



CONSOLIDATED
AND SEPARATE
ANNUAL REPORT



LUG S.A.
CAPITAL GROUP

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Appendix 1 – Consolidated financial statement of LUG S.A. Capital Group of 2020

Appendix 2 – Separate financial statement of LUG S.A. of 2020

Appendix 3 – Auditor’s report on consolidated financial report study

Appendix 4 – Auditor’s report on separate financial report study



LETTER
of the CEO

Dear Sirs,

I am pleased to invite you to read the consolidated report of the LUG S.A. Capital Group. Year 2020 will be remembered as unpredictable and, in many aspects, unique. COVID-19 pandemic has reevaluated many dimensions of our lives, both at the business and private levels. First of all we had to develop new standards of operation aimed at securing the health of our employees and at the same time continuing our business activities.

For the first time in our lives, we had to face with a situation where the world stopped. Periodic lockdowns caused a decline in forecasts for the pace of development of economies around the world, including those relating to the lighting market, which were lowered by 21 percent. Many infrastructure investments have been delayed or postponed.

From the perspective of these twelve months, I can say that it was not an easy year, but we made it. Despite unfavorable conditions, in 2020 the LUG Capital Group recorded sales revenues in the amount of PLN 182.74 million. This is an increase of 8.5 percent compared to last year's result. Gross profit on sales in this period amounted to PLN 74.56 million, increasing by 19.4 percent compared to the corresponding data in 2019. The Group closed the year with a net profit for the shareholders of the parent company at the level of PLN 6.91 million, compared to a loss of - PLN 5.8 million a year ago. The generated EBITDA is PLN 19.65 million, compared to PLN 2.6 million in the same period of 2019.

The consolidated operating result in 2020 was influenced by the received financial support in the total amount of PLN 2.6 million and the implemented optimization measures. An additional factor stimulating the operating result were subsidies in the amount of approx. PLN 1.2 million, obtained for the development of the product portfolio under EU projects.

We know as much about ourselves as we have been checked. These words took on a new meaning during the pandemic, also in business terms. Using our best skills in the first weeks of the pandemic, we responded to the appeal of the Marshal of the Lubuskie Voivodeship and the city authorities of Zielona Góra for help in buying and bringing 50 tons of personal protective equipment to Poland. Our many years of experience, contacts and know-how of our team have turned out to be extremely valuable and effective in coordinating the purchase and import of equipment for medical units in Lubuskie. It wasn't our last word. To help fight SARS-CoV-2, we used the knowledge of the R&D team, who in a few months developed a new line of UVC PURELIGHT LUG luminaires that effectively disinfect the space by eliminating 99.9 percent of microorganisms.

It is worth emphasizing that our industry is undergoing a transformation process related to the development of Smart City and climate protection. This is a huge development potential we are ready for, but also a huge challenge we will face this year and the years to come. At this point, I would like to proudly highlight that just a few days ago, during the Smart City Forum, we introduced the SAVA luminaire, created especially for the authorities of the Polish capital. The luminaire equipped with a Zhaga connector compliant with the D4i standard is a future-proof solution that is the basis for the development of intelligent infrastructure in the city. As part of this project, we will produce and deliver to the capital nearly 40 thousand street luminaires, which is the largest in Poland - and one of the largest in Europe - lighting replacement project.

However, our priorities, such as the will to expand and follow global trends in the lighting industry, have not changed. In June, we emphasized the presence of the LUG family on the African market by creating LUG West Africa Limited based in Lagos. In Nigeria and other West African countries, we actively promote professional LED lighting solutions. In addition, we are exploring the possibilities of foreign expansion on the Moroccan market.

I have only presented some of our activities in the past year. I hope you would like to familiarise yourselves with the whole report, especially the non-financial statement, presenting other areas of our business activity.

I would like to thank you for your trust and our employees for the fact that despite the fears and doubts related to us with the ongoing pandemic, they carried out subsequent tasks entrusted to them.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Ryszard Wtorkowski', with a large, stylized initial 'R'.

Ryszard Wtorkowski, CEO of the Board of LUG S.A.



FINANCIAL INFORMATION

of LUG S.A. Capital Group

1. Introduction

The selected financial information containing basic data (in PLN and PLN transferred into EURO) summarizing the financial situation of LUG S.A. Capital Group from 01.01.2020 – 31.12.2020 are presented in Table 2, Table 3, Table 4 and Table 5.

Balance sheet items were converted 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 converted 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 (31.12.)	Average exchange rate in the period from 01.01. to 31.12.
2019	4,2585	4,3018
2020	4,6148	4,4742

Source: NBP

2. Selected data from the balance sheet and the profit and loss account

Table 2. Selected consolidated financial data of LUG S.A. Capital Group for 2020 and comparative data for 2019 [PLN mln]

	2020 mln PLN	2019 mln PLN	2020 mln EUR	2019 mln EUR	Dynamics y/y
Sales revenues	182,74	168,50	40,84	39,17	108,45
Amortization	9,74	8,29	2,18	1,93	117,54
Profit (loss) on gross sales	74,56	62,45	16,66	14,52	119,39
Profit (loss) on net sales	4,84	-7,50	1,08	-1,73	-64,94
Profit (loss) on operational activity	10,04	-5,68	2,24	-1,32	-176,80
Profit from economic activity	8,65	-4,94	1,93	-1,15	-175,02
EBITDA	19,78	2,61	4,42	0,61	758,44
Gross profit (loss)	8,65	-4,94	1,93	-1,15	-175,02
Net profit (loss) netto for shareholders of the dominant entity	6,91	-5,80	1,54	-1,35	-119,14
	31.12.2020 mln PLN	31.12.2019 mln PLN	31.12.2020 mln EUR	31.12.2019 mln EUR	Dynamics y/y
Total assets, including:	156,48	150,32	33,91	35,30	104,10
Fixed assets	64,19	69,64	13,91	16,35	92,18
Current assets	92,29	80,68	20,00	18,95	114,39
Inventory	46,74	41,55	10,13	9,76	112,49
Cash and cash equivalent	6,01	3,74	1,30	0,88	160,82
Total receivables, including:	36,34	33,28	7,87	7,81	109,20
Short-term receivables	36,29	33,25	7,86	7,81	109,13
Long-term receivables	0,05	0,03	0,01	0,01	183,80
Liabilities and provisions, including:	104,43	104,67	22,63	24,58	99,77
Liabilities and long-term provisions	10,78	14,17	2,34	3,33	76,07
Liabilities and short-term provisions	93,65	90,50	20,30	21,25	103,48
Equity, including:	52,05	45,65	11,28	10,72	114,02
Share capital	1,80	1,80	0,40	0,42	100,00

Source: Issuer

3. Cash-flow

Table 3. Consolidated cash flows of LUG S.A. Capital Group in MSR/MSSF for 2020 and comparative data of 2019 [mln PLN]

	2020 mln PLN	2019 mln PLN
Net cash flows from operational activity	7,34	-2,34
Net cash flows from investment activities	-3,65	-6,24
Net cash flow form financial activity	-1,42	7,05
Net cash flows	2,27	-1,52

Source: Issuer

4. Ratios analysis

Table 4. Selected consolidated ratios of LUG S.A. Capital Group for 2020 and comparative ratios for 2019 [% , pp]

	2020	2019	Change y/y
Gross margin on sales	40,8%	37,1%	+3,7pp
EBITDA profitability	10,8%	1,5%	+9,2pp
Operational profitability	5,5%	-3,4%	+8,9pp
Net profitability	4,2%	-2,9%	+7,1pp
Return on Equity	14,7%	-10,6%	+25,3pp
Return on Assets	4,9%	-3,2%	+8,1pp
Overall liquidity ratio	98,5%	89,1%	+9,4pp
General debt ratio	66,7%	69,6%	-2,9pp
Net debt / EBITDA	2,68	21,38	-18,70
EV/EBITDA (at the end of the period)	5,13	31,28	-26,15

Source: Issuer

Explanation of ratios:

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 of 2020 and comparative data for 2019.

Balance sheet	Balance on 31.12.2020 [mln.PLN]	Structure [%]	Balance on 31.12.2019 [mln.PLN]	Structure [%]	Dynamics y/y
ASSETS					
Fixed assets	64,19	41,02%	69,64	46,33%	92,18
Tangible fixed assets	43,47	27,78%	46,37	30,85%	93,75
Intangible assets	14,94	9,55%	16,05	10,68%	93,07
Long-term investments	0,50	0,32%	0,00	0,00%	0,00
Investments in associates and joint ventures	0,02	0,01%	0,03	0,02%	63,63
Right-of-use assets - premises (MSSF 16)	1,75	1,12%	3,11	2,07	56,20
Deferred tax assets	3,46	2,21%	4,04	2,69%	85,60
Long-term receivables	0,05	0,03%	0,03	0,02%	176,82
Current assets	92,29	58,98%	80,68	53,67%	114,39
Inventory	46,74	29,87%	41,55	27,64%	112,49
Trade receivables	33,51	21,41%	32,01	21,29%	104,68
Receivables due to taxes/ customs/ insurance and others	1,18	0,75%	0,00	0,00%	0,00
Other receivables	1,61	1,03%	1,25	0,83%	128,91
Financial assets at fair valued through profit or loss	0,24	0,15%	0,2	0,13%	119,35
Accruals	3,01	1,92%	1,94	1,29%	155,18
Cash and cash equivalent	6,01	3,84%	3,74	2,49%	160,82

TOTAL ASSETS	156,48	100%	150,32	100,00%	104,10
LIABILITIES					
Equity capital	52,05	33,26%	45,65	30,37%	114,02
Share capital	1,80	1,15%	1,80	1,20%	100,00
Reserve capital from the issue of shares above its nominal value	23,82	15,22%	23,82	15,84	100,00
Other capitals	14,92	9,53%	22,08	14,69%	67,58
Exchange differences from consolidation	-2,57	-1,64%	-1,75	-1,16%	146,98
Profit retained	8,79	5,62%	7,60	5,06%	115,68
Minority shareholders capital	-1,62	-1,04%	-2,09	-1,39%	77,47
Financial result of the current period	6,91	4,42%	-5,80	-3,86%	-119,14
Long-term liabilities	10,78	6,89%	14,17	9,43%	76,07
Liabilities due to credits and loans	1,66	1,06%	2,64	1,75%	62,95
Other financial liabilities	3,92	2,5%	7,04	4,68%	55,65
Provisions due to deferred income tax	0,11	0,07%	0,07	0,05%	160,92
Provisions due to employee benefits	0,37	0,24%	0,37	0,25%	100,31
Accruals	3,09	1,98%	2,63	1,75%	117,44
Other provisions	1,63	1,04%	1,42	0,95%	114,46
Short-term liabilities	93,65	59,85%	90,50	60,20%	103,48
Liabilities due to credits and loans	34,97	22,35%	34,00	22,62%	102,83
Accruals	1,19	0,76%	0,70	0,46%	169,91
Liabilities due to current income tax	0,05	0,03%	0,007	0,00%	661,77
Other liabilities (including financial)	53,02	33,88%	22,44	14,93%	101,11
Provisions due to employee benefits	0,60	0,39%	0,58	0,39%	104,08
Other provisions	3,83	2,45%	2,77	1,84%	138,19
TOTAL LIABILITIES	156,48	100%	150,32	100%	104,10

Source: Issuer

Balance sheet of LUG S.A. Capital Group in 2020 closed with the amount of PLN 156.48 million, which is a 4 percent growth compared to the last year. Current assets accounted for the majority of the Group's assets (58.98%), while fixed assets accounted for 41.02% of the total assets. Comparing the values year on year, fixed assets showed a dynamics of 92.18 percent y/y, while current assets - 114.39 percent. As at the balance sheet date of December 31, 2020, inventories accounted for approximately 29.87 percent of current assets. In the structure of fixed assets, the highest dynamics was shown by long-term receivables (176.82%), however, tangible fixed assets have the largest valuable share in the structure of fixed assets, showing dynamics at the level of 93.75%. In 2020, equity in the structure of liabilities accounted for 33.26 percent, followed by long-term liabilities to 6.89 percent, and short-term liabilities to 59.85 percent. The greatest dynamics in the structure of liabilities was shown by liabilities due to current income tax (661.77%). The significant increase in value results from the low reference base of the previous year, when a net loss of PLN -5.8 million was recorded.

6. Description of the structure of main capital deposits or capital investments

In 2020, LUG S.A. Capital Group used overnight deposits, as well as 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 entires, sorter by contracting party, subject and value

Description of significant off-balance sheet items, including a description of contingent liabilities due to guarantees and suretis granted, is provided in note 26 of the consolidated financial statements of LUG S.A. Capital Group of 2020.

In the opinion of the Management Board, the probability of the outflow of financial resources shown in off-balance/ conditional commitments in 2020 is negligible.

8. Description of an important transactions with affiliated companies

The parent company and its subsidiaries did not enter into trasactions 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 LUG S.A. Capital Group of 2020.

9. Information on loans granted in a given financial year

In 2020, the level of loans increased annually by PLN 2.831 thousand. Loans in LUG S.A. Capital Group in 2020 are indicated in the Chapter: Financial Information of LUG S.A., granted by LUG S.A. to subsidiary LUG do Brasil Ltda in the value of PLN 21 thousand. Additionally, subsidiary LUG Light Factory sp. z o.o. granted loans in 2020 to BIOT Sp. z o.o. on the total amount of PLN 2.31 mln and to LUNA Sp. z o.o. Sp.k. valued on PLN 0.5 mln.

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 2020.

11. Information on granted and received warranties and guarantees on the fiscal year

At the end of 2020, the status of guarantees granted in the LUG S.A. Capital Group amounted to PLN 2.42 million and included guarantees issued by the Issuer's subsidiary, LUG Light Factory Sp. z o.o. On December 30, 2020 a multiline agreement no. K02121/20 was signed, under which LUG Light Factory Sp. z o. o. and LUG Services Sp. z o. o. were granted with a guarantees limit of PLN 4 mln both, of which PLN 3 mln goes to LUG Light Factory Sp. z o. o. The amount used as at the balance sheet date by LUG Services Sp. z o. o. amounts PLN 0.00.

12. Information on accounting priniciples changes

In 2020, there wereno changes to the accounting principles.



FINANCIAL INFORMATION of LUG S.A.

for 01.01.2020-31.12.2020

13. Introduction

The selected financial information containing basic data (in PLN and PLN transferred into EURO) summarizing the financial situation of LUG S.A. from 01.01.2020 – 31.12.2020 are presented in Table 7, Table 8 and Table 9.

Balance sheet items were converted 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 converted 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 6. Exchange rate table EUR/PLN

	Euro rate of exchange on the balance sheet (31.12.)	Average exchange rate in the period from 01.01. to 31.12.
2019	4,2585	4,3018
2020	4,6148	4,4742

Source: NBP

14. Selected data from the balance sheet and the profit and loss account

Table 7 Selected separate financial data of LUG S.A. for 2020 with comparative data for 2019
[mln PLN]

	2020 mln PLN	2019 mln PLN	2020 mln EUR	2019 mln EUR	Dynamics (PLN)
Sales revenues	1,90	1,90	0,41	0,44	118,01
Amortization	0,00	0,00	0,00	0,00	100,00
Profit (loss) on gross sales	1,90	1,90	0,41	0,44	118,75
Profit (loss) on net sales	0,60	0,22	0,13	0,05	392,86
Profit (loss) on operational activity	0,56	0,17	0,12	0,04	4900,00
Profit from economic activity	0,71	1,49	0,15	0,35	269,74
EBITDA	0,56	0,17	0,12	0,04	4463,64
Gross profit (loss)	0,71	1,49	0,15	0,35	269,74
Net profit (loss)	0,47	1,46	0,10	0,34	263,27
	31.12.2020 mln PLN	31.12.2019 mln PLN	31.12.2020 mln EUR	31.12.2019 mln EUR	Dynamics (PLN)
Total assets, including:	35,51	34,96	7,69	8,21	113,75
Fixed assets	32,24	31,90	6,99	7,49	104,37
Current assets	3,27	3,06	0,71	0,72	1000,00
Inventory	0,00	0,00	0,00	0,00	0,00
Cash and cash equivalent	0,01	0,01	0,00	0,00	100,00
Total receivables, including:	3,15	2,94	0,68	0,69	444,44
Short-term receivables	3,15	2,94	0,68	0,69	1032,26
Long-term receivables	0,00	0,00	0,00	0,00	0,00
Liabilities and provisions, including:	0,53	0,46	0,11	0,11	160,47
Liabilities and long-term provisions	0,16	0,02	0,03	0,01	150,00
Liabilities and short-term provisions	0,37	0,44	0,08	0,10	160,98
Equity, including:	34,98	34,50	7,58	8,10	113,05
Share capital	1,80	1,80	0,39	0,42	100,00

Source: Issuer

15. Cash flows

Table 8 Separate cash flows of LUG S.A. for 2020 and comparative data of 2019 [mln PLN]

	2020 mln PLN	2019 mln PLN
Net cash flows from operational activity	-0,03	0,37
Net cash flows from investment activities	0,03	0,64
Net cash flow form financial activity	0	-1,01
Net cash flows	-0,001	-0,002

Source: Issuer

16. Ratios analysis

Operating activities of LUG S.A. Capital Group is carried out almost exclusively in subsidiaries, in particular in LUG Light Factory Sp. z o.o. Therefore, the individual financial results of LUG S.A. do not reflect the condition, development and prospects of the Issuer, and do not allow for a rational ratio analysis.

17. Description of the structure of assets and liabilities

Table 9 Structure of assets and liabilities of LUG S.A.

Balance sheet	Balance on 31.12.2020 [mln. PLN]	Structure [%]	Balance on 31.12.2019 [mln. PLN]	Structure [%]	Dynamics r/r [%]
ASSETS					
Fixed assets	32,24	90,79	31,90	91,25	101,07
Investments in subordinated entities	31,39	88,40	31,05	88,82	101,10
Intangible assets	0,00	0,00	0,00	0,00	0,00
Other financial assets	0,80	2,25	0,80	2,29	100,00
Deferred tax assets	0,05	0,14	0,05	0,14	100,00
Long-term receivables	0,00	0,00	0,00	0,00	0,00
Current assets	3,27	9,21	3,06	8,75	106,86
Inventory	0,00	0,00	0,00	0,00	0,00
Trade receivables	0,70	1,97	0,33	0,94	212,12
Receivables from taxes, duties, insurance and other benefits	0,00	0,00	0,00	0,00	0,00
Other receivables	2,44	6,87	2,61	7,47	93,49
Accruals	0,12	0,34	0,11	0,31	109,09
Cash and cash equivalent	0,01	0,03	0,01	0,03	100,00
TOTAL ASSETS	35,51	100,00	34,96	100,00	101,57
LIABILITIES					
Equity capital	34,98	98,51	34,50	98,68	101,39
Share capital	1,80	5,07	1,80	5,15	100,00
Reserve capital from the issue of shares above their nominal value	23,82	67,08	23,82	68,14	100,00
Other capitals	8,47	23,85	7,01	20,05	120,83
Retained earnings	0,42	1,18	0,42	1,20	100,00
Financial result for the current period	0,47	1,32	1,45	4,15	32,41
Long-term liabilities	0,16	0,45	0,02	0,06	761,90
Liabilities due to credits, loans and other debt instruments	0,00	0,00	0,00	0,00	0,00
Other financial liabilities	0,00	0,00	0,00	0,00	0,00
Provisions for deferred income tax	0,03	0,09	0,003	0,01	0,00
Other long-term liabilities	0,13	0,37	0,02	0,06	650,00
Accruals	0,00	0,00	0,00	0,00	0,00
Other provisions	0,00	0,00	0,00	0,00	0,00
Short-term liabilities	0,37	1,04	0,44	1,26	84,09
Liabilities due to credits, loans and other debt instruments	0,00	0,00	0,00	0,00	0,00
Other financial liabilities	0,00	0,00	0,00	0,00	0,00

Accruals	0,00	0,00	0,00	0,00	0,00
Trade liabilities	0,21	0,59	0,25	0,72	84,00
Liabilities due to current income tax	0,05	0,14	0,01	0,03	500,00
Other liabilities	0,07	0,20	0,15	0,43	46,67
Other provisions	0,04	0,11	0,03	0,09	33,33
TOTAL LIABILITIES	35,51	100,00	34,96	100,00	101,57

Source: Issuer

Balance sheet of LUG S.A. in 2020 amounted to PLN 35.51 million, which is a slightly higher result compared to the previous year (+1.57% y/y). Fixed assets were a dominant element of assets in the balance sheet of 2020, constituting 90.79% of the company's assets, which mainly consist of investments in entities subordinated to the structure, reaching 88.40%. The change noted in 2020 is related to the Issuer's taking up shares in new entities. In 2020, current assets account for only 9.21% of the asset structure. On the liabilities side, equity has a significant share, which increased y/y and reached 98.51% in the structure of liabilities. In 2020, the amount of loans increased by PLN 21 thousand (a loan granted by LUG S.A. to a subsidiary LUG do Brasil Ltda.)

18. Description of the structure of main capital deposits or capital investments

In 2020, as in 2019, LUG S.A. did not use IRS transactions and overnight capital deposits, as well as term deposits not longer than two weeks.

19. Description of significant off-balance sheet items in terms of the subject, object and value

Description of significant off-balance sheet items, including the description of contingent liabilities due to guarantees and sureties granted, is provided in note no. 21 to the separate financial statements of LUG S.A. for 2020.

In the opinion of the Management Board, there is a minimal probability of an outflow of financial resources disclosed in off-balance sheet/ contingent liabilities in 2020.

20. Description of significant transactions with related entities

The parent company and its subsidiaries did not conclude any transactions with related parties on conditions other than market conditions. Detailed information on transactions with related entities is provided in note no. 25 of the separate financial statements of LUG S.A. for 2020.

21. Information on loans granted in a given financial year

In 2020, loans increased by PLN 21 thousand compared to 2019. PLN and it is the value of loans granted by LUG S.A. a subsidiary of LUG do Brasil Ltda. In 2020, the value of the write-down increased by the same value.

22. Information on sureties and guarantees granted and received in a given financial year

As of December 31, 2020 there were no sureties for the benefit of LUG S.A., and the Company did not grant any sureties in 2020.

23. Information on changing the accounting principles

In 2020, there were no changes to the accounting principles.



STATEMENT OF THE BOARD

on operations of LUG S.A.
and LUG S.A. Capital Group

1. BASIC INFORMATION

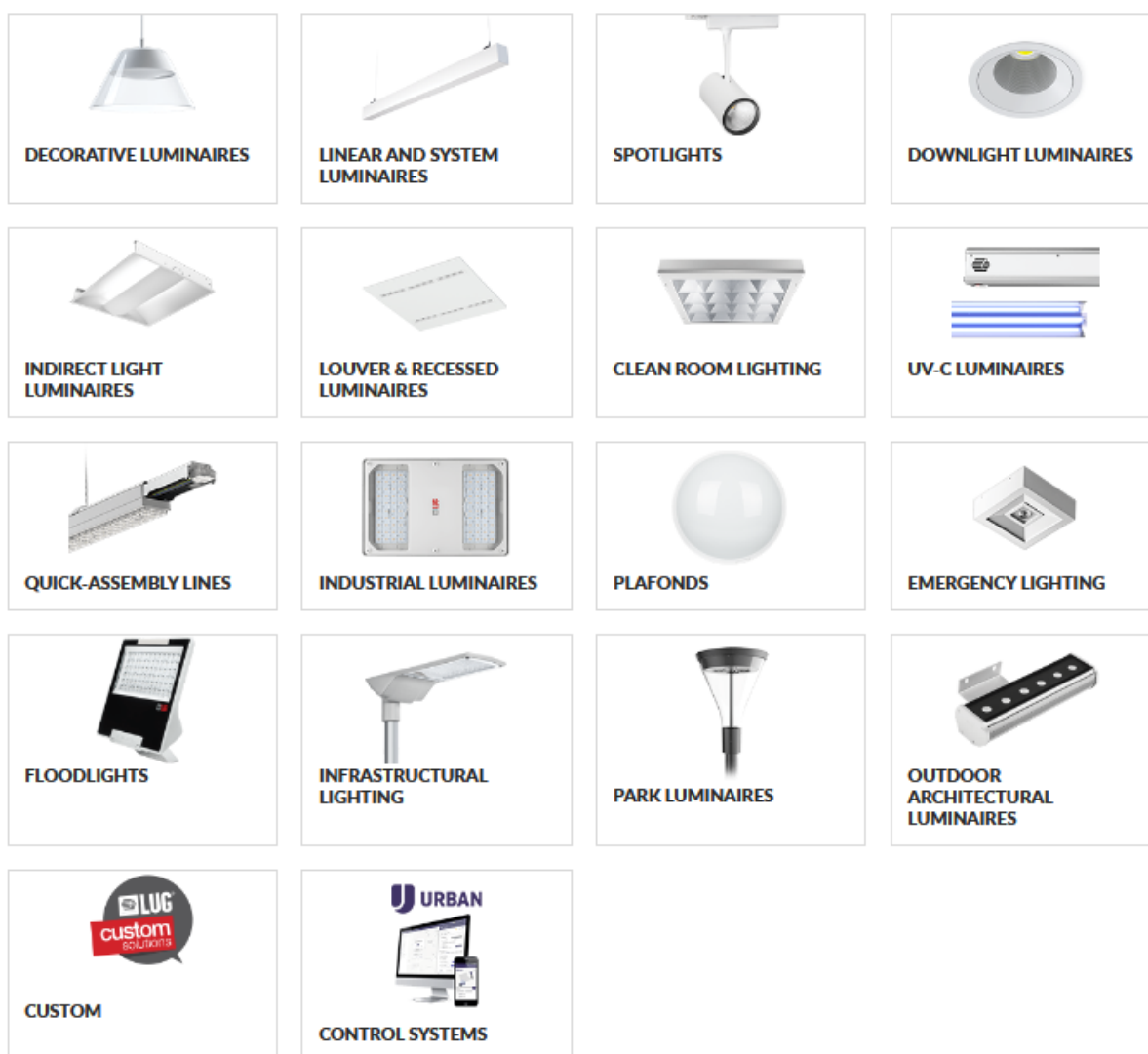
1.1. Organization

1.1.1. Subject of activity

The Capital Group of LUG S.A.

LUG S.A. Capital Group is one of the leading manufacturers of professional lighting solutions in Europe. The company's offer includes a wide range of infrastructure, industrial and architectural luminaires used in areas such as the illumination of industrial, commercial, sports, office, hotel, medical, educational, cultural and public utility facilities, city and park lighting, and road infrastructure. Its offer also includes such services as a lighting management system and a light service (Light-as-a-service).

The product portfolio of LUG consists of the families of luminaires 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.

LUG S.A.

LUG S.A. is the parent company of the LUG S.A. Capital Group - supplier of comprehensive lighting solutions, one of the leading manufacturers of lighting luminaires in Poland and Europe. The company has nearly 30 years of experience in the lighting industry. Since 2008, it has been operating as a Capital Group based in Zielona Góra. In November 2007, LUG S.A. debuted on the New Connect market managed by the Warsaw Stock Exchange.

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

- consulting for central companies (head office) and consulting related to management (PKD 2007 – 70).

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 (suspended);
- LUG Aydınlatma Sistemleri Anonim Sirketi (LUG Turkey);
- ESCOLIGHT Sp. z o.o.

- LUG West Africa Ltd.
- LUG Services Sp. z o.o.

Table 10. 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	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 (działalność zawieszona)	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.¹	ul. Nowy Kisielin – Nowa 7, 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	75,5%	75,5%
LUG Aydınlatma Sistemleri Anonim ŞİRKETİ (LUG Turkey)²	Anadolu Hisari, Ruzgarli Bahce Mahallesi, Cumhuriyet Caddesi, Ferat Sokak, Demir Plaza, No:3/A Beykoz, Istanbul	Istanbul Trade Registry, Mersis numer:060908488 2000001, Tax No: 6090848820	Commercial and consulting activities in lighting technology field.	50 000,00 TRY	66,8%	66,8%

¹ On 09.09.2020, LUG S.A. purchased a package of 980 shares of BIOT Sp. z o.o. from TOKA - Burzyński, Guzowski Sp.j. The purchased shares constituted 50% of the shares held by TOKA in BIOT. The remaining 50% of shares held by TOKA - Burzyński, Guzowski Sp.j. was acquired by a natural person, Mr. Tomasz Guzowski. 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 51% to 75.5%.

² On November 12, 2018, LUG S.A. acquired a stake 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%.

ESCOLIGHT Sp. z o.o.	ul. Mickiewicza 3A, 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%
LUG Services Sp. z o.o.	Gorzowska 11 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. –	Lagos, Nigeria	W rejestracji	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.

On January 27, 2020, LUG Services Spółka z ograniczoną odpowiedzialnością was established as a subsidiary of LUG S.A., which 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, and 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 under the number KRS 0000828305, which was announced in the current report No. 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 was registered under the number RC 1677219.

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 for publication date, ie. 27.05.2021.



Source: LUG S.A.

In 2020, 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 31.12.2020 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 Sirketi 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 2020, there were no events that would affect the value of the share capital of LUG S.A.

As at 31.12.2020 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 penny) each.

Table 11. The structure of the share capital as at the date of this report

	Number of shares (pcs.)	Share in share capital (%)	Numer of votes	Share in general number of votes (%)
Series A	4 320 000	60,01%	4 320 000	60,01%
Series B	1 438 856	19,99%	1 438 856	19,99%
Series C	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, 2020 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, 2020 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, 2020 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, 2020 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, 2020 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, 2020, 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 4000 shares with a nominal value of PLN 50.00 each. On 09.09.2020, Issuer acquired from TOKA – Burzyński, Guzowski Sp.j. 980 shares of BIOT Sp. z o.o. with a nominal value 50,00 PLN each. Issuer have 3020 shares with a total nominal value of 151 000,00 PLN, which is 75,5% of the capital of BIOT Sp. z o.o. giving a right for the same number of votes on a general meeting of shareholders.
- As at December 31, 2020, 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, 2020, and as the date of this report, the share capital of LUG Aydinlatma Sistemleri Anonim Sirketi is 50 000 TRY, the Issuer acquired 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, 2020, 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, 2020, 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, 2020, 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 12. Share structure before and after merging LUG S.A. shares

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

Source: LUG S.A.

In 2020, 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 13. Structure of LUG S.A. shares in the companies of the Capital Group – on a publication date

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.	3 020	151 000 PLN	75,5%	75,5%
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 14 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 14. Structure of LUG S.A. ownership holding at least 5% Issuers shares – as of the day of the report.

Name	Shafres 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%

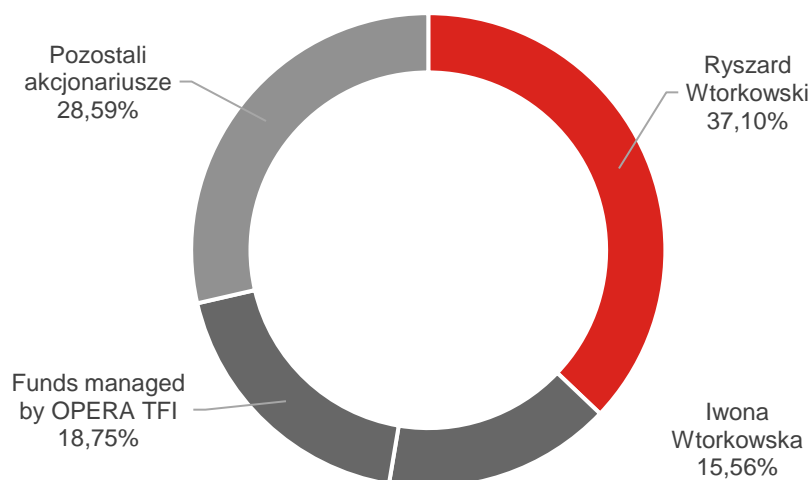
Source: LUG S.A.

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 30.07.2020 (14.07.2020 r. – 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 30.07.2020 (14.07.2020 r. – day of registration of participation in OGM of LUG S.A.);
- Funds managed 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 2020, the Issuer did not receive any information about the changes in the state of possession of LUG S.A. shares.

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



Source: LUG S.A.

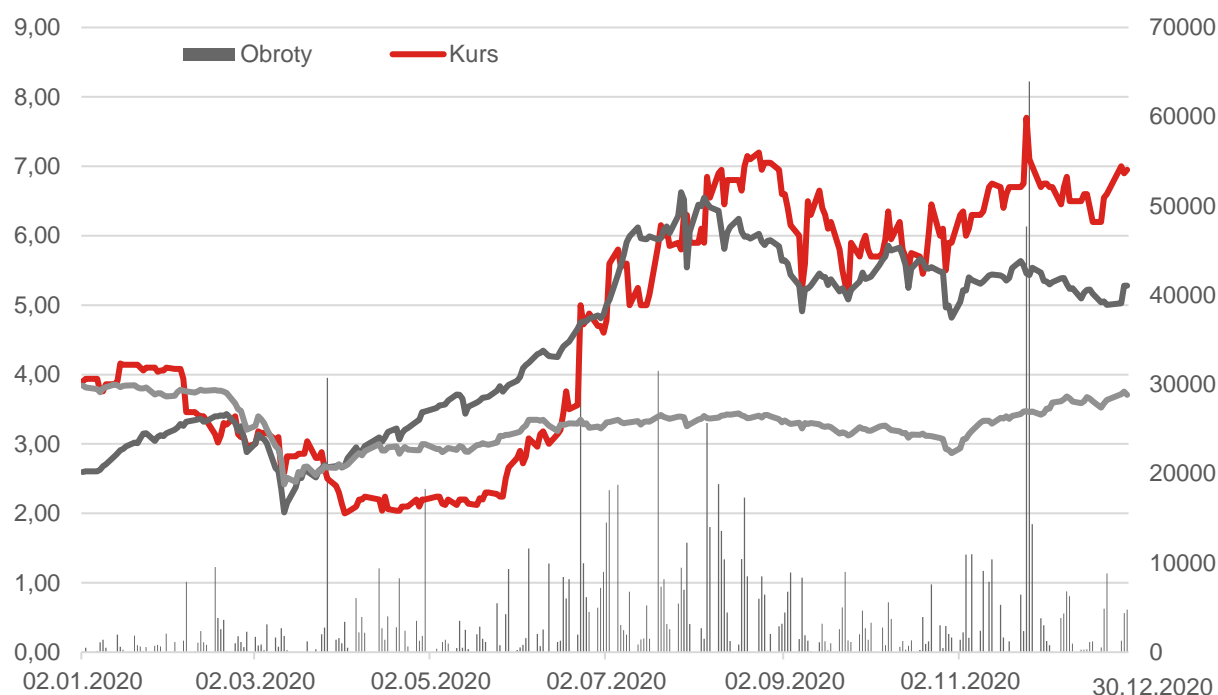
The dominant shareholder in the shareholding structure of LUG S.A. is Mr. Ryszard Wtorkowski, who holds 2,670,610 shares of LUG S.A., which constitutes 37.10% of the company's shareholding structure. Mr. Ryszard Wtorkowski is the founder of LUG S.A. leading the entire LUG S.A. Capital Group. The package 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 01.01.2020 – 31.12.2020

LUG S.A. quotation rate in the first half of 2020, it shaped a downward trend, reaching on April 2, last year, the lowest value, both for the first half of the year and for the entire last year, amounting to PLN 2/share. After the stabilization of the rate around PLN 2 /share, which remained from the beginning of April to the end of May last year, a dynamic increase in the rate began at the turn of May and June. The maximum value in the third quarter of the year was reached on August 24, 2020, i.e. PLN 7.20 /share. From August 2020, the share price was stable with slight fluctuations between PLN 5.10 /share and the maximum and at the same time the highest value for the entire year on November 25, amounting to PLN 7.70 /share. Financial year of LUG S.A. closed with a share valuation of PLN 6.95 /share on December 30, 2020.

Chart 3 LUG S.A. quotation for 01.01.2020 – 31.12.2020.



Source: LUG S.A.

In 2020, as in previous years, shares of LUG S.A. belonged to the NCIndex, for a two years (December 2018 – December 2020) qualified to the NC Base segment, from December 2020 to NC Focus Segment.

In 2020, the General Meeting of Shareholders of LUG S.A. decided not to pay out a dividend and allocate the net profit achieved in 2019 valued for PLN 1,46 mln in the share capital from retained earnings.

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

Name	Role	Company shares	Number of shares	Share in the share capital	Share in voices on GMS
Ryszard Wtorkowski	CEO of the Board of LUG S.A.	LUG S.A.	2 670 610	37,10%	37,10%
Małgorzata Konys	Board Member LUG S.A.	LUG S.A.	15 200	0,21%	0,21%
Iwona Wtorkowska	President of the Supervisory Board of	LUG S.A.	1 120 000	15,56%	15,56%

		LUG S.A.			
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

Management Board of the dominant company

In accordance with the Company's Articles of Association, the Management Board of LUG S.A. consists of one or more members, including the President of the Management Board, chairman of the Management Board managing its work. Board members are appointed and dismissed by the Supervisory Board for a joint three-year term of office. The Supervisory Board may dismiss the President of the Management Board, Vice-President of the Management Board or a member of the Management Board before the end of the term of office of the Management Board. If a member of the Management Board is appointed during the term of office, he remains in office until the end of this term of office. The mandates of the members of the Management Board expire on the date of the General Meeting approving the financial statements for the last ending financial year during their term of office.

The composition of the Issuer's Management Board as at December 31, 2020 and as at the date of this report:

- Ryszard Wtorkowski - CEO of the Board,
- Mariusz Ejsmont - V-ce President of the Board,
- Małgorzata Konys - Member of the Board.

The current term of office of the Management Board began on 29.04.2021, i.e. on the day of the Supervisory Board Meeting and adoption of resolutions no. 01/04/2021, no. 02/04/2021 and no. 03/04/2021 appointing the current management Board members or the next term of office.

Table 16. Term of the office of the LUG S.A. Management Board

Name	Role in the Board of LUG S.A.	First term in office	Duration of current term in office
Ryszard Wtorkowski ¹⁾	CEO of the Board	02.08.2007	till 28.04.2024
Mariusz Ejsmont ²⁾	V-ce President of the Board	02.08.2007	till 28.04.2024
Małgorzata Konys ³⁾	Board Member	02.08.2007	till 28.04.2024

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. 01/04/2021 of the Supervisory Board.*
- 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. 02/04/2021 of the Supervisory Board.*
- 3) Appointment to the Management Board of the first term of office on August 2, 2007. Dismissal from the function of the Member of the Board due to the Resolution no. 1/03/2009 of Supervisory Board on 16.03.2009. Appointment of the current term of office pursuant to resolution No. 03/04/2021 of the Supervisory Board.*

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 2020 began its course on January 17, 2011, i.e. on the date of the Extraordinary Meeting of Shareholders and an 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;

On the other hand, in 2020 the Board of LUG Light Factory Sp. z o.o. changed as follow:

- Table 17 presenting the current composition of the Company's Management Board as at 31/12/2019 and
- Table 18 presenting the current state of the Company's Management Board as at December 31, 2020 and as at the date of publication of the report

Table 17 The terms of the Management Board of LUG Light Factory Sp. z o.o before the changes in 2020¹⁾

Name	Function in the Management Board of LUG Light Factory	First term in office
Ryszard Wtorkowski ²⁾	CEO of the Board	01.08.2007
Mariusz Ejsmont ³⁾	Board Member	17.01.2011
Tomasz Makarski ⁴⁾	Board Member	01.07.2019
Paweł Karłowski ⁵⁾	Board Member	01.07.2019

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. 2 of the General Meeting of LUG Light Factory Sp. z o. o. of June 13, 2019.

⁵⁾ 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. End of term on 14.12.2020.

Composition of the Management Board of LUG Light Factory Sp. z o.o. on 31.12.2020 as the publication date shows Table 18.

Table 18. The terms of the Management Board of LUG Light Factory Sp. z o.o. on 31.12.2020 r. and on the publication date.¹⁾

Name	Function in the Management Board of LUG Light Factory	First term in office
Ryszard Wtorkowski ²⁾	CEO of the Board	01.08.2007
Mariusz Ejsmont ³⁾	Board Member	17.01.2011
Tomasz Makarski ⁴⁾	Board Member	01.07.2019

Źródło: LUG S.A.

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. 2 of the General Meeting of LUG Light Factory Sp. z o. o. of June 13, 2019.

In 2020, composition of the Management Board of LUG Light Factory Sp. z o.o. has changed. Paweł Karłowski, serving as a Member of the Board of LUG Light Factory Sp. z o.o. on December 14, 2020 ceased to perform management functions and terminated his cooperation with LUG. Composition of the Board of LUG Light Factory Sp. z o.o. 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, 2020 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, 2020 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, 2020 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 2020 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, 2020 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, 2020, 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. Tomasz Guzowski as a natural person.

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 Aydinlatma Sistemleri Anonim Sirketi (LUG Turkey)

As at December 31, 2020 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, 2020 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 December 31, 2020 and 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, 2020 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 19. Term of Supervisory Board of LUG S.A.

Name	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 27.06.2022
Renata Baczańska	Supervisory Board Member	02.08.2007	28.06.2019	till 27.06.2022
Eryk Wtorkowski	Supervisory Board Member	02.08.2007	28.06.2019	till 27.06.2022
Zygmunt Ćwik	Supervisory Board Member	21.09.2007	28.06.2019	till 27.06.2022
Szymon Ziolo	Supervisory Board Member	21.09.2007	28.06.2019	till 27.06.2022

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 2020.

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 2020, 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, identification and elimination of 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.

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 Aydinlatma 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 to December 2020 shares of LUG S.A. were qualified to NC Base segment. From December 2020 Issuer's shares were qualified once again into NC Focus segment.

Table 20. 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 shares C series
Issue value	PLN 5,4 mln

Shares amount	179 964 250
Number of votes on GM	179 964 250
Nominal price	0,01 zł
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	0,25 zł

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 petrol stations, large-area 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 2020 was 99%, compared to 1% of conventional luminaires.

LUG lighting luminaires 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. It is confirmed in the light illuminations of many spectacular objects completed in recent years.

Between 01.09.2007 r. – 31.07.2008, LUG S.A. run design, manufacturing and commercial activity, which from 01.08.2008 was taken over by LUG Light Factory Sp. z o.o. In 2020, Issuer didn't run the direct commercial activity.

Assortment of the LUG S.A. Capital Group is a diversified portfolio of lighting products. Groups of outdoor lighting fixtures are dedicated to the illumination of buildings, streets, parking lots or sports facilities, while indoor lighting fixtures are used primarily in showrooms, offices, shopping malls, and industrial facilities. The high lighting parameters of LUG luminaires are confirmed by the following certificates:

- TUV (ISO 9001) – since 2004;
- CE – since 2001;
- GOST – since 2003;
- ENEC;

and many awards.

In 2020, the Issuer expanded its portfolio with PURELIGHT LUG luminaires that use UV-C radiation to disinfect surfaces and air. 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. These solutions are LUG's

response to the current needs of, among others HoReCa segment, medical, tourism, gastronomy and other services.

Table 21. Chosen foreign completions of LUG in 2020

Foreign completions	
Belgian Embassy Chancellerie de Belgique	Morocco
Complex lighting of Ministry Building Facades in Cairo	Egypt
Street lighting of NATO base	Lithuania
National Reserve Bank Banco Central de Reserva del Peru, Lima	Peru
Gardenia Residence, Dubai Hills, Dubaj	United Arab Emirates
Bureau Guyancourt Sky View, Guyancourt	France
Street lighting of Kibbutz, Megido	Israel
Logistic centers of Amazon in Schortens, Bad Oldesloe and Magdeburgu	Germany
Facade Khalidya Plaza View, Abu Dhabi	United Arab Emirates
Bureaus of Palm Towers, Abidjan	Republic of Côte d'Ivoire
Plant of a biopharmaceutical company Pfizer, Cork	Ireland
Bauska Castle, Bauska	Latvia
Hospital De Tjongerschans Ziekenhuis, Heerenveen	Netherlands
External lighting of Gran Via Hotel de Madrid	Espana

Source: LUG S.A

Table 22. Chosen domestic completions of LUG in 2020

Domestic completions	
Expressway S2 South Bypass	Warszawa
Hillwood's logistics park from the commercial real estate industry	Oleśnica
Lighting of the Staropolanka Mineral Water Bottling Plant	Polanica Zdrój
University of Wrocław's Dormitory Complex "Labirynt"	Wrocław
Gas Museum	Paczków
Lighting of the Navigational Marking Base of the Maritime Office	Szczecin
Modernization of street lighting in cities	Gostynin, Płock
Modernization of street lighting in communes	Łasin, Ryjewo, Człuchów, Damnica, Frombork, Kolbudy, Rajgród, Mrozy
Sports hall of the Municipal Sports and Recreation Center	Zielona Góra
Expressway S7	Tarczyn-Grójec
Outdoor lighting of the Intermodal Terminal	Świnoujście
WSK Metallurgical Plant	Rzeszów

Source: LUG S.A

2.3. Assortment

Luminaires of 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 Research and Development Center with a production complex located in Nowy Kisielin near Zielona Góra.

Within the LUG assortment, the following categories of luminaires can be distinguished:

Table 23. Categories of lighting luminaires of the LUG S.A. Capital Group

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 luminaires	
plafond	
emergency lighting	
UV-C luminaires and accessories	

Spurce: 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.

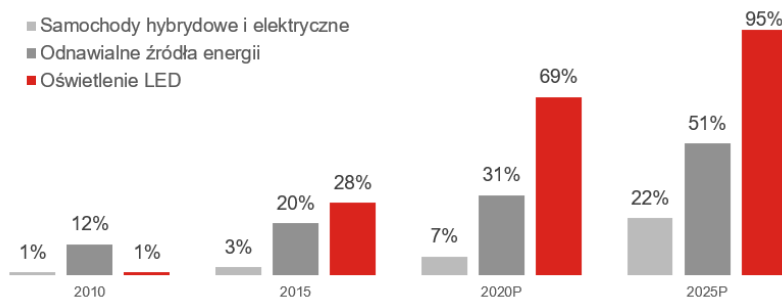
2.4. Lighting market and perspectives of its development

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 luminaires.

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



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

Źródło: Raport Golden Sachs Global Investments Research

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 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 2024³. 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.

³ "Europe LED Lighting Market Report, 2024", Global Market Insights, www.gminsights.com

The highest growth rate is forecast for India, the Asia-Pacific region, Latin America and Africa.⁴ Europe is the world's largest LED lighting market. The share of the European lighting industry in the global LED market is approx. 23%.⁵

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.⁶

Year 2020 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.

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.

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

⁴ "Global LED Lighting Market Update, 2017", Frost & Sullivan, 2017

⁵ „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.

⁶ www.lighting.pl, Główne trendy w oświetleniu przemysłowym jakie przyniósł 2018 r., 29.01.2019 r.

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.

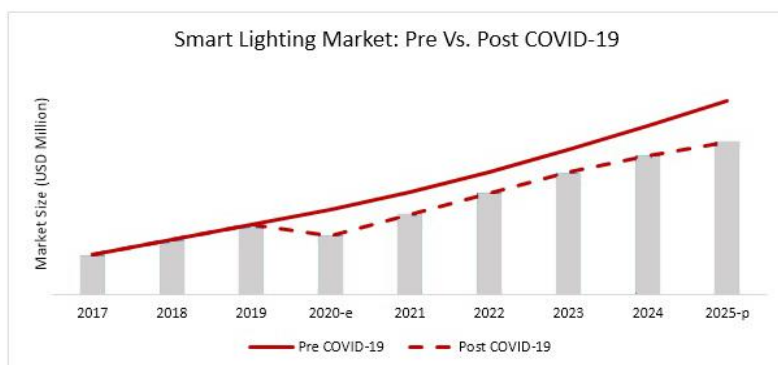
The lighting industry is a mature segment, which is distinguished by a stable market of recipients. The main distribution channel here is specialized electrotechnical wholesalers another is sales directly to architecture projects.

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, 2020. 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 Presentation, Annual Report, Expert Interview, and MarketsandMarkets Analysis

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 largest Polish manufacturers of the lighting industry estimate that many of the so-called government anti-crisis shields are 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.⁷

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.

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 EU assuming the increase of energy efficiency;
- 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;

⁷ www.rynekelektryczny.pl, Branża oświetleniowa opiera się koronakryzysowi, 16.04.2020 r.

- 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;
- New financial perspective of EU for 2021 – 2027 and funds availability as a factor stimulating the level of an investment in the European Union.

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 2020, 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.⁸

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.

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

⁸ Najważniejsze trendy w branży oświetlenia profesjonalnego w 2018, www.lighting.pl, M.Kołąkowski, 06.02.2018

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

The trend of increasing electricity prices, observed continuously since 2018, translates into an increase in energy prices. Analysts emphasize that due to the rising rates of CO2 emission allowances, there is no indication that this trend will change. In turn, up to 40% of the energy consumed by local government units is spent on 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.

Between 01.09.2007 and 31.07.2008, the Issuer operated on the lighting market under the name of LUG S.A., conducting production activities in Poland and commercial activities in Poland and abroad. On August 1, 2008 these functions were taken over by the subsidiary LUG Light Factory Sp. z o.o. From August 1, 2008. LUG S.A., as the parent company of the LUG S.A. Capital Group, deals with the supervision and control of subsidiaries and the implementation of the strategy of expanding the network of representative offices on the domestic and foreign markets. Currently, commercial activities within the LUG S.A. Capital Group. are carried out by subsidiaries.

On 31.12.2020 domestic commercial structure consisted of 9 regional offices in the biggest Polish cities:

Warszawa, Gdynia, Szczecin, Katowice,
Wrocław, Płock, Poznań, Łódź, Zielona Góra

In 2020, as part of the Project to optimize the costs of regional offices within the Polish commercial structure, the work organization of selected regional offices was changed, as a result of which the Group reduced the number of offices to selected urban centers. It was possible thanks to the reorganization of the operating mode in other locations. As part of cost optimization, 5 office premises were abandoned, and their competences were divided among other offices. This project turned out to be the right direction, which allowed to finally reduce the costs generated so far and redirect the released funds to areas requiring increased support. There was also no decrease in the number of orders related to the resignation from representation in a given area.

Wholesale networks are the dominant distribution channels for LUG products on the Polish market and electrical and general construction wholesalers. In addition, the LUG Group cooperates with design offices and implements public investments.

As part of the foreign commercial structure of the LUG S.A. Capital Group in 2020, there were foreign branches located in the following cities:

Berlin, London, Dubaj, Sao Paulo, Posadas, Lagos, Istanbul

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 2020 was 43%.

Table 24. Main sales markets of LUG S.A. Capital Group

	2020 [PLN mln]	2019 [PLN mln]	2018 [PLN mln]
Poland	69,33	66,80	81,89
Other countries in total, including:	113,40	101,70	88,90
Europe	79,41	62,28	63,46
Near East and Africa	12,40	8,36	8,46
Others	21,58	31,06	16,99

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 2020, the goal of the LUG S.A. Capital Group was to maintain business continuity in the context of the Covid-19 pandemic announced in the first quarter of 2020 and maximize revenues as much as possible by using the potential of the markets in which LUG companies are present, despite the difficulties of an economic lockdown in all partner countries. The element supporting the maximization of revenues were the expenditures incurred in previous years on investments 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.

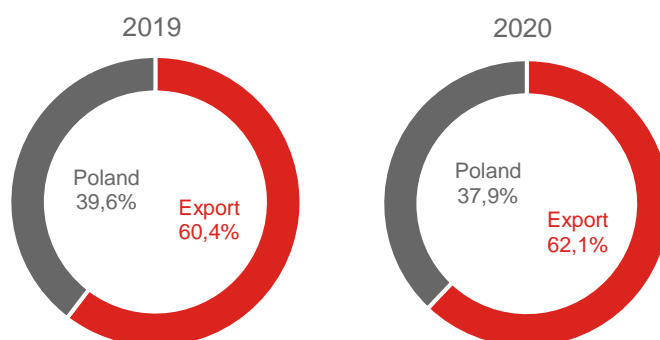
2.6. Structure of the Issuer's income

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 2020 – 62,1%.

In 2020, the share of export revenues in the Group's scale increased to 62.1%. The result is an effect of the continuation of the adopted direction of strengthening foreign sales, which, despite the Covid-19 pandemic, translated into the Group's result and finalizing foreign investments shifted in previous periods to 2020. In 2020, export revenues increased by 11.5% to PLN 113,40 million, simultaneously with an increase in domestic revenues by 3.79% to PLN 69.33 million. Despite the adversities in the form of the SARS-CoV-2 pandemic, the LUG Group has proved that it can quickly and flexibly adapt its activities and technological solutions, which results into the position of 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 Structure of sales revenues in a cumulative approach



Source: LUG S.A.

Table 24. Structure of sales revenues of LUG S.A. Capital Group y/y

	2020		2019	
	Value [PLN mln]	Share [%]	Value [PLN mln]	Share [%]
Poland	69,33	37,9%	66,80	39,6%
Export	113,40	62,1%	101,70	60,4%
TOTAL	182,73	100%	168,50	100%

Source: LUG S.A.

In 2020, 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 25. Dynamics of sales revenues of LUG S.A. Capital Group according to IAS/IFRS

Year	Dynamics Poland	Dynamics Export	Total dynamics
2018 / 2017	+31,41%	+11,24%	+20,02%
2019 / 2018	-18,00%	+13,80%	-1,34%
2020 / 2019	+3,79%	+11,50%	+8,45%

Source: LUG S.A.

Structure of recipients of the LUG S.A. Capital Group in the period from 01/01/2020 to 31/12/2020, it was significantly diversified, both in terms of entities and geography, which was a significant factor stabilizing its financial situation despite the global Covid-19 pandemic. The LUG Group cooperated with a large number of regular customers, among which there were no entities that significantly dominated in commercial contacts with the enterprise.

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 182,74 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 2020 and expanding the share in the lighting market, including:

- Expanding the portfolio of the LUG Group with UV-C luminaires: PURELIGHT LUG as a response to new needs of societies as a result of the Covid-19 pandemic;
- Deep penetration of the markets on which the Issuer is present;
- LUG organizational changes concerning further consolidation of commercial structures;
- Settling of a new companies: LUG Services Sp. z o.o and LUG West Africa Ltd.;
- Activity of LUG Argentina SA in South America, LUG Aydinlatma Sistemleri Sirketi on a Turkish and similar markets and LUG West Africa Ltd. on African market;
- 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.
- Commencement of the expansion of the Research and Development Center in Nowy Kisielin in order to increase the Group's production capacity.

3. ESSENTIAL EVENTS AFFECTING THE BUSINESS ACTIVITY IN 2020

3.1. The most important circumstances and events 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 2020 were:

- **Establishment of a subsidiary LUG Services Sp. z o.o.**

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. LUG Services Sp. z o.o. was established 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 consists 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).

- **Establishment and registration of a subsidiary LUG West Africa Limited**

On June 5, 2020, a subsidiary company of LUG S.A. was established, operating under the name LUG West Africa Limited with its registered office in Lagos, Nigeria. The company's share capital is NGN 10 million. The share capital of LUG West Africa Limited is divided into 10 million ordinary shares with a value of 1.0 NGN per share. The Issuer acquired 70% of 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 unlimited period. The company's purpose is to operate mainly in Nigeria, but also in other Sub-Saharan /West African countries. The main subject of activity is the implementation of commercial activity in the field of professional LED lighting solutions in Nigeria. The first Management Board of the Company consists of the President of the Management Board in the person of Mr. Ryszard Wtorkowski and the Vice-President of the Management Board in the person of Mr. Imran Oladimeji Hamzat - nominated by Jintech Management Ltd.

On July 8, 2020, the Issuer was informed that LUG West Africa Limited had been entered into the local register of entrepreneurs under the number RC 1677219, about which it immediately informed in the current report ESPI 7/2020.

- **Recommendation of the Management Board regarding the allocation of the net profit of LUG S.A. for 2019**

On June 3, 2020, the Management Board of LUG S.A. made a resolution no. 01/07/2020 concerning an application to the Ordinary General Meeting regarding to the destination

of the net profit of LUG S.A. of 2019 which is PLN 1,455,956.21 (in words: one million four hundred fifty five thousand nine hundred fifty six PLN twenty one groszy) on the o reserve capital from retained earnings. This application was addressed to the Supervisory Board of the Company, which assessed it positively and did not submit any comments. The final decision regarding the distribution of LUG S.A. profit for 2019, it was undertaken by the Ordinary General Meeting of the Company.

- **Ordinary General Meeting of LUG S.A.**

On July 30, 2020 at 12:00 in the company's headquarters, the Ordinary General Meeting of LUG S.A. took place, which was held in accordance with the agenda, with no breaks in the session. The Ordinary General Meeting adopted a resolution on the allocation of the net profit for 2019, identical to the recommendation of the Management Board of LUG S.A.

- **Acquisition of shares in a subsidiary**

On September 9 this year, the Issuer purchased from TOKA - Burzyński, Guzowski Sp.j. (hereinafter: TOKA) 980 shares of BIOT Sp. z o.o., with a nominal value of PLN 50.00 each. The purchased shares constituted 50% of the shares held by TOKA in BIOT Sp. z o.o. The remaining 50% of shares owned by TOKA were acquired by a natural person, Mr. Tomasz Guzowski. After the purchase transaction, the Issuer owns 3,020 shares with a total nominal value of PLN 151,000.00, constituting 75.5% of the capital of BIOT Sp. z o.o.

- **LUG Launch of an online store with UVC and PURELIGHT LUG solutions**

Dedicated to room disinfection solutions, the online store offers all products from the PURELIGHT LUG portfolio. Thanks to the new platform available on the website www.luguvc.com, PURELIGHT LUG products can be conveniently ordered, e.g. companies operating in the service, medical or care industries, thus increasing the security of their daily activities. An intuitive customer panel and a well-thought-out shopping path enable convenient shopping. Orders placed can be paid for using instant payment methods. The store's customers will find information about the waiting time for order fulfillment directly next to the product description. Online purchases are also favored by convenient ways of filtering luminaires, depending on the purpose of disinfection and the size of the room. Along with the launch of the e-shop, a promotional campaign was launched in social media and on TV.

- **The best lighting investment 2019**

In 2020, the Competition Commission 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 of LUG Light Factory Sp. z o.o., which received the following titles:

- The best lighting investment of 2019 for European Hotel,
- II place in the category of Internal lighting of HUB HUB Nowogrodzka Square and
- II place in the category of Road and public areas lighting of Road no.5, european route E261 (Komorniki section).

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

- **LUG S.A. received the title of Climate Aware Company**

On September 9, 2020, the results of the 2nd edition of the Crisis Climate Awareness 2020 survey organized by the Reporting Standards Foundation, the Stock Exchange Issuers Association and Bureau Veritas Polska were announced. LUG achieved the third result from among 151 surveyed largest companies in Poland, and thus for the second time was among the companies awarded with the title of Climate Conscious Company. This year, the organizers of the survey analyzed 151 reports of listed companies that are required to publish non-financial information. 49 companies did not receive even a fraction of the point. The average result was 1.87 out of 10 obtainable. Six companies: MOL, LPP, LUG, JSW, CCC and Orange Polska were awarded the title

of Climate Conscious Company, with a score exceeding 70 percent of the possible points. LUG S.A. he received 8.25 out of 10 possible points, thus taking a high third place.

- **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 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 among the distinguished companies by World Economic Forum**

The World Economic Forum has published an article on its website about good practices and ways in which companies can survive the current crisis related to the coronavirus pandemic. LUG Light Factory - recognized as a dynamically developing and future-oriented company - served as an example of a company whose quick response and the ability to adapt to market needs helped find a new direction of development in response to the situation related to the coronavirus pandemic. The effect of actions taken by LUG Light Factory are PURELIGHT LUG solutions – a new family of UV-C luminaires ensuring effective sterilization of surfaces and air from dangerous microorganisms. Fully designed, implemented and manufactured in Poland, UV-C luminaires are used in both the public and private sectors, including in medical facilities, educational and public administration units, means of communication. As emphasized in the WEF article, such an effective response would not be possible without the 30 years of experience in the lighting industry and the know-how of the entire team of LUG specialists.

- **Receipt of the judgment on the appeal against the decision of the President of the Energy Regulatory Office**

In reference to the current report no. 20/2017 of December 27, 2017, on June 18, 2020, the Issuer was informed 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 (in words: one thousand zlotys) to the Issuer's subsidiary - LUG Light Factory Sp. z o.o. based in Zielona Góra for not complying 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 against the decision of the President of the Energy Regulatory Office imposing a fine of PLN 1,000 on the subsidiary and charged the abovementioned the company with the costs of the proceedings in the amount of PLN 720 (in words: seven hundred and twenty zlotys).

- **LUG luminaires in the final of Dobry Wzór contest**

The top-class design of lighting fixtures designed by a team of LUG Light Factory specialists has once again been appreciated by experts from the Institute of Industrial Design. The INTO LED family of luminaires and the AVENIDA BOLLARD LED luminaire qualified for the finals of the Good Design competition organized by the Institute of Industrial Design (IWP), organized to select the best-designed products and services. A committee of experts appointed by IWP selected 114 products and services that represent the best design on the Polish market. These products will be presented during the final exhibition "Dobry Design 2020". The exhibition, assessed by the community of designers and entrepreneurs as the best event of this type in Poland, will be held on October 30 - November 29, 2020 at the seat of the Institute of Industrial Design in Warsaw.

- **High LUG score after the EcoVadis audit**

In Q3 2020, LUG S.A. Capital Group underwent a sustainable development audit based on the methodology of the international EcoVadis platform, recognized as one of the most reliable global providers of ESG (Environmental, Social and Corporate Governance) ratings. The Issuer obtained 60% of the total number of points and the silver medal EcoVadis, which places LUG among the 25% of the best-rated companies in terms of sustainable development.

- **The impact of the COVID-19 pandemic on the operations of the LUG S.A.Capital Group in 2020**

Undoubtedly, the factor determining the activities of the LUG S.A. Capital Group. in 2020 there was a global SARS-CoV-2 virus pandemic. A broader picture of the event is described on pages 88-90 of this Consolidated Annual Report of the LUG S.A.Capital Group. for the year 2020.

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 2020.

3.2. Achievements in the field of research and development

The absolute condition for the competitiveness of the LUG Light Factory Sp. z o.o. there is continuous development, which in 2020 was carried out on the basis of several fundamental elements:

- research and development works related to the design of new solutions,
- new PURELIGHT LUG luminaires in UV-C technology,
- investment in the research and production center development in Nowy Kisielin and began of its extension in 2021,
- technological development based on Group's subsidiary – BIOT Sp. z o.o.,
- improvement of internal LUG lab qualification,
- Integrated Management System based on ISO certification,
- Improving internal processes,
- Cooperation with companies of LUG Group (ESCOLIGHT Sp. z o.o. and LUG Services Sp. z o.o.) in purpose of creating the added value chain for customers.

Research and development projects of LUG Light Factory Sp. z o.o. concern mainly designing new lighting solutions, not only by creating new lighting products but as well through improving the parameters and luminaires already existing in the offer.

In 2020 implemented many new products, among which stand out luminaires designed in UV-C technology dedicated to disinfect the air. The project in a response for increased demand for cleaning and disinfecting resulting from Covid-19 pandemic.

For 12 years, activity in the field of 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 operational safety and the obtained lighting parameters. Among other things, thermal conditions, tightness of luminaires (IP degree), resistance to mechanical impact (IK degree), aging of plastics, as well as all electrical parameters are tested. Laboratory of the LUG S.A. Capital Group 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 multifunctional generator for EMC electromagnetic compatibility tests with accessories, including: immunity to conducted disturbances at radio frequency and resistance to 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 about laboratory tests, but also design, analytical activities, simulations, construction works and, finally, implementation processes. R&D 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 2020, LUG Light Factory continued its activities in the field of intellectual and industrial property protection as a result of research, development and implementation works. In 2020, 9 industrial designs of the RCD were submitted to the European Union Intellectual Property Office (EUIPO) and the second stage of the procedure for granting a European patent by the European Patent Office (EPO) began, including full substantive examination and granting of patents submitted for patent in 2018 4 inventions.

In 2020, the implementation of the project co-financed by the national funds of the National Center for Research and Development under Measure 4.1 was continued. Scientific research and development works of the Intelligent Development Operational Program 2014-2020 entitled "Industrial research and experimental development work to develop a safe lighting point." In the reporting period, industrial research on new solutions in the field of street luminaires was carried out. In the second half of 2020, development works in the form of crash tests began, allowing for the testing of design solutions for lighting fixtures in real conditions. The project with a total value of PLN 5,249,832.36 and the amount of co-financing: PLN 3,827,141.04 is implemented as part of a consortium, and assumes close scientific cooperation with research units, popularization of research results and 4 patent applications. 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.

In July 2020, LUG Light Factory Sp. z o.o. began the implementation of the project entitled Industrial research and experimental development work on the development of lighting solutions in the field of personalization of lighting, taking into account chronobiology - possible implications in innovative lighting fixtures, co-financed by the European Union from the European Regional Development Fund under the Regional Operational Program Lubuskie 2020 in the amount of PLN 2,324,289.99, with a total value of PLN 4,315,418.76. The project involves the development of innovative HCL (Human Centric Lighting) luminaires and the introduction of new functionalities of luminaires focused on HCL lighting technology. It will last 2 years. The project includes the creation of new jobs, product innovations, patent applications and design claims, scientific cooperation and diffusion of innovation

At the end of 2020, the Company was selected as a subcontractor of the research and development project "Use of UV-C technology to reduce SARS-CoV-2 virus transmission and reduce the transmission of infections in hospitals" in connection with the receipt of funding by the Multispecialist Provincial Hospital in Gorzów Wielkopolski for the project "Supporting homonymous hospitals in the fight against the spread of SARS-CoV-2 virus infections and in the treatment of COVID-19", financed by the National Center for Research and Development. air, using UV-C devices, in order to reduce the transmission of SARS-CoV-2 virus and limit the transmission of infections in hospitals The research work will start in 2021. The value of the research contract is over PLN 930,000 gross.

Another direction of the implemented development activities is cost optimization and increasing process efficiency. As part of these activities, the KAIZEN philosophy and the 5S method were implemented. The KAIZEN philosophy, as a concept of continuous improvement, has found its way into the organizational culture of 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.

The implementation team received over 250 rationalization applications from various areas, including: 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 most important of the implemented techniques turned out to be the 5S Method (selection, systematics, cleaning, standardization and self-discipline), which resulted in significant improvements in work. The 5S program is the basis of the Lean and Kaizen systems. As part of it trainings 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 translated into increasing the quality, efficiency and safety at workplaces through, inter alia, uniform zone marking, division into areas of responsibility and uniform material flow. Employees were involved as ownership of the areas, providing them with a direct impact on changes in a specific area and the ability to independently initiate changes. The 5S methodology and standardization mean that changes introduced in one area are also introduced in others. Compliance with the 5S rules is verified during regular 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 training 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.

Due to the outbreak of the Covid-19 pandemic in 2020, the Kaizen and 5S projects, initiated in previous years, were suspended. The reason for this was the need to limit workers' contact between individual cells in order to reduce the risk of spreading the virus. Adjusting the activities to the current needs and circumstances, in July 2020, however, a project was launched, the purpose of which was to enable the submission of ideas regarding the optimization of the production costs of luminaires and the improvement of LUG luminaires, both in terms of technical and process. The newly introduced project is similar to the suspended Kaizen project, although in this case the contact between the employees of individual units is not necessary, thanks to which it could be limited to the necessary minimum - design works are carried out mainly through the platform and the IT system. This solution allowed to properly continue the process of employee involvement in the improvement of LUG processes, while minimizing the risk.

From the launch of the project until today, almost 100 ideas have been submitted, which will generate an estimated PLN 1.4 million in savings after the implementation is completed, while another PLN 1.2 million is being analyzed for implementation possibilities.

Activities under the Kaizen philosophy are to be resumed in 2021 depending on the development of the Covid-19 pandemic, combining with already developed 5S solutions. This is to ensure the continuation of a consistent methodology of maintaining the right, most optimal processes at LUG, ultimately reducing production costs while delivering the highest quality products.

3.3. Relevant 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 S.A. Capital Group. on non-financial information, the most important of them are presented below.

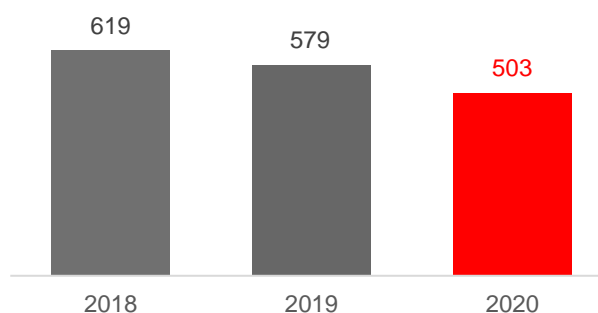
3.3.1. Human resources

Due to the transfer of all production and commercial activities of the Issuer, on August 1, 2008, to the subsidiary LUG Light Factory Sp. z o.o. it was the subsidiary that became the employer and employs people who constitute human resources of the LUG S.A. Capital Group.

Number of people who are in an employment relationship with LUG S.A. as at December 31, 2020 and as at the date of this report, it was 0.

LUG S.A. Capital Group as at December 31, 2020 employed 503 people full-time compared to 579 people at the same time in the previous year.

Chart 7 Employment in the LUG S.A. Capital Group in 2018 - 2020 on a quarterly basis (contract of employment).⁹



Source: LUG S.A.

Detailed information on employment in the LUG S.A. Capital Group see the table below.

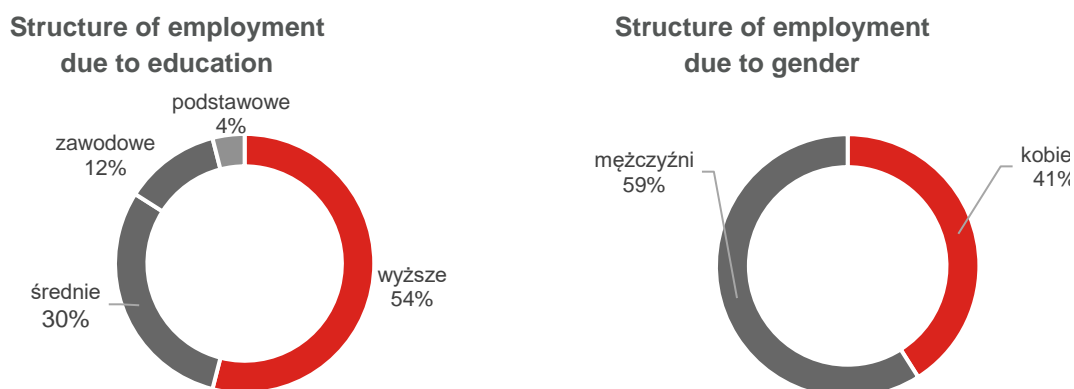
Table 27. Human resources of LUG S.A. Capital Group and LUG S.A. on 31.12.2020

Specification	LUG S.A. Capital Group	LUG S.A.
Employees (full-time)	503	0
Employees (part-time)	5	0
Other form of employment	35	0
Average age of employees	39 years 8 months	-

Source: LUG S.A.

⁹ The change in the value of employment results from a change in the methodology of converting employment in connection with the expansion of the Capital Group by new subsidiaries

Chart 8 Structure of employment due to gender and education



3.3.2. Social business 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 2020, the LUG S.A. Capital Group provided donations with a total amount of PLN 34,10 thousand Among the recipient organizations and institutions there are:

- People for People Association: Patronage of the Golden Heart;
- Our Children Association
- University Hospital of Karol Marcinkowski in Zielona Góra;
- Luminaires for Zielona Góra City;
- Headquarters of the State Fire Service in Zielona Góra.

Moreover LUG Light Factory Sp. z o.o. supported

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

LUG also provided material support, which took various forms over the years:

- funding protective masks for volunteers of the Great Orchestra of Christmas Charity during the 2020 edition;
- lighting fixtures for the Christian Educational Association from Zielona Góra.

Social responsibility in the field of environmental protection

A responsible approach to the impact on the natural environment is one of the key elements of the organizational culture of the LUG Group. With extensive knowledge and design tools, LUG, by optimizing its projects and introducing innovations in them, has a real impact on reducing the negative impact on the environment, resulting both from its own operational and production activities and resulting from the use of LUG products. This is mainly due to the high energy efficiency of LED compared to traditional light sources.

High energy efficiency, in turn, results in the reduction of indirect greenhouse gas emissions to the atmosphere. The installation of LED lighting fixtures is the most economically justified way to reduce the negative impact on the environment by virtually every company or institution that uses various forms of lighting in its activities.

Companies of the LUG S.A. Capital Group conduct a responsible policy in the field of environmental protection and exercise due diligence to ensure that both the activities carried out and the investments implemented are compliant with the requirements and take into account technological achievements in the field of environmental protection.

Spreading knowledge in the field of lighting technology and modern marketing tools are leading to the growth of the culture of energy efficiency in society and, consequently, to changes in the product structure in favor of energy-saving products with higher utility standards. Fourteen leading companies in the lighting industry in Poland, combining their own pro-development goals with the postulate of environmental protection, jointly created an organization: the Association of Lighting Equipment Producers "Pol-lighting", whose 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 above Relationship.

The foundation of activities for environmental protection are ISO systems: Environmental Management System according to the international standard ISO 14001: 2015 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 LUG S.A. Capital Group have not suffered any criminal sanctions in 2020 for breach of environmental protection requirements.

Social responsibility in the field of human resources development

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

In 2020, the Company's employee training program resulted in 4,445 training hours for managers or managers. In the case of persons belonging to senior management and managerial staff, the number of training hours in 2020 was 940. In the group of other employees, the number of training hours reached the level of 3,505 training hours. Training programs completed in 2020 mainly relate to, among others, training increasing job competences, system training, corporate governance training and vocational

courses. Due to the pandemic, most of these trainings had the formula of on-line training. 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 bikers team.

3.3.3. Awards

In 2020 the Issuer and companies of LUG S.A. Capital Group, especially LUG Light Factory Sp. z o.o. received awards and distinctions as below.

Table 28. Awards and distinctions in 2020.

Award	Description
The Best Innovator in the Good Company program	As part of the „Dobra Firma” program, the Union of Entrepreneurs and Employers chose the best companies from the Lubuskie Province. The winners include companies from the development, medical, electrical, food, training and industrial sectors. The title of the Best Innovator in the category of medium and large companies was awarded to LUG Light Factory Sp. z o.o. part of the LUG S.A. Capital Group.
Polish Company - International Champion 2020	The Polish Company - International Champion competition is a unique event that promotes not only the activity of Polish companies on international markets, but also emphasizes that they effectively compete with foreign enterprises on a daily basis, while building a positive image of Poland on the international arena. In 2020, LUG received distinction in the 9th edition of the Polish Company - International Champion Competition in the category of Ecology Promoter on foreign markets.
Silver medal of EcoVadis	In 2020, the LUG Group underwent a sustainable development audit based on the methodology of the international EcoVadis platform. LUG obtained 60% of the total number of points and the Silver EcoVadis medal, which places LUG among the 25% of the best-rated companies in terms of sustainable development.
Finalist of the competition „Dobry Wzór 2020”.	The INTO LED luminaire family and the AVENIDA BOLLARD LED luminaire qualified for the finals of the Good Design competition organized by the Institute of Industrial Design (IWP) in order to select the best-designed products and services. A committee of experts appointed by IWP selected 114 products and services that represent the best design on the Polish market. These products will be presented during the final exhibition "Dobry Design 2020".
Climate Crisis Aware Company	LUG S.A. for the second time, it was among the companies awarded the title of Climate Conscious Company, obtaining the third result from among 151 largest companies in Poland surveyed in the 2nd edition of the Crisis Climate Awareness Research 2020 organized by the Reporting Standards Foundation, the Association of Stock Exchange Issuers and Bureau Veritas Polska.
Honorable mention by the World Economic Forum (WEF)	The World Economic Forum has published an article on its website dealing with the topic of good practices thanks to which enterprises are able to survive the crisis related to the coronavirus pandemic. LUG Light Factory - recognized as a dynamically developing and future-oriented enterprise - served as an example of a company whose quick response and the ability to adapt to market needs helped to find a new direction of development in response to the situation related to the coronavirus pandemic. The effect of actions taken by LUG Light Factory are PURELIGHT LUG solutions - a new family of UV-C luminaires ensuring effective sterilization of surfaces and air from dangerous microorganisms. Fully designed, implemented and manufactured in Poland, UV-C lamps are used both in the public and private sectors, including in medical facilities, educational and public administration units, means of communication.

As emphasized in the WEF article, such an effective response would not be possible without the 30 years of experience in the lighting industry and the know-how of the entire team of LUG specialists.

Source: LUG S.A.

3.3.4. Fairs and conferences

In connection with the ongoing Covid-19 pandemic in 2020, the Issuer's subsidiary LUG Light Factory Sp. z o.o., previously representing the LUG S.A. Capital Group. at trade fairs and industry events, it was not able to represent the Group in 2020, as has been the case so far. LUG S.A. as the parent company and parent company of the Group, it does not participate in fairs and conferences.

The largest project of 2020 was to be the Light + Building trade fair in Frankfurt am Main, the original date of which was set for March 8-13, 2020. However, as a result of the Covid-19 pandemic, the event was canceled, and the next edition of light + building will take place in a two-year cycle, i.e. on 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 PLN 573 thousand was transferred and will cover the costs of organizing participation in the next edition.

In 2020, costs of approximately PLN 65 thousand were incurred, under which the company had the opportunity to participate in the following projects:

- Conference of the Society of Polish Town Planners "Światłocień";
- Architecture days in France;
- Sakho Valo Fairs in Finland;
- Polish Economic Exhibition;
- PROCAD expo (online) — Lighting in BIM world;
- Tools of BIM Architect - workshops for the Chamber of Architects in Peru;
- Digital UVC Conference London.

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

3.3.5. Investor's relations

Transparency and high quality of the information policy are the most important elements of LUG S.A. communication with the capital market environment. For this purpose, the Issuer uses two types of instruments. The first is 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. Performing the obligatory information obligations, LUG S.A. supplements them with a number of activities in the field of corporate communication that allow investors to get to know the Issuer as best as possible and make rational investor decisions.

3.3.6. Marketing activity

Marketing activities carried out by the LUG S.A. Capital Group. in 2020, as in previous years, they remained unchanged focused on supporting the implementation of the Strategic Development Directions of LUG for 2017-2021. The situation related to the global Covid-19 pandemic had a significant impact on the implementation of the marketing action plan for 2020 and forced the company to adapt to new conditions in which many of the previously used forms of promotion and interaction with the business environment could not be applied.

The selected activities carried out in 2020 were:

- Implementation of the key, final stage of preparations for the light and building 2020 fair, which, by the decision of the organizers, was moved to 2022, a few days before the planned start of the event;
- Development of competences in the area of product marketing and product management as well as systematization of processes, including close cooperation with other organizational units of the company in order to improve the effectiveness of the implementation and development processes of products offered by LUG and their even better addressing of the needs of the company's customers;
- Intensification of activities in the field of online marketing, especially;
 - Regular communication with the company's stakeholders through e-mail campaigns and activity in social media;
 - Conducting several dozen webinars, both internal - aimed at LUG employees in order to constantly improve their competences, and external - aimed at strategic target groups of the company in order to raise their awareness of the LUG brand, improve the knowledge of the company's offer and acquire new contacts and business opportunities;
- Participation in the exhibition as part of the Polish Economic Exhibition (PWG), which took place on January 16, 2021 in Stalowa Wola under the patronage and participation of the President of the Republic of Poland Andrzej Duda;
- Participation in the Sakho Valo trade fair in Finland;
- Participation in the Architecture Festival in France;;
- Development, publication and promotion of a number of new marketing materials aimed at strategic target groups of the company in many languages in order to promote the LUG offer among current and potential future partners in Poland and on foreign markets;
- Wsparcie procesu wprowadzenia do oferty firmy rodziny opraw PURELIGHT wykorzystujących promieniowanie UV-C do sterylizacji powierzchni i powietrza w tym szczególnie: Support for the process of introducing a family of PURELIGHT luminaires using UV-C radiation to sterilize surfaces and air to the company's offer, in particular:
 - Development of a dedicated website and online store;
 - Developing a set of marketing materials and conducting a number of online and offline activities to promote and support the sale of a new product group, including participation as a partner in a conference on the use of UV-C solutions in the fight against Covid-19.
- Development of project support tools dedicated to strategic target groups, incl. BIM model libraries used at work by architects and designers;
- Settlement of the LUG Best Project Contest 2019;;

- Coordination and implementation of activities related to LUG membership in the World Economic Forum;
- Development of P Zone – especially in the field of development of tools to improve internal communication in the LUG S.A. Capital Group and self-improvement of employees' qualifications;
- Internal marketing activities related to various celebrations and publication of the LUGpress corporate magazine to improve internal communication and team integration;

In 2020, the LUG Group, despite its efforts, did not participate in industry and cultural events in the amount seen in previous years, which is the result of the Covid-19 pandemic and the commonly introduced restrictions, both on movement and gathering. For more information, see Chapter 3.3.4. Trade fairs and conferences.

3.3.7. Court proceedings

In the reporting period, i.e. in the period from 01/01/2020 - 31/12/2020, LUG S.A. and other companies included in the LUG S.A. Capital Group they did not conduct any significant proceedings before a court, an authority competent for arbitration proceedings or a public administration authority.

On June 18, 2020, the Management Board of LUG S.A. learned about the conclusion of the procedure 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 (in words: 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 judgment, the Issuer informed in the current report no. 6/2020 dated June 18, 2020

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

3.4.1. Macroeconomic background

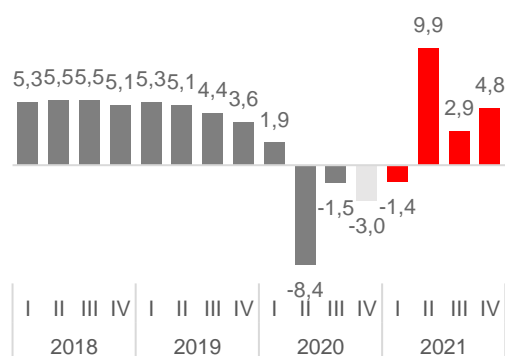
The Covid-19 pandemic was the major determinant of the economic event in 2020. The scale of the successive wave of coronavirus infections resulted in the introduction of economic restrictions and further revisions of the country's economic growth forecasts. Information on the progress in vaccination and the development of the pandemic determine market sentiment, verifying the optimism regarding the chances of economic recovery in the second half of 2021. At the aggregate level, the best description of the economic scenario will be the letters "Vu" - the second trough will be shallower, but longer than the first, GDP growth alone will rebound to + 4.6% in 2021 from -3% in 2020.¹⁰

Data published by the Central Statistical Office indicate that in 2020 Poland's gross domestic product recorded the first yearly decline in 25 years, but this is a much shallower regress than expected. According to the Central Statistical Office, Poland's GDP in 2020 was 2.8 percent. lower than in 2019, which is one of the shallowest recessions in Europe. For comparison, GDP in Germany in 2020 decreased by 5%, in the USA by 3.5%, in Spain by 11%, and in France by 8.3%. The average decline in GDP in the EU was 7.3%.¹¹

The GDP reading for 2020 decreased by 2.8%, and in the opinion of the Institute of Economic Forecasts and Analyzes, the negative growth rate will also continue in the first quarter of 2021 and will amount to -1.4%. In the following quarters, the return to the growth path is forecast, the highest pace will be recorded in the second quarter (9.9%), while in the entire 2021 GDP will increase by 4.2%, and in 2022 the growth will accelerate to 4.7%.¹²

According to the IPAG publication, the Polish economy experienced the greatest crisis in the second quarter of 2020 (a decrease of 8.4%). In the third quarter, the decline slowed down to 1.5%. y / y, with record high growth compared to the second quarter of 2020. According to estimates, GDP in the fourth quarter of last year. fell by 3.0 percent y/y It was the third consecutive quarter in which the economic growth rate was negative.¹³

Chart 8. Historyczne, szacunkowe i prognozowane tempo wzrostu PKB w Polsce [r/r, %]



Inflation in Poland, according to the Central Statistical Office, amounted to 2.4 percent on an annual basis. The reading at this level is the lowest since May 2019, which is a significant relaxation considering the fact that since the beginning of 2020, inflation has fallen below 3% only twice. In the whole of 2020, inflation amounted to an annual average of 3.4%, which is the highest result since 2012.¹⁴

A stronger decline in 2020 was recorded in the case of gross fixed capital formation. The decline in the growth rate of investment outlays turned out to be exceptionally large, the return of a positive investment growth rate expected from the second quarter of 2021 will not restore the pre-crisis level, neither the level of outlays nor their share in GDP. In the whole of 2020, a decrease in gross fixed capital

¹⁰ MAKROskop Santander, Byle do wiosny, Polska: Perspektywy 2021, Warszawa, 16.12.2020 r.

¹¹ www.bankier.pl, PKB Polski z najgłębszym spadkiem od przynajmniej 25 lat, 29.01.2021 r., g. 10:00.

¹² Stan i prognoza koniunktury gospodarczej nr 1/2021 (109), 05.02.2021 r.

¹³ Ibidem.

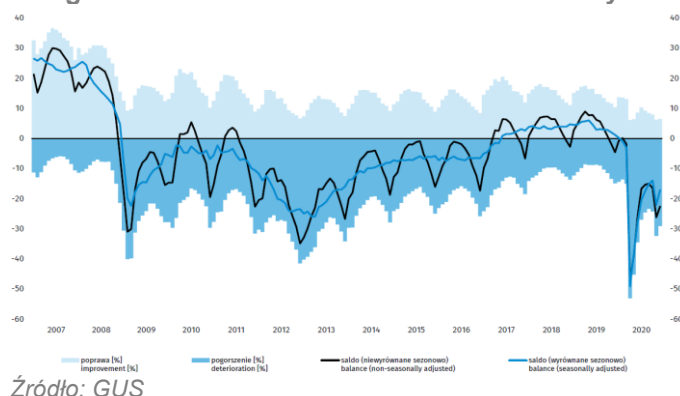
¹⁴ www.bankier.pl, Inflacja w Polsce w grudniu w dół. W całym 2020 r. najwyższa od 8 lat., 15.01.2021 r., 10:03.

formation by 8.4% was recorded, in 2021 it can be expected to increase by 4.2% and by 4.8% the following year.¹⁵

In December last year all important domestic data surprised positively (construction, retail sales, employment, wages). In one year's perspective, Polish industrial production turned out to be the most resistant to the crisis, in December last year increased by 11.2% y/y. IPAG estimates that in the fourth quarter the annual growth was higher than in the third quarter and amounted to 4.7%. In the whole of 2020, the added value in industry decreased by 0.2%. In 2021, a record high growth rate is forecasted for the second quarter (16.4%), and will weaken in the second half of the year. Throughout 2021, added value in industry will increase by 4.8%, and sold production of industry by 6.6%. In 2022, the added value of industry will increase by 4.2%, industrial production will increase by 5.0%.¹⁶

Analysts see the justification for the projected positive GDP in 2021 in the positive impact of the EU's reconstruction fund. It is expected that in the second half of the 2021, the first investment projects financed from this fund will most likely begin to be implemented. It will contribute to faster growth of gross fixed capital formation and economic growth not only in 2021, but also in the following years.¹⁷

The general climate of the construction industry



In December 2020, the general economic climate indicator in the construction industry was at the level of minus 22.6 (minus 26.2 a month before). An improvement in the economic situation was signaled by 6.5 percent. enterprises, while deterioration - 29.1 percent. (a month ago, 6.2 percent and 32.4 percent, respectively). The remaining companies considered that their situation has not changed.¹⁸

Construction production increased by 3.4% y/y, however, the risk of revealing the delayed effects of the COVID-19 pandemic remains real, considering the closing of contracts initiated before the pandemic. In December 2020, the value of the construction sector increased compared to November last year. In the last month of the year, the value of construction and assembly production amounted to PLN 13.16 billion, and specialized construction works (including electric) - PLN 3.15 billion. Construction and assembly production was higher by 3.4% y/y (a year ago a decrease of 3.3%) and higher by 34.4% m/m (a year ago an increase of 23.7%). The value of construction and assembly production including investment works in December 2020 was higher by 7.7% compared to the corresponding month of the previous year (a decrease by 3.7% in 2019), while the value of renovation works decreased by 3.1%. (in 2019, a decrease by 2.5%). Some of the construction companies are struggling with delays with the inflow of receivables from investors. An important factor in assessing the situation of the industry is contracting construction companies for the coming years.

In December 2020, the percentage of entrepreneurs operating in the construction industry who did not feel any barriers in conducting their current activity was at the level of 5.7% (8.1 percent the year before). The most serious reported barriers concern the uncertain economic situation (66.3% in December, 32.5% in the corresponding month of last year) and employment costs (62.3% in December, 64.0%

¹⁵ Stan i prognoza koniunktury gospodarczej nr 1/2021 (109) (op.cit).

¹⁶ Ibidem.

¹⁷ Credit Agricole zrewidowało prognozę wzrostu PKB w '21 w górę o 0,4 pkt. proc. (opinia), 27.07.2020 r.

¹⁸ Koniunktura w przetwórstwie przemysłowym, budownictwie, handlu i usługach 2000-2018, GUS, Warszawa, grudzień 2020 r.

a year ago). Compared to the same month last year, the significance of the uncertainty barrier of the general economic situation increased the most, while the barrier resulting from the shortage of qualified workforce decreased (from 45.6% to 33.8%).

The WIG-Budownictwo index ended 2020 with an increase of 61%. While the overall growth of WIG20 has slowed down, the industry index showing the condition of construction companies is 10% above the line, and the ratings themselves have been the highest since 2011.

According to IPAG forecasts, throughout 2021, added value in construction will increase by 2.6%, and sold production in construction by approximately 5.1%. In the first two quarters of 2021, drops in sold production and added value will be observed, the crisis situation will last longer than in industry and services. In the second half of 2021, there will be a rebound, which, however, will not allow the effects of the crisis from the previous five quarters to be eliminated. In 2022, the pace of growth in construction will accelerate. It is estimated that the added value will increase by 5.5%, and the sold production (in the total number of enterprises) by 6.2%.

A positive symptom was the information provided in mid-October by the General Directorate for National Roads and Motorways that it is not reducing plans, and road investments are being implemented in accordance with the plan and sanitary guidelines. Despite the restrictions caused by the coronavirus, contractors are implementing road contracts. Maintaining continuity in the implementation of investments, announcing new tenders and signing new contracts is necessary to maintain stability in the construction market, which in the current situation is crucial for the entire economy.¹⁹

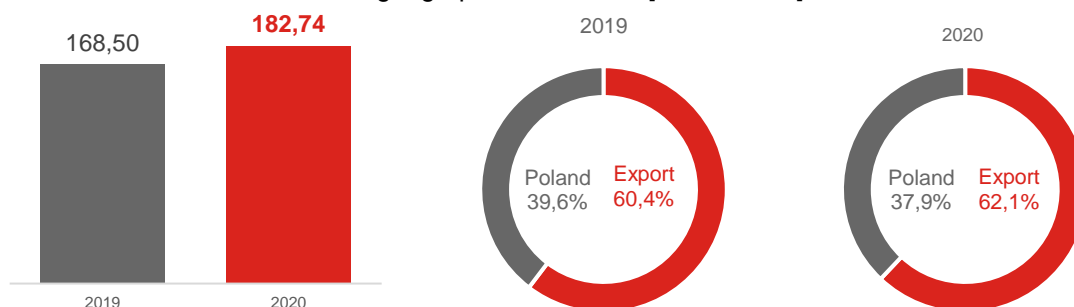
Both as at December 31, 2020 and as at the date of this report, all economic forecasts are subject to high risk due to the continuing Covid-19 pandemic.

¹⁹ www.bankier.pl, GDDKiA: koronawirus nie zatrzymuje budowy dróg, 21.10.2020 r., g.10:37.

3.4.2. Financial situation of LUG S.A. Capital Group

Revenues

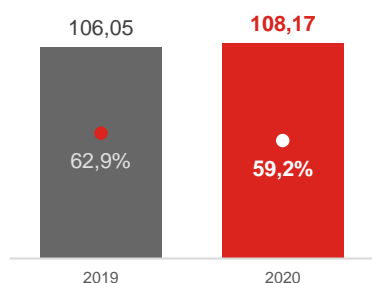
Chart 9. Sales revenues and its geographical structure [PLN mln, %]



In 2020, the consolidated revenues of the LUG S.A. Capital Group amounted to PLN 182.74 million and were 8.5% higher than in the previous year. The share of exports amounted to 62.1% and was 1.7 pp higher than in the previous year. This is in line with the strategic development directions of striving for a 75% share of exports. The increase in revenues took place despite the difficulties related to the COVID-19 pandemic period and its occurrence was mainly influenced by the gradual unfreezing of individual countries' economies in the summer and autumn periods.

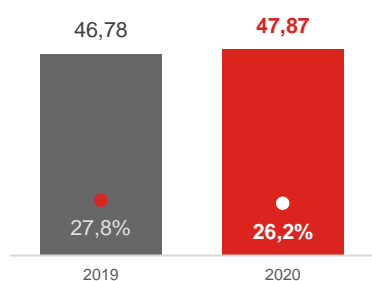
Costs and investments

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



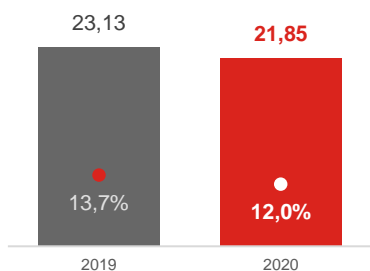
The costs of products, goods and materials sold in 2020 amounted to PLN 108.17 million and were 2.0% higher than in the previous year, which is a dynamics lower than the increase in revenues. The lower growth rate in this cost category is primarily the result of negotiations with suppliers in previous periods and the increase in the scale of the LUG Group's operations, which allowed for more favorable terms of cooperation. Work on the optimization of production processes also contributed to the reduction of the cost growth rate

Chart 11. Selling costs [PLN mln, %]



Selling costs in 2020 amounted to PLN 47.87 million and were 2.3% higher than in the previous year, which is also a lower dynamics than the revenue growth rate. The reduction in selling costs was influenced by the transfer of a significant part of sales activities to online communication forced by the pandemic situation and restrictions in movement. The LUG Group also incurred lower costs related to participation in industry events.

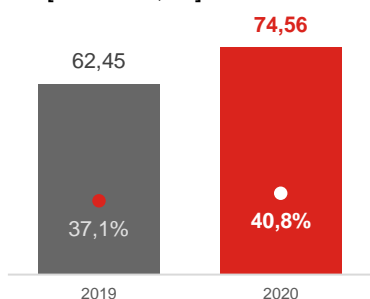
Chart 12. General and administrative expenses [PLN mln, %]



General and administrative expenses in 2020 amounted to PLN 21.85 million and were 5.5% lower than in the previous year. The decrease in general and administrative expenses was related to optimization measures taken during the pandemic and a smaller scale of research and development activities than in previous years.

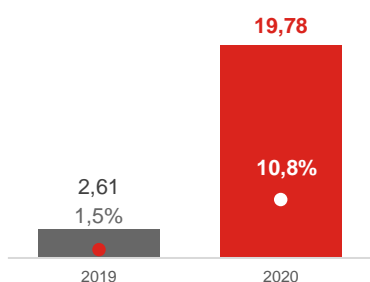
Profit

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



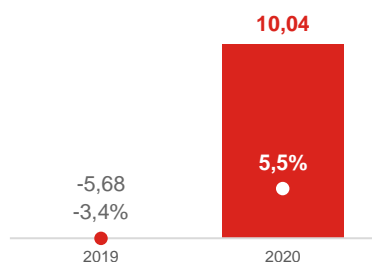
Gross profit on sales in 2020 amounted to PLN 74.56 million and was 19.4% higher than in the previous year. The gross margin on sales increased by 3.7pp to the level of 40.8%, ie it exceeded the level of 40% expected in the strategic directions of development of the LUG Group. The increase in gross profit on sales was the result of relatively lower costs of products, goods and materials sold (thanks to optimization measures), reduced general and administrative expenses and a lower growth rate of selling costs.

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



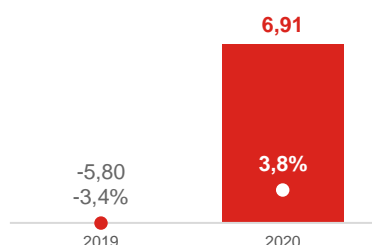
The EBITDA result amounted to PLN 19.78 million in 2020, compared to PLN 2.61 million a year earlier. The EBITDA margin increased to 10.8%. The high increase in EBITDA compared to the previous year was caused by the low base (2019 results burdened with the situation in the last quarter of this year).

Chart 15. Profit and operating margin [PLN mln, %]



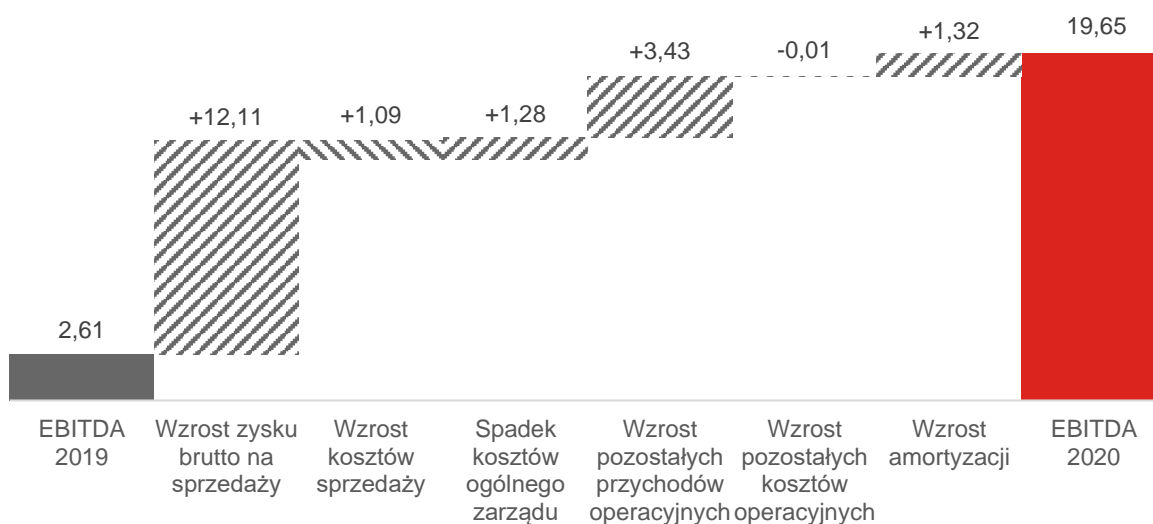
The operating result in 2020 amounted to PLN 10.04 million, compared to the operating loss in the previous period. The operating margin was 5.5%.

Chart 16. Net profit and margin for the shareholders of the parent company [PLN mln, %]



In 2020, the Group recorded a net profit for the shareholders of the parent company of PLN 6.91 million, compared to the loss in the previous year. The net margin in 2020 reached 3.8%.

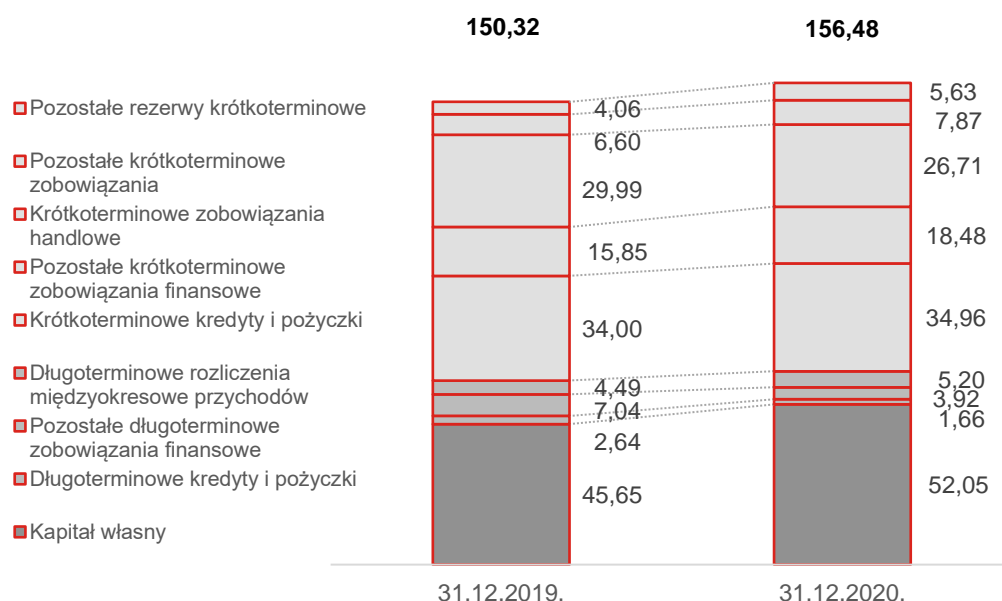
Chart 17. The composition of the EBITDA result in 2020 [PLN mln, %]



The significant increase in EBITDA in 2020 was mainly due to two factors: a significant increase in gross profit on sales (by PLN 12.11 million) and an increase in other operating income (by PLN 3.43 million). The increase in selling costs by PLN 1.09 million was offset by a decrease in general and administrative expenses by PLN 1.28 million. Depreciation, higher by PLN 1.45 million, also contributed to the increase in EBITDA, while other operating costs remained almost unchanged.

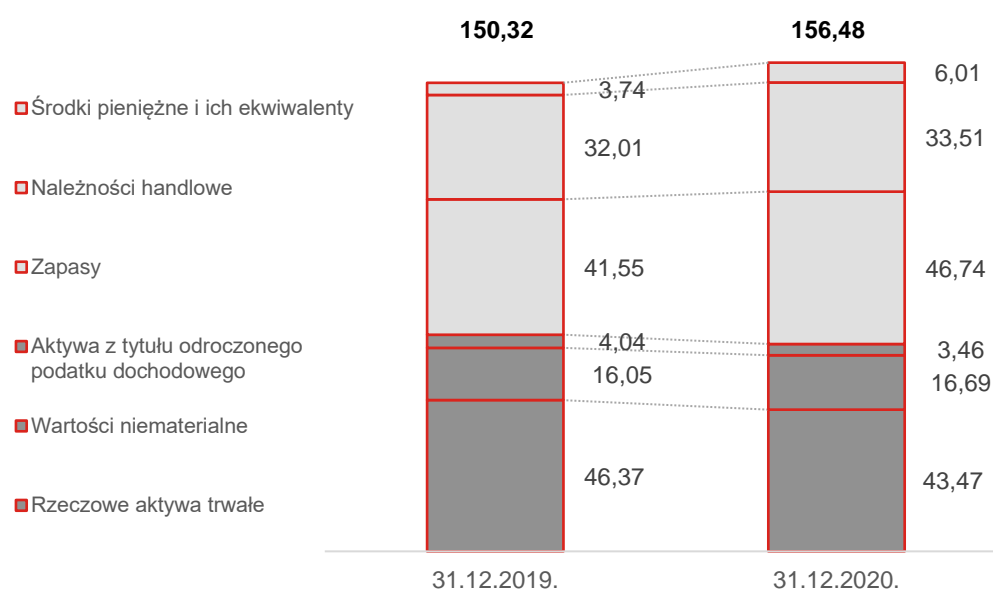
Balance sheet

Chart 18. Selected elements of liabilities [PLN mln]



The balance sheet total as at December 31, 2020 amounted to PLN 156.48 million and was 4.1% higher than in the previous year. The book value per share at the end of 2020 was PLN 21.73. The structure of liabilities showed an increase in equity by 14.0% to the level of PLN 52.05 million. Long-term liabilities decreased by almost a quarter to the level of PLN 10.78 million, mainly as a result of gradual repayment of long-term loans and leases. Short-term liabilities increased by 3.5% and this was mainly due to an increase in leasing liabilities and a greater use of factoring (an increase in short-term financial liabilities by 16.6%). Short-term loans increased by 2.8% to the level of PLN 34.96 million. On the other hand, short-term trade liabilities decreased (by 10.9% to the level of PLN 26.71 million).

Chart 19. Selected assets [mln zł]



The share of current assets in the structure of assets increased (an increase by 14.4% to the level of PLN 92.29 million), which was mainly due to the increase (by 12.5% to the level of PLN 46.74 million) in inventories and higher cash and equivalents (increase by 60.7% to the level of PLN 6.01 million). Non-current assets decreased by 7.8% to the level of PLN 64.19 million, with the decrease in the value of property, plant and equipment (by 6.3% to PLN 43.47 million) having the greatest impact on this.

Cash-flow

Table 29. Cash-flow [PLN mln]

	2020	2019
Cash at the beginning of the period	3,74	5,26
Net cash flows from operating activities	+7,34	-2,34
Net cash flows from investing activities	-3,65	-6,24
Net cash flows from financing activities	-1,42	+7,05
Cash at the end of the period	6,01	3,74

In 2020, the LUG Group recorded positive cash flows from operating activities at the level of + PLN 7.34 million. They financed capital expenditure (negative cash flows from investing activities at the level of PLN -3.65 million) and debt repayment (negative cash flows from financial activities at the level of PLN 1.42 million). As a result, the balance of cash increased during 2020 from PLN 3.74 million to PLN 6.01 million.

Ratio analysis

Table 30. Selected consolidated financial ratios of LUG S.A. Capital Group of 2020 and comparative ratios for 2019 [% , pp]

	2020	2019	change y/y
Gross profitability on sales	40,8%	37,1%	+3,7pp
EBITDA profitability	10,8%	1,5%	+9,2pp
Operating profitability	5,5%	-3,4%	+8,9pp
Net profitability	4,2%	-2,9%	+7,1pp
Return on Equity	14,7%	-10,6%	+25,3pp
Return on Assets	4,9%	-3,2%	+8,1pp
Overall liquidity ratio	98,5%	89,1%	+9,4pp
Overall debt ratio	66,7%	69,6%	-2,9pp
Net debt / EBITDA	2,68	21,38	-18,70
EV/EBITDA (at the end of the period)	5,13	31,28	-26,15

In 2020, the LUG Group recorded positive profitability at all levels of the income statement. Gross profitability on sales reached the level of 40.8%, ie exceeding the expectations of the strategic directions of development of the Group. Return on equity and assets also remained positive. The general liquidity ratios improved (increase by 9.4 pp to 98.5%) and general debt (decrease by 2.9 pp to 66.7%), and the net debt to EBITDA ratio decreased to a safe level of 2.68.

Explanation of the ratios:

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. Financial situation of LUG S.A.

The Issuer's Management Board, fulfilling the information obligations of companies listed on the NewConnect market, publishes the Separate Financial Statement of LUG S.A. These data, however, only illustrate the situation of the parent company of the LUG S.A. Capital Group, which is not directly involved in operating activities.

Operating activities of the LUG S.A.Capital Group is carried out almost exclusively in subsidiaries, in particular in LUG Light Factory Sp. z o.o. Therefore, the individual financial results of LUG S.A. do not reflect the condition, development and prospects of the issuer, and do not allow for a rational analysis that could be the basis for drawing conclusions about the company's financial situation.

Table 31. Separate income statement of LUG S.A.

	2020	2019
Sales revenues	1,90	1,90
Domestic revenues	1,90	1,90
<i>% share of domestic revenues</i>	<i>100,00%</i>	<i>100,00%</i>
Export revenues	0	0
<i>% share of export revenues</i>	<i>0,00%</i>	<i>0,00%</i>
Costs of products, goods and materials sold	0	0
<i>Costs of products, goods and materials sold as % of revenues</i>	<i>0,00%</i>	<i>0,00%</i>
Gross profit on sales	1,90	1,90
<i>Gross profit on sales profitability</i>	<i>100,00%</i>	<i>100,00%</i>
Remaining operating revenues	0,00	0,01
Costs of sales	0,00	0,00
<i>Costs of sales as % of revenues</i>	<i>0,00%</i>	<i>0,00%</i>
General administrative costs	1,31	1,68
<i>General administrative costs as % of revenues</i>	<i>68,95%</i>	<i>88,42%</i>
Remaining operating costs	0,03	0,06
EBITDA	0,56	0,17
<i>EBITDA profitability</i>	<i>29,47%</i>	<i>8,95%</i>
Operating profit	0,56	0,17
<i>Operating profitability</i>	<i>29,47%</i>	<i>8,94%</i>
Financial income	0,17	1,32
Financial costs	0,02	0,00
Profit before tax	0,71	0,00
Income tax	0,24	0,03
Net profit from continuing operations	0,47	1,46
Net profit	0,47	1,46
<i>Net profitability</i>	<i>24,74%</i>	<i>76,63%</i>
Net profit attributable to shareholders of the parent company	0,47	1,46
Net profit per one share (PLN)	0,00	0,20

Source: the Issuer

Table 32. Separate balance sheet of LUG S.A.

	31.12.2020	31.12.2019
ASSETS		
Fixed assets	32,24	31,90
Property, plant and equipment	0,00	0,00
Non-material assets	0,00	0,00
Investments in the subordinated entities	31,39	31,05
Remaining financial assets	0,80	0,80

Deferred tax assets	0,05	0,05
Long-term receivables	0,00	0,00
Current assets	3,27	3,06
Inventory	0,00	0,00
Trade receivables	0,70	0,33
Remaining receivables	2,44	2,61
Accruals	0,12	0,11
Cash and cash equivalents	0,01	0,01
Total assets	35,51	34,96
LIABILITES		
Equity capital	34,98	34,50
Capital of minority shareholders	0,00	0,00
Long-term liabilities	0,16	0,02
Long-term credits and loans	0,00	0,00
Other long-term liabilities	0,16	0,02
Long-term accruals of revenues	0,00	0,00
Short-term liabilities	0,37	0,44
Short-term credits and loans	0,00	0,00
Other short-term financial liabilities	0,00	0,00
Short-term trade liabilities	0,21	0,25
Remaining short-term liabilities	0,07	0,15
Other short-term reserves	0,04	0,03
Total liabilities	35,51	34,96
Accounting value per 1 share (PLN)	4,93	4,86

Source: the Issuer

Table 33. Separate cash-flow statement of LUG S.A.

	2020	2019
Operating activities		
Profit before taxes	0,71	1,49
Total adjustments	-0,57	-1,08
Depreciation	0,00	0,0001
Foreign exchange gains	0,00	0,00
Interest and share in profits (dividends)	0,00	-1,00
Profit from investment activities	0,00	0,00
Change in reserves	0,00	-0,01
Change in inventories	0,00	0,00
Change in receivables	-0,50	0,26
Change in short-term liabilities, except for loans and credits	-0,07	-0,22
Change in the status of accruals	0,00	-0,11

Net cash flows from operating activities	-0,03	0,37
INVESTMENT ACTIVITIES		
Incomes	0,31	1,00
Dividends and profit sharing	0,31	1,00
Expenses	0,28	0,36
Loans granted	0,02	0,00
Value of acquired shares	0,26	0,36
Net cash flows from investing activities	0,03	0,64
FINANCIAL ACTIVITIES		
Incomes	0,00	0,00
Expenses	0,00	1,01
Dividends and other payments to owners	0,00	1,01
Interest	0,00	0,00
Net cash flows from financing activities	0,00	-1,01
Total net cash flow	-0,001	-0,001
Cash at the beginning of the period	0,00	0,004
Cash at the end of the period	0,00	0,003

Source: the Issuer

3.4.4. Implementation of the forecast for 2020

The Issuer did not publish financial forecasts for the period from 01.01.2020 to 31.12.2020.

3.4.5. Anticipated financial situation of LUG S.A. and companies of the LUG S.A. Capital Group

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 and economic situation. Thanks to the mitigating measures taken, 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 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 keep flexibility of reaction to changes in market conditions, at the same time guaranteeing the 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 date of publication of this report, the Issuer's Management Board:

- There was no 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.
- In the first months of 2021, he faced the impact of demand and supply shocks in the component markets, which caused long-term delays in the delivery of components beyond the Issuer's control, including aluminum, copper conductors, sheet steel and electronic components. The reasons for this situation lie both in the sharp increase in demand for components after the gradual defrosting of many industries, which in 2020 saw a slowdown due to the pandemic, as well as are dictated by the sharp increase in transport costs. Following the initial global decline in the value of imports by sea, maritime transport saw an increase of around 30% in February 2021 as a result of the defrosting of economies, which also consequently increased demand for rail transport and stimulated cost increases. An additional element destabilizing the supply of LUG components was the blockade of the Suez Canal in March 2021, which forced the Issuer to import contracted components by air in several cases.
- Identifies a delay in the collection of receivables, and payment terms are extended. Delays are inversely proportional to the size of the counterparty. The biggest delays are related to projects in the Middle East, in Poland and Western European countries the delays are smaller, and the construction sector is relatively efficiently resuming operations.

In 2020, construction production increased by 3.4% y/y, however, the risk of revealing the delayed effects of the COVID-19 pandemic remains real, considering the closing of contracts initiated before the pandemic. In December 2020, the value of the construction sector increased compared to November last year. Some of the construction companies are struggling with delays with the inflow of receivables from investors. An important factor in assessing the situation of the industry is contracting construction companies for the coming years. According to IPAG forecasts, throughout 2021, added value in construction will increase by 2.6%, and sold production in construction by approximately 5.1%. In the first two quarters of 2021, drops in sold production and added value will be observed, the crisis situation will last longer than in industry and services. A rebound is expected in the second half of 2021, which, however, will not allow for the effects of the crisis from the previous five quarters to be eliminated. In 2022, the growth rate in construction will accelerate. It is estimated that the added value will increase by 5.5%, and the sold production (in the complete group of enterprises) by 6.2%.

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

- Further development of the Covid-19 pandemic in the world and on the Polish market;
- Availability of key components;
- Fluctuations in the cost of international transportation;
- The need to reduce the level of electricity consumption in Poland in order to meet the obligations towards the European Union, which may accelerate the process of replacing obsolete conventional lighting with products in LED technology;
- In line with the forecasted development of the general lighting segment, i.e. the business segment of the LUG S.A.Capital Group 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, the value of which is estimated at USD 80 billion in 2020 (over 80% of the lighting market)²⁰;
- Legal regulations in the field of limiting the impact of industry on the natural environment and in the area of increasing the energy efficiency of buildings and infrastructure facilities;
- IoT (Internet of Things) growth rate and lighting control;

²⁰ McKinsey&Company, „Lighting the way: Perspectives on the global lighting market”, second edition, 2012.

- Maturity of consumers, which will translate into willingness to pay for additional functionalities in smart lighting in the overall 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 over 5 years.

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.

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).

Man is the focal point for various planes of development. This foundation is the basis for the division of stakeholder groups defined in the development strategy. In terms of cooperation in achieving the set goals, the importance of five groups was emphasized in particular:

- Stewards - Persons who determine the conditions of spatial development, ie local governments, mayors, village heads, city presidents.
- Architects - People creating architectural space, deciding on the elements of their design in cooperation with industry professionals.
- Interior designers - People who design the smallest cell of space, which is the interior.
- Employees - People employed in the companies of the LUG S.A.Capital Group
- Owner - strategic shareholder and investor of LUG S.A.

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%.

The Issuer's Management Board does not rule out the necessity to revise the adopted strategic goals, however, no decision has been made at this time. In 2021, work began on the development of strategic development directions for the coming years. Completion of the design work and implementation of the updated assumptions is planned by the end of 2021 and depends on the pandemic situation.

The presented information and goals regarding the strategic directions of development of the LUG S.A. Capital Group did not constitute forecasts of financial results.

3.6. Acquisition /sale of own shares

Pursuant to Art. 49 sec. 2 point 5 of the Accounting Act, the report on the activities of the entity should contain information on the acquisition of own shares (shares), in particular on the purpose of their acquisition, the number of and nominal value, with an indication of what part of the share capital they represent, the purchase price and the selling price of these shares (stocks) in the event of their sale. However, in the case of a consolidated report, information should be provided on own shares (stocks) held by the parent company, entities included in the capital group and persons acting on their behalf (Article 55 (2) of the Accounting Act).

In the period from 01/01/2020 to 31/12/2020, the Issuer did not purchase or sell its own shares. Persons acting on behalf of entities included in the LUG S.A. Capital Group have been indicated in point 1.2.1. of this report.

3.7. Events and circumstances significantly affecting the operations after December 31, 2020

After the end of the financial year, i.e. after December 31, 2020 until the approval of the financial statements, the following events that influenced the operations of the LUG S.A. Capital Group took place:

- **Signing a contract for the replacement of lighting in Warsaw**

On January 13, 2021, a subsidiary of the Group, LUG Light Factory Sp. z o.o., concluded an agreement with the Capital City of Warsaw, the subject of which is the delivery of new lighting fittings in LED technology for the Capital City. The total value of the contract is PLN 32.08 million gross. The contract also includes the possibility of using the "right of option", which means that without an additional tender, the city will be able to increase the order by additional LED luminaires worth PLN 5 million gross. The contract will be implemented in the years 2021-2022.

The scope of the contract includes the replacement of lighting on the main streets of Warsaw, but there are also plans to replace lighting on high masts at road junctions and on the historic streets of the city. The exchange will be subject to nearly 40 thousand. street luminaires that will be designed and made by LUG Light Factory Sp. z o.o. according to an individual project developed especially for Warsaw. The investment will cover all districts of Warsaw and will last until the end of 2022. The company will be responsible for the implementation of the contract from the design and certification stage, through production, to final delivery and implementation of the remote control system. As part of the contract signed today, training will also be conducted for the employees of the Municipal Roads Authority in Warsaw.

Postępowanie przetargowe zostało przeprowadzone w IV kwartale 2020 roku, natomiast ostateczne rozstrzygnięcie nastąpiło 22 grudnia 2020 roku w wyniku przeprowadzonego postępowania odwoławczego przez Krajową Izbę Odwoławczą i potwierdzeniu wyboru przez Inwestora oferty spółki LUG Light Factory sp. z o.o. The tender procedure was carried out in the fourth quarter of 2020, while the final decision was made on December 22, 2020 as a result of the appeal procedure conducted by the National Appeals Chamber and confirmation of the Investor's selection of the LUG Light Factory sp.z o.o. offer.

- **Conclusion of a contract for the expansion of the LUG Research and Development Center**

On January 11, 2021, the Issuer's subsidiary, LUG Light Factory Sp. z o.o. concluded with the company M&J Sp. z o.o. with headquarters in Żary, a contract for the development of a design and execution, the subject of which is the extension of a production and warehouse hall with office and social facilities in the Research and Development Center in Nowy Kisielin near Zielona Góra. As a result of this extension, the warehouse space will be increased by approx. 3,000 m²,

and the office and social space will be increased by approx. 500 m². The net value of the investment is PLN 7,100,000.00. The contract will be implemented by the Contractor until August 31, 2021.

- **LUG Light Factory is considering increasing its involvement in Morocco**

The Issuer's subsidiary, LUG Light Factory Sp. z o.o. made a declaration of interest in a direct investment in Morocco, which was received by Mr. Abderrahim Atmoun, Ambassador of the Kingdom of Morocco. The declaration of the company's Management Board concerns the launch of an investment project in the field of electrical equipment production in the Kingdom of Morocco as part of a joint venture with a local partner. The letter of intent was signed at the LUG headquarters in Zielona Góra. During the visit, the Ambassador of the Kingdom of Morocco, Mr. Abderrahim Atmoun, visited the Group's production plant in Zielona Góra, as well as the factory and Research and Development Center in Nowy Kisielin. The company announced that it was ready to start specific business talks in this area under the leadership of the Embassy of the Kingdom of Morocco in Poland.

- **Appointment of members of the Management Board of LUG S.A. for a new term**

On April 29, 2021, the Supervisory Board of LUG S.A. adopted resolutions on the appointment of Members of the Management Board of LUG S.A. for a new term. The following were appointed to the Management Board:

- Ryszard Wtorkowski – CEO of the Board of LUG S.A.
- Mariusz Ejsmont – V-ce President of the Board of LUG S.A.
- Małgorzata Konys – Member of the Board of LUG S.A.

The term of office of the Management Board is 3 years.

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

The entire year 2020 was influenced by the most important non-business factor in the form of the COVID-19 coronavirus pandemic announced on March 13, 2020 by the World Health Organization. As a consequence, an epidemic emergency was introduced in Poland, followed by an epidemic. Governments around the world have introduced a number of restrictions in almost every aspect of business and social life. The introduced restrictions significantly left their mark on the global economy, and also affected 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.

Implemented in 2020 in the entire LUG S.A. Capital Group the activities consisted of:

- 1) Establishing a Crisis Team, which 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,
 - Suspending the organization of external and internal meetings (replacing direct meetings with online communication,
 - Temporary resignation from external catering and vending machines,
 - Restriction and special procedures for couriers and external guests,
 - Division of office teams and remote work for some office and administrative employees (hybrid mode),

- Introducing additional changes in production and work organization in a way that allows for 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 over 60 disinfectant dispensers and purchased hand disinfectant,
 - 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 during the day,
 - Equipping employees with helmets, protective masks and nitrile gloves,
 - Temperature measurement with a thermal imaging camera before entering LUG plants,
 - Introduce social distancing guidelines (1.5m) and refrain from saying hello by shaking hands.
 - 5) Conducting an information campaign for employees devoted to prevention and health protection, using such communication channels as: online newsletters, posters, online training materials, instructions, surveys.
 - 6) Covering employees with special insurance cover 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, foreign subsidiaries in Great Britain, Germany, Turkey and Brazil have been subject to procedures and changes in work organization, including remote work, the so-called home office.

The Argentine subsidiary was the hardest hit by the pandemic, which had to stop production in line with 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 30/03/2020 to 05/05/2020. After May 5, the situation in Argentina improved and LUG Argentina SA obtained a special permit 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. Due to the unpredictability and unprecedented nature of the situation related to COVID-19 and seeing the first symptoms of the global recession, the Management Board introduced a savings plan, the assumptions of which were related to:

- 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 within the framework of the Polish trade organization.

In connection with the pandemic, the LUG S.A.Capital Group used the following support instruments in 2020:

- postponement of payment of social security contributions for a period of 3 months,
- co-financing for the protection of jobs from FGŚP funds in the amount of PLN 2,635,000 PLN to subsidize the salaries of employees not subject to economic downtime or reduced working hours due to the decline in economic turnover as a result of COVID-19.

- agreement with the lessor regarding the deferral of the payment date of lease principal installments from April to October 2020. The amount of repayments has been spread over subsequent months.

In the wake 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 then canceled. 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 activities 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 Province, the President of Zielona Góra and the Head of the Świdnica Commune in the Province of 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. 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. The flow-through solutions for air disinfection during operation in people's premises allow to reduce the amount of microorganisms in the air by 63% after just 2 hours and by as much as 99% after 20 hours. This effect is much better than other UV-C solutions available on the market, which confirms the specialized competences of LUG in the field of lighting.

So far reported cases of coronavirus COVID-19 infection among employees of companies in the LUG S.A. Capital Group. and among employees' family members, they do not pose a threat to the continuity of the entire organization. Whenever there is a risk of coronavirus infection among employees or their family members, the Issuer introduces procedures aimed at limiting the possibility of virus transmission among employees. In 2020 and until the publication of the report, the Issuer's plants were not quarantined or shutdown.

The first quarter of 2021 turned out to be a breakthrough in terms of the introduction of a common anti-covid vaccination system, which improved the economic and stock market sentiment in countries struggling with the pandemic. LUG, as an employer, also submitted a notification for the organization of in-house vaccination. The scheduled vaccination date is June 2021.

As at 27/05/2021, i.e. as at the date of publication of this report, the Issuer's order portfolio meets the expectations and allows to maintain financial stability. Recipients around the world show great determination to continue operating in a pandemic environment, however, it should be remembered that subsequent periods will be influenced by the risks associated with the pandemic and its development directions. The priority goals are to maintain financial liquidity and cover operating costs in order to minimize the risk of noticing a loss in subsequent settlement periods.

3.8. Information about the auditor

Information on the remuneration of the audit company authorized to audit the financial statements of LUG S.A. was given in note 38 of the Consolidated Financial Statement of the LUG S.A. Capital Group. for 2020.



STATEMENT OF THE BOARD
regarding to risk factors

4. RISK MANAGEMENT

Running a business is inextricably linked with risk, resulting in opportunities and threats to the organization. As an internationally operating organization, we define risks at the level of the LUG Capital Group. Entities operating within the LUG S.A. Capital Group actively manage risk in order to optimize all business processes taking place 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 activity. In addition, the Group has identified risk factors affecting non-financial issues. They were described in the non-financial report of the LUG S.A. Capital Group for 2020.

Information on the risk related to financial instruments is included in note 23 to the Separate and in note 30 to the Consolidated Financial Statements.

Forecasting economic trends for the next months and years on a global and local scale is burdened with unprecedented uncertainty, because it is difficult to clearly determine how much impact the COVID-19 pandemic will have on individual spheres of the economy.

Management Board of LUG S.A. informs that the risks in the category of environmental, social, employee, etc. risks were also presented in the Non-financial report of the LUG S.A. Capital Group for 2020.

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 2020, there was the Covid-19 pandemic that affected economic and economic development around the world.

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.

All economic forecasts have been revised downwards, which is largely related to the difficult economic and 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 predominate related to the gradual unfreezing of the economy, widespread vaccinations 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.

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, the LUG S.A.Capital Group uses the services of professional advisors and law firms and constantly monitors the changing legal environment.

4.1.3. Risk of changes in tax regulations and their interpretation

The Polish tax system is characterized by frequent changes in regulations, many of them have not been formulated precisely enough and there is no clear interpretation of them. Interpretations of tax regulations are subject to frequent changes, and both the practice of tax authorities and judicial decisions in the field 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 returns may be considered by the tax authorities to be inconsistent with tax regulations. In the case of operating companies in more stable tax systems this risk is lower.

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 confirmed by, for example, LUG's immediate response to new market needs - i.e. the family of luminaires for disinfection implemented in May 2020.

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 indepth financial analysis. Taking into the 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 Ryzyko administracyjnego ograniczenia działalności przez władze

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

Lighting fixtures are the basic assortment sold by the LUG Capital Group. These products are most often used in the final stage of the investment process in the construction industry. Seasonality is a factor characteristic of the entire construction industry. Traditionally, this process begins in the spring season, and most of the finishing works fall on the fall-winter season. Hence, the lowest revenues of entities in the industry in question 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 seasonality of sales and takes appropriate actions in advance, preparing for the relevant quarters. The employment policy taking into account the seasonality and the model of warehouse management of components and finished products mitigate the effects of this type of risk. An additional form of counteracting the risk of sales seasonality is increasing the export of products to markets characterized by a different construction cycle or completely resistant to seasonal phenomena.

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 an increase in operating costs

A significant part of the costs by type is constant or is subject to increases and cannot be quickly adjusted if the future sales revenues of the Issuer's Capital Group turn out to be lower than expected, the increase in costs will be faster than the increase in sales revenues or unforeseen costs arise. Accordingly, if the sales revenues of the Issuer's Group in any period are significantly lower than expected, it may not be possible to adjust the basic costs in an appropriate proportion sufficiently quickly, which may reduce 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 the costs by type of LUG S.A. Group, on the operating and financial results of the LUG S.A. Group. there are other significant costs, including consumption of materials and energy, employee benefits and external services. The increase in the above-mentioned costs of the Issuer's Group depends to a large extent on factors beyond the control of the Company. Factors that may result in an increase in costs include, in particular: inflation, changes in the tax system (in particular higher taxes), transport costs,

an increase in oil prices, an increase in the minimum wage (which will affect the average labor cost in the LUG SA Group and may affect the cost of services provided by external entities), changes in government policy, changes in the labor code and other laws or regulations. The increase in the above-mentioned and additional costs may directly affect the results of the LUG S.A. Group and its financial position.

4.2.3. Risk related to the payment of receivables by contractors

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

- insurance of receivables resulting from all contracts with domestic recipients and foreign;
- coverage of the incomplete factoring agreement with key contractors of the LUG S.A. Capital Group up to the amount of insurance granted;
- if it is impossible to insure a given contract, an order fulfillment system based on prepayment is used.

Due to the Covid-19 pandemic, the Issuer's Management Board identifies delays in the collection of receivables at the level of approximately 20% of the monthly turnover. Payment terms are extended by about 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 European countries 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.

A threat for the Issuer resulting from the situation on the raw materials market is the difficult availability of electronic components, aluminum, steel and plastics. 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 2020 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 2020, 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 may result in the need to change or completely revise the strategy and strategic goals of the Company and the Group.

4.2.10. Supply chain risk

LUG S.A. and its subsidiaries pursue a policy of purchasing components based on the idea of diversification, therefore, the exposure to the risk of dependence on the supplier is limited. For each of the components, the Group has at least two independent and proven suppliers. Risk is also minimized through ongoing monitoring of the component market, which enables the observation of trends and early identification of possible threats.

The supplier qualification system under ISO procedures is also used, and cooperation with suppliers of components is based on long-term purchase plans, which are specified at the time of delivery. Moreover, the LUG S.A. Capital Group has component inventory levels corresponding to the demand.

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 luminaires

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 a breakdown, destruction or loss of tangible fixed or current assets, production may be temporarily suspended, and hence the impossibility of timely completion of orders placed by customers. Deterioration of the customer service standard and delay in the execution of orders, and in extreme cases, the inability to execute orders, may result in the taking over of orders by competitors and, consequently, may cause a change in the financial results of the Issuer's Capital Group.

In order to mitigate this risk, the Group pursues an appropriate investment policy, thus in the machine park, the most important machines and devices are duplicated. Risk minimization is also ensured by appropriate service contracts, which guarantee the repair of machines and devices in the shortest possible time or the delivery of replacement machines on time. LUG S.A. Capital Group it also has a dedicated insurance program, which additionally protects companies against this and other risks.

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 (KIO).

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

In 2020, there was a single incident in the LUG Group regarding the personal data of one natural person. In accordance with the internal incident response procedures, the Issuer prepared an explanatory report

and informed the participants of the event, while providing extensive explanations. The proceedings of the President of the Personal Data Protection Office are currently pending, assessing the significance of the event.

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 Risk of an epidemic or pandemic

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. Those measures are described in chapter 3.7.1. of this report.

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

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

As part of the materiality research, areas of non-financial risks significant in the operations of the 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 2020. The table below is only a summary.

Table 34. 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
	Risk of disruption of business continuity as a result of an epidemic or pandemic
Social, human rights and anti-corruption issues area **	Non identified
Employee issues area	Risk of shortage of employees
	Risk of losing key staff
	The risk of insufficient competences of sales teams
	Risk of wage pressure
	The risk of shortage of employees as a result of COVID-19 infection
Environmental issues area	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 2020.

** 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.



STATEMENT OF THE BOARD

on the application of corporate
governance principles

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".

Table 35. Issuer's report on the application of good practices in 2020

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 decided to create a separate subpage intended 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 draw up reliable financial forecasts. Regarding the aforementioned reason, Issuer's Management Board decided not to publish the financial forecasts. If the Issuer's policy regarding the publication of forecasts is changed, it will be published along 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	
	data and contact to the person who is responsible in the company for investor relations and contacts with the media	YES	

3.10.	published current and periodic reports	YES	
3.12.	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	
3.13.			
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.	questions of shareholders 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	NON 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	
3.21.	Information on the website should be published in a way which allow easy access to this information. The Issuer should update the information posted on the website. In case of new relevant information or significant changes to the information	YES	

	placed on the website, the update should be carried out immediately.		
4.	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.	YES	The Issuer runs a corporate website in both recommended languages (Polish and English).
5.	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.	YES	
6.	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.	NON APPLICABLE	The Issuer is not subject to the obligation to cooperate with an Authorized Adviser.
7.	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.	NOT APPLICABLE	The Issuer is not subject to the obligation to cooperate with an Authorized Adviser.
8.	The Issuer should provide the Authorized Adviser with access to all documents and information necessary to perform the duties of an Authorized Adviser.	NOT APPLICABLE	The Issuer is not subject to the obligation to cooperate with an Authorized Adviser.
9.1	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.	YES	
9.2	The Issuer submits in the annual report information on the remuneration of the Authorized Adviser received from the issuer for the provision of services to the issuer in each respect.	NON APPLICABLE	The Issuer is not subject to the obligation to cooperate with an Authorized Adviser.
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.		YES	

	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.		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, • 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. 	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 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..
16a.	In the case of the Issuer's breach of the information obligation specified in Appendix No. 3 to the Alternative Trading	YES	

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.

Source: Issuer

Ryszard Wtorkowski, President of the Management Board

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Mariusz Ejsmont, Vice President of the Management Board

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Małgorzata Konys, Member of the Management Board

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STATEMENT OF THE 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 01.01.2020 r. to 31.12.2020 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

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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, ul. Gorzowska 11

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

.....



LUG S. A.

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