out based on long-term purchase plans, which are specified at the time of delivery. In addition, the LUG S.A. Capital Group has the corresponding component inventory levels

In view of the ongoing COVID-19 pandemic, the possibilities of predicting the prices of raw materials used in production, as well as crude oil and energy, and their availability are limited.

4.2.11. Risk related to the agreement with the Government of the Province of Misiones (Argentina) regarding the creation by LUG S.A. production and assembly plant of LED lighting fixtures

In October 2016, LUG S.A. concluded with the Government of the Province of Misiones (Argentina) an agreement regarding the creation by LUG S.A. the production and assembly plant of LED lighting fixtures in the Misiones Province and delivery by LUG S.A. lighting fixtures in LED technology. In addition, the subject of the agreement is to establish mutual exclusivity for the production of LED technology and the development of a plant dedicated to this technology in the province. According to the aforementioned agreement, the estimated value of the luminaires provided will reach approximately 5.6 million euros. In addition, provided that the first stage of the contract has been successfully implemented, the Government of Misiones undertook in the second stage to acquire further luminaires worth approximately EUR 15 million over the next three years. The construction of the factory in the Misiones Province was successfully completed in the fourth quarter of 2018, and on October 29, 2018 it was officially opened.

The Issuer identifies the risk that as a result of unforeseen events, the agreement in question between LUG S.A. and the Provincial Government of Misiones may be delayed or not implemented entirely in line with the original assumptions. According to the agreement, the Government of the Province of Misiones in the absence of a positive implementation of the first stage of the contract, it may withdraw from the purchase of further lighting fittings, which may have an adverse effect on the operations of the Issuer's Capital Group. In order to mitigate the risk in question, the Issuer very carefully fills in all arrangements

between the parties and monitors the fulfillment of all obligations resulting from mutual arrangements on an ongoing basis. In addition, in accordance with the geographical division of activities carried out by the Issuer within the LUG S.A. Capital Group all the rights and obligations related to the investment in Argentina were taken over by the LUG Argentina joint venture, which will be fully responsible for the Group's operations and investments in Argentina and other South American countries, which will significantly improve supervision over the implementation of the provisions of the agreement with the Government Misiones Province and further development of the Issuer's and its Group's activities on the Argentinean market and other South American countries.

4.2.12. Risk associated with the withdrawal of production batches from the market

The products and goods introduced into particular markets may be withdrawn due to manufacturing defects of a given batch of the assortment, which may adversely affect the financial results achieved by the LUG S.A. Capital Group. In the case of withdrawal of a product or product offered on one of the European Union markets, there is a risk of withdrawal of this product or goods from other European Union markets, which entails additional costs such as transport costs, performance of tests and expert opinions, costs of court proceedings and possible penalties.

This type of risk is minimized by the existing quality management system ISO 9001:2001 which implemented the necessary procedures and instructions regarding the quality control of products and goods are in force. In addition, LUG brand luminaires and electronic components are subjected to occupational safety tests in an internal laboratory. Thermal conditions, tightness of fittings (IP degree), resistance to mechanical shock responsible for the aging of plastics (IK degree), as well as all electrical parameters are also examined. The quality of the Group's products is confirmed by certificates such as ENEC, GOST and others.

4.2.13. Risk related to the temporary suspension of production as a result of failure or destruction or loss of property

In the event of breakdown, destruction or loss of property, plant and equipment or current assets, production may be temporarily halted, and thus the inability to execute orders placed by customers on time. Deterioration of the standard of customer service and delay in the execution of orders, and in the extreme case, lack of ability to execute orders, may result in the takeover of orders by competitors and consequently may trigger a change in the financial results of the Issuer's Capital Group.

In order to limit this risk, the Group conducts an appropriate investment policy, thanks to which in the machine park the most important machines and devices are duplicated. The minimization of risk is also ensured by appropriate service agreements that guarantee the repair of machines and devices in the shortest possible time or delivery of replacement machines for the time of repair.

4.2.14. Risk related to environmental protection

LUG S.A. Capital Group is obliged to comply with a number of legal acts both in national and European law in the field of environmental protection. These include, above all:

- Directive 2002/95/EC on the restriction of the use of hazardous substances in electrical and electronic equipment (RoHS), Ordinance of the Minister of Economy of March 27, 2007 on specific requirements for restricting the use of certain substances that may have negative effects on the environment in electronic and electrical equipment (Journal of Laws No. 69, item 457);
- Directive 2002/96/EC of the European Parliament and the Council on waste electrical and electronic equipment (WEEE), Act of 29 July 2005 on waste electrical and electronic equipment (Journal of Laws No. 180, item 1495), as amended, together with executive acts;

- Directive 94/62/EEC on packaging and packaging waste, the Act of 27 April 2001 on waste (Journal of Laws No. 62, item 628), Act of May 11, 2001 on packaging and packaging waste (Dz. No. 63 item 638) and the Act of May 11, 2001 on the obligations of entrepreneurs in the field of management of certain wastes and the product fee and deposit fee (Journal of Laws No. 63 item 639) together with executive acts;
- Directive 2006/66/EC on batteries and accumulators and waste batteries and accumulators and repealing Directive 91/157 / EEC, Act of 24 April 2009 on batteries and accumulators (Journal of Laws No. 79, item 666).

There are various penalties for violating the provisions of these legal acts, defined separately in each of them. The Issuer's Capital Group during its operations adheres to all environmental protection requirements imposed on it by legal acts.

The Group's products are free from substances such as lead (Pb), mercury (Hg), hexavalent chromium (Cr+6), cadmium (Cd), polybrominated biphenyls (PBB) and polybrominated diphenyl ethers (PBDE) or their amounts within the ranges allowed in the regulations. In accordance with the regulations, the Capital Group of the Issuer provides collection, recovery and recycling of lighting fittings introduced into the environment on the territory of the country. They are marked as required.

In addition, the LUG S.A. Capital Group receives used light sources from customers in order to be handed over to a recycling company. Part of the obligations were transferred, pursuant to the concluded agreement, to the Electrical and Electronic Equipment Recovery Organization.

LUG S.A. Capital Group uses certified batteries in accordance with the relevant standards and appropriately marked. In addition, it ensures the collection of waste batteries that are built-in binding and bear the costs of their disposal.

The Issuer meets the legal requirements by controlling all the packaging and products listed. It conducts selective waste collection and cooperates with recycling companies, reduces the amount of waste sent to the landfill and ensures the recovery and recycling of packaging waste. All waste generated by the Group is recorded in detail using the Waste Records and Waste Transfer Cards. The company submits the required reports and reports to competent administrative bodies in a timely manner.

4.2.15. Risk related to court proceedings, arbitration proceedings and proceedings before administrative bodies

In the scope of litigation proceedings, companies from the LUG S.A. Capital Group they conduct only debt collection disputes and as part of tender procedures - disputes before the National Appeal Chamber (National Appeals Chamber).

In 2019 and from the beginning of 2020 until the date of the report, no other court, administrative or tax proceedings were pending against the Issuer or its subsidiaries that would pose a threat to the functioning of the LUG S.A. Capital Group.

4.2.16. Risk of losing key employees and key management members and the inability to employ a sufficient number of qualified employees

Human resources of the LUG S.A. Capital Group are its key assets that largely determine the success of further dynamic development. Many people holding managerial positions are people who have many years of experience working in the companies of the LUG S.A. Capital Group. Changes in the composition of the staff, in particular managers, are burdened with the risk of losing experts' know-how and worsening the results generated by the Issuer in all areas of operation. In addition, there is a risk that due to its further dynamic development, the Issuer's Capital Group will not be able to acquire key personnel to supplement vacancies or to fill newly created positions with appropriately qualified and experienced employees and may be forced to incur significant employment costs and training.

In order to minimize this risk, the Management Board, within the framework of strategic development directions, undertakes a number of activities aimed at the development of organizational culture. The most important ones are management through values, introduction of competence models or actions aimed at improving communication standards.

The level of risk is also dependent on the unpredictable negative impact of the loss of key employees as a result of the COVID-19 pandemic.

4.2.17. Risk related to liability for damage to persons and property in connection with the use of products offered by the Issuer

LUG S.A. Capital Group products are primarily lighting fittings supplied with electrical voltage, which may pose a threat to life or health in case of improper use or manufacturing defect. The occurrence of an accident involving electric shock or property damage may have a negative impact on the Issuer's image and result in the necessity to pay compensation.

In order to minimize this risk, the Group has entered into insurance contracts, the object of which is the manufacturer's civil liability for damage to a person or property, caused to anyone in connection with the use, application or consumption of the product or group of products specified in the insurance contract. The insurance covers producer's civil liability for damages regardless of whether the product was affected by construction or production defect, however the defect also includes the lack or incomplete information about the product or the lack of warning about the dangerous properties of the product.

4.2.18. Risk of random events

The Issuer, like any business entity or companies forming its Capital Group, is exposed to the risk related to random events. The occurrence of significant events or factors that the Issuer is unable to predict may have a negative effect on the business and the financial situation of the Issuer. The company protects against unforeseen losses through insurance contracts.

4.2.19 Identification of the impact of the COVID-2019 pandemic on the operations and financial results of the Issuer

The unprecedented COVID-19 virus pandemic, which began at the end of 2019 and spread on a global scale at the beginning of the next year, prompted the Issuer to focus on re-identifying the risks, during which the risk of a possible negative impact of the COVID-19 pandemic on the operations and financial results of the Issuer was identified.

In order to minimize the possible occurrence of the identified risk, the Issuer took appropriate measures at a very early stage of identifying the problem to ensure the continuity of operations of the LUG S.A. Capital Group companies, and the health of employees and contractors cooperating with them on a daily basis. The crisis management team delegated to risk management monitors the epidemiological situation in the country and in the world on an ongoing basis in order to take appropriate preventive actions in advance. The Management Board of the Company makes decisions in accordance with the recommendations of WHO and the Ministry of Health.

4.2.20 The risk of shortage of employees as a result of COVID-19 infection

The global pandemic of the 2019-n-CoV virus that causes the COVID-19 disease, high infectivity and the rapid spread of the virus have led to the emergence of risks associated with the possibility of loss of employees as a result of infection, which could potentially paralyze the company's operations.

In order to minimize the risk of COVID-19 virus emission among LUG employees, a number of preventive measures have been introduced:

- administration and office employees were allowed to work remotely in the home office mode;
- personal protective equipment and disinfectants were provided for employees who perform their official duties on a stationary basis in LUG plants;
- over 60 dispensers with hand disinfectant were installed in LUG's plants and regional offices;
- protective masks and / or visors;
- protective gloves;
- an information campaign was carried out communicating the principles of using protective and disinfecting agents;
- a special schedule of breaks for production workers was introduced in connection with the recommendation of regular hand disinfection;
- cyclic measurement of body temperature was introduced;
- internal meetings were limited and ultimately liquidated;
- employees were provided with internal recommendations, governance guidelines and instructions corresponding to possible contamination scenarios;
- special rules of cooperation with courier companies and suppliers were established, after which they were reduced to the necessary minimum and the rules of internal transport;
- internal restrictions were introduced in line with the state policy and the guidelines of GIS and the Ministry of Health in this respect.

In addition, a specially appointed crisis team constantly monitors the development of the epidemiological situation in the world, throughout Poland, and in the immediate local environment of LUG.

4.3. Non-financial risks of the LUG S.A.Capital Group

As part of the materiality test, areas of non-financial risks significant in the operations of LUG S.A. Capital Group were identified. A broad description of the risks can be found in the Non-financial financial statements of the LUG S.A. Capital Group for 2019. The table below is only a summary.

Chart 27. Identified significant non-financial risks of the LUG S.A.Capital Group*

Area	Risk
Management area	Risk of LUG intellectual property theft
	Risk of unfavorable changes in lighting regulations
	The risk of other changes in regulations having a negative effect on the operating activities of the LUG S.A. Capital Group
Social, human rights and anti-corruption issues area**	not identified
Employee issues area	Risk of shortage of employees
	Risk of losing key staff
	The risk of insufficient competences of sales teams

Environmental issues area	Risk of wage pressure
	The risk of shortage of employees as a result of COVID-19 infection
	Risk of tightening the regulations regarding the circular economy

Source: LUG S.A.

* A detailed description of the above-mentioned risks in Table 27 is included in the non-financial report of the LUG S.A.Capital Group. for 2019.

** The 2018 materiality study did not identify significant risks in the social, anti-corruption and human rights areas. Nevertheless, the issues of human rights and counteracting corruption are fundamental issues for the LUG S.A. Capital Group.

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STATEMENT OF THE MANAGEMENT BOARD

of LUG S.A. - dominant entity
regarding to corporate governance practices

5. REPORT ON APPLICATION OF GOOD PRACTICES

LUG S.A. Capital Group pays great attention providing all shareholders with free access to information about the Issuer respecting their rights independently of the size of the block of shares they hold. To express the transparency of the activities carried out and to ensure that its investors and shareholders have access to reliable information, which in the face of the current situation on the financial markets is necessary to make rational investment decisions, LUG S.A. adheres to the principles of corporate governance contained in Annex No. 1 to Resolution No. 795/2008 of the Exchange Management Board of October 31, 2008 "Best Practices of Companies Listed on the NewConnect" amended by Resolution No. 293/2010 of the Management Board of the Warsaw Stock Exchange S.A. from March 31, 2010 regarding the change of the document "Good Practices of NewConnect Listed Companies".

Chart 27. Issuer's report on the application of good practices in 2019.

No.	RULE	YES/NO/NOT APPLICABLE	COMMENT
1.	The company should manage a transparent and effective information policy using traditional methods and modern technologies that ensure speed, security and wide access to information. The company using in the widest range those methods should ensure proper communication with investors and analysts, make it possible to broadcast the general meeting with the use of the Internet, record the proceedings and make it public on the website.	YES, excluding the broadcast of the general meeting via the Internet, registration of the debate and publishing it on website.	The Issuer adheres this point of the Good Practices document regarding to the need of transparent and effective information policy management to ensure investors easy and wide access to the information. All data contained at www.lug.com.pl give a complete picture of the Issuer's situation, both in terms of his finances and the industry in which he operates. In addition, the Issuer annually submits the unnoticeable in regulations website dedicated to annual reports in the online version, which in an attractive way summarizes the business activities of the Issuer's Company over a given financial year, making them more affordable to the investor. In the opinion of the Management Board of the Company, the costs related to technical handling of transmission and registration of the course of the general meeting are incommensurable to potential effects.
2.	The company should provide effective access to information necessary to assess the company's situation and perspectives and how it operates.	YES	
3.	The company runs a corporate website and publishes on it:	YES	
3.1.	basic information about the company and its activities.	YES	

3.2.	description of the Issuer's activity with an indication of the type of activity from which the issuer receives the most revenue.	YES	
3.3.	a description of the market on which the issuer operates, together with the issuer's position in that market.	YES	
3.4.	Professional curriculum vitae of members of the bodies of the Company	YES	
3.5.	the management board received an information, based on the statement of a member of the supervisory board, regarding to the relations of a supervisory board member with a shareholder holding shares representing not less than 5% of the total number of votes at the general meeting of the company	YES	
3.6.	corporate documents of the company	YES	
3.7.	outline of the strategic plans of the company	YES	The Issuer has decided to create a separate subpage for the presentation of the strategic directions of the Company's development at: http://www.lug.com.pl/Strategia/
3.8.	published forecasts of financial results for the current financial year, including assumptions for these forecasts (if the issuer publishes them)	YES	In the opinion of the Management Board of LUG S.A. the current high volatility of the economic situation is not conducive to the stability of the premises necessary to prepare reliable financial forecasts. In connection with the above, the Issuer's Management Board decided not to publish financial forecasts. If the Issuer's policy changes regarding the publication of forecasts, they will be published together with the assumptions on the Issuer's website in the Financial Data tab.
3.9.	the issuer's shareholding structure, with the indication of the main shareholders and shares in the free float	YES	

3.10.	data and contact to the person who is responsible in the company for investor relations and contacts with the media	YES	
3.12.	published current and periodic reports	YES	
3.13.	calendar of scheduled dates of financial publication of periodic reports, dates of general meetings, as well as meetings with investors and analysts, and press conferences	YES	
3.14.	information on corporate events, such as the payment of dividends, and other events resulting in the acquisition or limitation of rights on the part of the shareholder, including the dates and rules for conducting such operations. This information should be published within a timeframe enabling investors to make investment decisions	YES	
3.16.	shareholders' questions regarding matters included in the agenda, asked before and during the general meeting, along with answers to questions asked	YES	
3.17.	information on the reasons for cancellation of the general meeting, change of the date or agenda of the meeting along with justification	YES	
3.18.	information about the break in the general meeting and the reasons for ordering the break	YES	
3.19.	information about the entity with which the company has signed the contract for the provision of Authorized Adviser's services with an indication of the name, website address, telephone numbers and e-mail address of the Adviser	NOT APPLICABLE	The Issuer is not subject to the obligation to cooperate with an Authorized Adviser
3.20.	Information on the subject that acts as the market maker of the issuer's shares	YES	
3.21.	information document (prospectus) of the company, published in the last 12 months	YES	
		YES	

	<p>The information contained on the website should be published in a way that allows easy access to this information. The issuer should update the information posted on the website. In the event of new relevant information or significant changes to the information placed on the website, the update should be carried out immediately.</p>		
4.	<p>The company runs a corporate website, at the option of the issuer, in Polish or English. Current and periodic reports should be published on the website at least in the same language in which they are published in accordance with the regulations applicable to the issuer.</p>	YES	<p>The Issuer runs a corporate website in both recommended languages (Polish and English).</p>
5.	<p>The company should conduct an information policy with particular emphasis on the needs of individual investors. For this purpose, the Company, apart from its corporate side, should use the individual investor relations section of the company at www.GPWInfoStrefa.pl.</p>	YES	
6.	<p>The Issuer should maintain ongoing contacts with representatives of the Authorized Adviser in order to enable him to properly perform his obligations towards the issuer. The company should appoint a person responsible for contacts with the Authorized Adviser.</p>	NOT APPLICABLE	<p>The Issuer is not subject to the obligation to cooperate with an Authorized Adviser.</p>
7.	<p>If an event occurs in the company, which in the issuer's opinion is significant for the performance of the duties by the Authorized Adviser, the issuer shall immediately notify the Authorized Adviser of this fact.</p>	NOT APPLICABLE	<p>The Issuer is not subject to the obligation to cooperate with an Authorized Adviser.</p>
8.	<p>The Issuer should provide the Authorized Adviser with access to all documents and information necessary to perform the duties of an Authorized Adviser.</p>	NOT APPLICABLE	<p>The Issuer is not subject to the obligation to cooperate with an Authorized Adviser.</p>
9.1	<p>The Issuer submits in the annual report information on the total amount of remuneration of all members of the management board and the supervisory board.</p>	YES	
9.2	<p>The Issuer submits in the annual report information on the remuneration of the</p>	NOT APPLICABLE	<p>The Issuer is not subject to the obligation to cooperate with an Authorized Adviser.</p>

	Authorized Adviser received from the issuer for the provision of services to the issuer in each respect.		
10.	Members of the management board and the supervisory board should participate in the general meeting in a composition allowing for substantive answers to questions asked during the general meeting.	YES	
11.	At least twice a year, the Issuer, in cooperation with an Authorized Adviser, should organize a publicly available meeting with investors, analysts and the media.	YES	The Issuer independently organizes publicly available meetings with investors and analysts and media at least twice a year.
12.	The resolution of the general meeting regarding the issue of shares with pre-emptive rights should specify the issue price or the mechanism for its determination or oblige the body authorized to determine it before the date of establishing the pre-emptive right, within the time enabling the investment decision to be taken.	YES	
13.	Resolutions of the general meeting should ensure that the necessary time interval between decisions causing specific corporate events and the dates on which the rights of shareholders resulting from such corporate events are determined.	YES	
14.	The record date and the dividend payment date should be set so that the time between them is as short as possible and in any case not longer than 15 business days. Setting a longer period between these dates requires detailed justification.	YES	
15.	A resolution of the general meeting regarding the payment of a conditional dividend may contain only such conditions, which eventual fulfillment will take place before the date of setting the right to dividend.	YES	
16.	The Issuer publishes monthly reports within 14 days from the end of the month. The monthly report should contain at least: <ul style="list-style-type: none"> • information on the occurrence of trends and events in the Issuer's market environment, which in the Issuer's opinion may have significant effects on the Issuer's financial condition and financial results in the future, 	NO	As of 16/01/2018, the Issuer has stopped publishing monthly reports. In the opinion of the Management Board of the Company, taking into account the convergence of information contained in monthly reports with information provided

	<ul style="list-style-type: none"> • a list of all information published by the Issuer in the current report mode during the period covered by the report, • information on the implementation of the issue objectives, if such implementation, even in part, took place in the period covered by the report, • investor's calendar, including events to take place in the coming month, which concern the Issuer and are important from the point of view of investors' interests, in particular the date of publication of periodic reports, planned general meetings, opening subscriptions, meetings with investors or analysts, and the expected date of publication of the analytical report. 		<p>regularly through current and periodic reports, which the Company draws up in accordance with current legal regulations, timely published current and periodic reports enable all interested parties, including individual investors, to become acquainted with all circumstances and events that can have a significant impact on the situation economic and property and financial resources of the Company or that could significantly affect the price or value of the LUG S.A.</p>
16a.	<p>In the case of the Issuer's breach of the information obligation specified in Appendix No. 3 to the Alternative Trading System Regulations ("Current and periodic information provided in an alternative trading system on the NewConnect market"), the Issuer should promptly publish, in the mode appropriate for the submission of current reports on the NewConnect market, information explaining the situation.</p>	YES	

Source: Issuer

Ryszard Wtorkowski, President of the Management Board

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Mariusz Ejmont, Vice President of the Management Board

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Małgorzata Konys, Member of the Management Board

.....

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STATEMENT OF THE MANAGEMENT BOARD

of LUG S.A. dominant entity

**DECLARATION OF THE LUG S.A. MANAGEMENT BOARD
ON THE RELIABILITY OF THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS**

**for the period
from 01.01.2019 r. to 31.12.2019 r.**

Zielona Góra, ul. Gorzowska 11

The Management Board of LUG S.A. based on §5 section 7.1. point 5 of Appendix No. 3 to the Alternative Trading System Rules "Current and periodic information disclosed in the alternative trading system on the NewConnect market" states that to the best of their knowledge, the annual consolidated financial statements and comparative data were prepared in accordance with the Issuer's applicable regulations and standards recognized in international scale.

We also declare that the data contained in the consolidated financial statements reflect in a true, reliable and clear financial and asset situation of the Issuer's Capital Group and its financial result.

In addition, the report on the operations of the Issuer's Capital Group contains a true picture of the Issuer's Capital Group's situation, including a description of the main risks and risks associated with its operations.

Ryszard Wtorkowski, President of the Management Board

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Mariusz Ejsmont, Vice President of the Management Board

.....

Małgorzata Konys, Member of the Management Board

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**DECLARATION OF THE LUG S.A. MANAGEMENT BOARD
ABOUT SELECTING A AUDIT COMPANY**

Zielona Góra, Gorzowska 11 Street

The Management Board of LUG S.A. on the basis of §5 para. 7.1. item 6) of Appendix No. 3 to the Alternative Trading System Rules "Current and periodic information disclosed in the alternative trading system on the NewConnect market" states that the audit firm conducting the audit of the annual consolidated financial statements has been selected in accordance with the regulations, including the selection and procedure of selecting an audit firm and indicates that the audit firm and the members of the audit team met the conditions for preparing an impartial and independent audit report on the annual consolidated financial statements in accordance with applicable regulations, professional standards and professional ethics.

Ryszard Wtorkowski, President of the Management Board

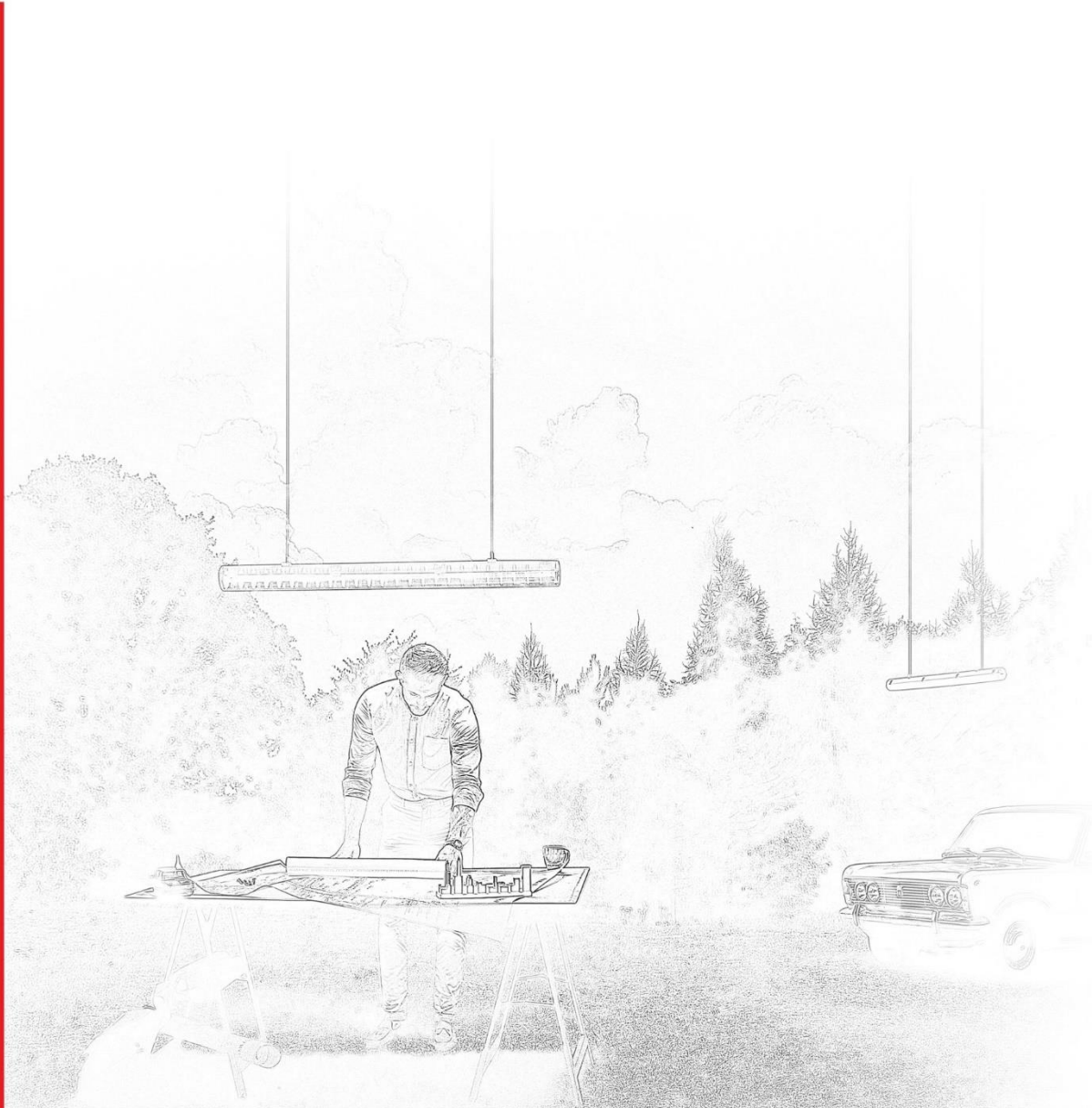
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Mariusz Ejsmont, Vice President of the Management Board

.....

Małgorzata Konys, Member of the Management Board

.....



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