

# 2018 REPORT



## **CONSOLIDATED ANNUAL REPORT**

of LUG S.A. Capital Group

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## The Letter of the President of LUG S.A.

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Dear Shareholders,

*For the first time I am pleased to invite you to the Annual Report of the LUG Capital Group, which is not only a financial report on the operations of our companies in 2018, but also presents our non-financial data. Their inclusion, along with economic results, will allow you to view the full spectrum of LUG Group's business activities.*

*Last year was for us a breakthrough in many respects. Under the LUG brand, we opened the first foreign production plant. We have designed and prepared for production prototypes of intelligent lighting fixtures. Due to innovative technology solutions used in them, some of those fixtures have been protected by intellectual property laws.*

*The dynamic development of the company, based on the strategic directions of development set out in 2017, is gaining momentum. This is confirmed by the Group's financial results generated in 2018. Despite the high GDP growth rate and good results of the Polish economy, in the second half of the year our industry experienced the first effects of the slowdown and we faced the pressure of deteriorating operating conditions. However, despite weaker PMI and slowdown rates, we managed to achieve satisfactory results. Infrastructure projects, as well as programs limiting electricity consumption, proved to be the key to financial success. Each quarter, we kept improving the results by ending the year with sales revenues of PLN 170.79 Million with a growth rate of 20 percent year to year. Gross profit in sales amounted to PLN 70.72 Million and turned out to be 14.32 percent better than last year. This allowed us to obtain a gross margin of 41.4 percent. Good results also influenced the EBITDA result, which in the past year increased by 28.86% up to the level of PLN 15.85 Million. The Group's net profit amounted to PLN 4.15 Million. The series of good results in the last quarter of the year was disrupted by a one-off event that had a negative impact on the results of the whole year. However, it has strengthened us as an organization. We have proved that we are able to react efficiently to changing business conditions, by choosing resources that allow for the effective implementation of contracts. This is a valuable experience that will surely benefit us in the future.*



*As I mentioned in the first words of the letter, the most important event of last year was the official inauguration and launching of the production plant in Argentina. The opening of our third plant is a new stage in the company's expansion and a strategic element of increasing export revenues to a level exceeding 75 percent of all sales. In this matter, we did not yet say the last word, and on the second hemisphere we established the LUG Turkey company based in Istanbul, which due to its location will be a trade bridge between Europe and Asia.*

*I am proud that at LUG we create innovations ourselves by searching for the best solutions in the field of lighting. Therefore, last year we significantly increased the funds allocated for research and development. We spent 5.64 Million PLN for this purpose, which is 3.3% of our revenues. The first effects of the work of LUG R&D team are innovative technology solutions in prototypes of luminaires covered by intellectual property laws. The second equally important aspect is the inclusion of new products in the Registered Community Design Model.*

*Our innovations and international cooperation was noticed by members of the World Business Forum who invited us into their ranks. The invitation is all the more valuable because they are only offered*

*to entities, that have a direct impact on improving living conditions on Earth. We had to prove that we are experts in the field of lighting and Smart City, and our solutions meet the challenges of the modern world.*

*I am convinced that responsible development is the key to building a company and creating products that are friendly to people and to nature. What is important to us is a business model that puts the responsibility for towards people and the environment first. That is why we have taken up the challenge of developing a non-financial report, in which the detailed elements of our environment and our influence as the LUG Group are described in detail. Also, interesting is the section describing non-financial risks, that we are not only aware of but also actively manage. Thanks to this, the LUG Group remains resistant to external factors and continues to develop in a sustainable manner.*

*The year 2018 has also brought us many honorable nominations and business awards. It is impossible to list all the titles here, so I will cite only a few. Amongst others, we received the title of the best company on the NewConnect market, the prestigious Economic Award of the Marshall of Lubuskie Voivodeship and nomination for the Economic Award of the President of the Republic of Poland.*

*Our successes are not the merit of one man, but the whole team of committed people whom I sincerely thank today. Special thanks to our Employees, Clients and Investors.*

*Yours faithfully*  


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

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## **FINANCIAL INFORMATION**

of the Capital Group of LUG S.A.

## 1. INTRODUCTION

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The selected financial information contains basic data (in PLN and translated on EURO) summarizing the financial situation of the LUG S.A. Capital Group. in the period from 01.01.2018 to 31.12.2018 are presented in Table 2, Table 3, Table 4 and Table 5.

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

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

**Table 1** Exchange rate table EUR/PLN

	<b>Euro rate of exchange on the balance sheet date (31.12.)</b>	<b>Average exchange rate in the period from 01.01. to 31.12.</b>
2017	4,1709	4,2449
2018	4,3000	4,2669

Source: NBP

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

**Table 2** Selected consolidated financial data of LUG S.A. Capital Group for 2018 and comparative data for 2017 [mln PLN]

	2018 mln PLN	2017 mln PLN	2018 mln EUR	2017 mln EUR	Dynamics y/y
Sales revenues	170,79	142,30	40,03	33,52	120,02
Amortization	6,84	5,04	1,60	1,19	135,71
Profit (loss) on gross sales	70,72	61,86	16,57	14,57	114,32
Profit (loss) on net sales	7,49	5,76	1,76	1,36	130,03
Profit (loss) from operational activity	9,01	7,26	2,11	1,71	124,10
Profit from economic activity	5,04	8,67	1,18	2,04	58,13
EBITDA	15,85	12,30	3,71	2,90	128,86
Gross Profit (loss)	5,04	8,67	1,18	2,04	58,13
Net Profit (loss)	4,15	7,09	0,97	1,67	58,53
	<b>31.12.2018</b> mln PLN	<b>31.12.2017</b> mln PLN	<b>31.12.2018</b> mln EUR	<b>31.12.2017</b> mln EUR	<b>Dynamics</b> y/y
Total Assets, including:	143,83	121,96	33,45	29,24	117,93
Fixed Assets	64,36	55,41	14,97	13,28	116,15
Current Assets	79,47	66,55	18,48	15,96	119,41
Inventory	35,51	32,59	8,26	7,81	108,96
Cash and cash equivalent	5,26	2,62	1,22	0,63	200,76
Total Receivables, including:	37,45	30,29	8,71	7,26	123,64
Short-term receivables	37,43	29,87	8,70	7,16	125,31
Long term-receivables	0,03	0,42	0,01	0,10	7,14
Liabilities and provisions, including:	89,98	70,53	20,93	16,91	127,58
Liabilities and long-term provisions	14,93	14,36	3,47	3,44	103,97
Liabilities and short-term provisions	75,05	56,17	17,45	13,47	133,61
Equity, including:	53,85	51,43	12,52	12,33	104,71
Share capital	1,80	1,80	0,42	0,43	100,00

Source: Issuer

### 3. CASH FLOWS

**Table 3** Consolidated cash flows of LUG S.A. Capital Group in MSR/MSSF of 2018 and comparative data of 2017 [mln PLN]

	2017 mln PLN	2018 mln PLN
Net cash flows from operational activity	8,47	10,74
Net cash flows from investment activities	-8,50	-8,88
Net cash flow form financial activity	1,67	0,77
Net cash flows	1,64	2,64

Source: Issuer

### 4. INDICATOR ANALYSIS

**Table 4** Selected consolidated financial indicators of LUG S.A. Capital Group of 2018 with comparative indicators for 2017 [% , pp]

	2017	2018	Change y/y
Gross margin on sales	43,5%	41,4%	-2,1pp
EBITDA profitability	8,6%	9,3%	+0,6pp
Operational profitability	5,1%	5,3%	+0,2pp
Net profitability	4,9%	2,1%	-2,8pp
Return on equity	13,6%	6,7%	-6,9pp
Return on assets	5,7%	2,5%	-3,2pp
Overall liquidity ratio	118,5%	105,9%	-12,6pp
General debt ratio	57,8%	62,6%	+4,7pp
Net debt/ EBITDA	2,41	2,40	-0,01
EV/EBITDA (at the end of the period)	7,90	5,94	-1,95

Source: Issuer

#### Explanation of the indicators:

##### Gross margin on sales

Formula: gross result on sales/sales revenues

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

##### EBITDA profitability

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

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

##### Operational profitability

Formula: result on operating activity/sales revenues

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

##### Net profitability

Formula: Net result/sales revenues

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

##### Return on Equity

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

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

##### Return on Assets

Formula: Net result/total assets



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

#### Overall liquidity ratio

Formula: assets/current liabilities

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

#### General debt ratio

Formula: Total liabilities/total assets

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

#### Net debt/EBITDA

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

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

#### EV/ EBITDA

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

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

## 5. DESCRIPTION OF THE STRUCTURE OF ASSETS AND LIABILITIES

**Table 5** Structure of assets and liabilities of LUG S.A. Capital Group in 2018 and comparative data for 2017

Balance	Balance on 31.12.2017 [thousand PLN]	Structure [%]	Balance on 31.12.2018 [thousand PLN]	Structure [%]	Dynamics y/y
<b>ASSETS</b>					
<b>Fixed assets</b>	<b>55,41</b>	<b>45,43%</b>	<b>64,36</b>	<b>44,75%</b>	<b>116,15</b>
Tangible fixed assets	41,24	33,81%	47,57	33,07%	115,35
Intangible assets	8,55	7,01%	12,83	8,92%	150,06
Other financial assets	0,0011	0,00%	0,0011	0,00%	100,00
Deferred tax assets	5,20	4,26%	3,93	2,73%	75,58
Long-term receivables	0,41	0,34%	0,03	0,02%	7,32
<b>Current assets</b>	<b>66,55</b>	<b>54,57%</b>	<b>79,47</b>	<b>55,25%</b>	<b>119,41</b>
Inventory	32,59	26,72%	35,51	24,69%	108,96
Trade receivables	28,49	23,36%	34,92	24,28%	122,57
Receivables due to taxes/ customs/ insurance and others	0	0,00%	0,22	0,15%	-
Other receivables	1,38	1,13%	2,29	1,59%	165,94
Prepayments	1,47	1,21%	1,27	0,88%	86,39
Cash and cash equivalent	2,62	2,15%	5,26	3,66%	200,76
<b>TOTAL ASSETS</b>	<b>121,96</b>	<b>100,00%</b>	<b>143,83</b>	<b>100,00%</b>	<b>117,93</b>
<b>LIABILITIES</b>					
<b>Equity capital</b>	<b>51,43</b>	<b>42,17%</b>	<b>53,85</b>	<b>37,44%</b>	<b>104,71</b>
Share capital	1,80	1,48%	1,80	1,25%	100,00
Supplementary capital from issue of shares above face value	23,82	19,53%	23,82	16,56%	100,00
Other capitals	19,45	15,95%	17,05	11,85%	87,66

Exchange differences from consolidation	-0,34	-0,28%	-0,31	-0,22%	91,18
Profits retained	1,15	0,94%	9,40	6,54%	817,39
Minority shareholders capital	-1,54	-1,26%	-2,06	-1,43%	133,77
Financial result of the current period	7,09	5,81%	4,15	2,89%	58,53
<b>Long-term liabilities</b>	<b>14,36</b>	<b>11,77%</b>	<b>14,93</b>	<b>10,38%</b>	<b>103,97</b>
Liabilities due to credits, loans and debt instruments	4,74	3,89%	3,78	2,63%	79,75
Other financial liabilities	3,05	2,50%	6,07	4,22%	199,02
Provisions due to deferred income tax	0,12	0,10%	0,07	0,05%	58,33
Provisions due to employee benefits	0,30	0,25%	0,31	0,22%	103,33
Prepayments and accrued income	5,43	4,45%	3,64	2,53%	67,03
Other provisions	0,72	0,59%	1,06	0,74%	147,22
<b>Short-term liabilities</b>	<b>56,17</b>	<b>46,06%</b>	<b>75,05</b>	<b>52,18%</b>	<b>133,61</b>
Liabilities due to credits, loans and other debt instrument	17,58	14,41%	23,72	16,49%	134,93
Other financial liabilities	6,82	5,59%	9,66	6,72%	141,64
Prepayments and accrued income	0,18	0,15%	0,21	0,15%	116,67
Trade liabilities	21,29	17,46%	29,88	20,77%	140,35
Liabilities due to current income tax	0,02	0,02%	0,11	0,08%	550,00
Other liabilities	6,05	4,96%	7,25	5,04%	119,83
Provisions due to employee benefits	0,46	0,38%	0,63	0,44%	136,96
Other provisions	3,77	3,09%	3,59	2,50%	95,23
<b>TOTAL LIABILITIES</b>	<b>121,96</b>	<b>100,00%</b>	<b>143,83</b>	<b>100,00%</b>	<b>117,93</b>

Source: Issuer

The balance sheet of LUG S.A. Capital Group in 2018 closed with the sum of PLN 143,83 million, that is a 17,93 percent increase than in the previous year. Current assets constitute 55,25 percent of the company's assets, while non-current assets account for 44,75 percent of total assets. Comparing y/y, non-current assets show an increase of +16,15 percent, current assets - an increase of +19,41 percent. As at December 31, 2018, inventories accounted for approximately 24,69 percent. In the structure of non-current assets, intangible assets showed the highest dynamics, they also have the largest value share in the structure of fixed assets. Tangible fixed assets showed a dynamic at the level of 115,35%. In 2018, equity in the structure of liabilities constituted 37,44 percent, long-term liabilities accounted for 10,38 percent, while short-term liabilities accounted for 52,18 percent. Short-term liabilities showed the highest dynamics in the previous year (+33,61 percent) as a result of Trade Commitments, which in 2018 were 20,8% in the structure of Short-term liabilities. As part of short-term liabilities, the highest dynamics were shown by Current income tax liabilities (+450 percent). As part of long-term liabilities, other financial liabilities increased most dynamically (+ 99,02 percent).

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

In 2018, the LUG S.A. Capital Group used overnight deposits, as well as from term deposits not exceeding two weeks.

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

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

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The description of significant off-balance sheet items, including a description of contingent liabilities due to guarantees and sureties granted, is provided in note 26 of the consolidated financial statements of the LUG S.A. Capital Group of 2018.

In the opinion of the Management Board, there probability of the outflow of financial resources shown in off-balance/ conditional commitments in 2018 is negligible.

## **8. DESCRIPTION OF TRANSACTIONS WITH AFFILIATED COMPANIES**

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The parent company and its subsidiaries did not enter into transactions with related entities on other than market conditions. Detailed information on transactions with related entities is provided in note 32 of the consolidated financial statements of the LUG S.A. Capital Group of 2018.

## **9. INFORMATION ON LOANS GRANTED IN A GIVEN FINANCIAL YEAR**

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In 2018, the state of loans increased in comparison to 2017 by the amount of PLN 1,264 thousand. Loans granted in 2018 at the LUG S.A. Capital Group are indicated in the Separate Annual Report of LUG S.A.: loans granted by LUG S.A. to subsidiary LUG do Brasil Ltda in the amount of PLN 464 thousand and to the subsidiary BIOT Sp. z o.o in the amount of PLN 800 thousand. LUG S.A. made a deduction for the amount of PLN 464 thousand PLN for loans granted to LUG do Brasil Ltda.

## **10. INFORMATION ON AGREEMENTS CONCERNING CREDITS AND LOANS**

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Capital Group 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 2018.

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

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As at December 31, 2018, there was no surety for the LUG S.A. Capital Group and the Capital Group did not grant any guarantees in 2018.

## **12. INFORMATION ABOUT CHANGING ACCOUNTING PRINCIPLES**

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In 2018, there were no changes to the accounting principles.

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## **STATEMENT OF THE MANAGEMENT BOARD**

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

## 1. BASIC INFORMATION

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### 1.1. Organization

#### 1.1.1. Subject of activity

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

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

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

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

- construction.

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

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

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

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

As at December 31, 2018 part of the LUG S.A. Capital Group. the following companies were included:

- 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 Aydinlatma Sistemleri Anonim Sirketi (LUG Turkey).

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

Company's name	Head office	Register data	Object activity	Basic capital	Percentage share in capital	Percentage share in voting rights
<b>LUG Light Factory Sp. z o. o.</b>	Zielona Góra, Gorzowska 11 Street	KRS 0000290498 NIP 929-17-85-452	Production of electric lighting equipment and electric lamps	29 000 000,00 PLN	100%	100%
<b>LUG GmbH</b>	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%
<b>T.O.W LUG Ukraina (działalność zawieszona)</b>	ul. Diehtiarivska 62A, 03040 Kiev	KRS 107410200000154 70 NIP 34190214	Wholesale and retail trade with lighting equipment. Designing production of lighting equipment	160 233,00 UAH	100%	100%
<b>LUG do Brasil Ltda</b>	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%
<b>LUG Lighting UK Ltd.</b>	Building 3 Chiswick Park 566 Chiswick High Road W45YA London	KRS 08580097 NIP 171766096	Wholesale and retail trade with lighting equipment. Designing production of lighting equipment	5 000,00 GBP	100%	100%
<b>LUG Argentina SA</b>	Cerrito 836, 7 <sup>th</sup> floor, Buenos Aires, Argentina	registered by La Inspección General de Justicia (IGJ) at number 17573 book 85 Jont-stock companies (RPC)	Production, processing, assembly and assembly of lighting fixtures, commercial and consulting activities in lighting technology field.	8 700 000,00 ARS	50%	50%
<b>BIOT Sp. z o.o.</b>	Nowy Kisielin – Nowa 7 Street, 66-002 Zielona Góra	KRS 0000695926 NIP 9731045329	Activities related to software and consultancy in the field of computer science and technology.	200 000,00 PLN	51%	51%
<b>LUG Aydinlatma Sistemleri Anonim ŞİRKETİ (LUG Turkey)<sup>1</sup></b>	Çavuşbaşı Köyü Saip Molla Çiftliği Mevkii Acarlar Mah. Acar Kent 2. Kısım 7 Cadde 38. Sok. No:5 B-399 Beykoz- İstanbul, Turkey	Istanbul Trade Registry, Mersis number:060908488 2000001, Tax No: 6090848820	Commercial and consulting activities in lighting technology field.	50 000 TRY	66,8%	66,8%

Source: LUG S.A.

<sup>1</sup> On 12.11.2018, LUG S.A. acquired a block of shares in the Turkish company LUG Aydinlatma 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%.

**Chart 1** Structure of LUG S.A. Capital Group



\* T.O.W. LUG Ukraine operations are suspended for an indefinite period

Source: LUG S.A.

In 2018, the LUG S.A. Capital Group has expanded of company LUG Aydınlatma Sistemleri Anonim Sirketi (LUG Turkey), operating and registered in accordance with Turkish law with its registered office in Istanbul, Republic of Turkey. The company's purpose is to conduct commercial, production and advisory activities in the field of professional lighting solutions. LUG Turkey is a part of the foreign expansion of LUG by extending its activities on the Turkish market and on the markets of other countries in the region.

In 2018, there were no other changes regarding the structure of the LUG S.A. Capital Group.

### 1.1.3. Duration

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

### 1.1.4. Share Capital

In 2018, there were no events that would affect the value of the share capital of LUG S.A.

As at December 31, 2018 and as at the date of this report, the share capital of LUG S.A. amounted to PLN 1 799 642,50 and was divided into 7.198.570 shares with a nominal value of PLN 0.25 each, including:

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



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

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

Source: LUG S.A.

Share capitals of Issuer's companies:

- As at December 31, 2018 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, 2018 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, 2018 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, 2018 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, 2018 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 December 31, 2018, the share capital of BIOT Sp. z o.o. amounted to PLN 200,000.00 (due to the capital increase presented in the ESPI report no. 8/2018) and is divided into 4 000 shares with a nominal value of PLN 50.00 each. The Issuer holds a 51% share in the share capital and in the votes at the shareholders' meeting. As at the date of this report, the Issuer's share in the share capital of BIOT Sp. z o.o. amounts to PLN 102 000.00 and is divided into 2040 shares with a nominal value of PLN 50.00 each.
- As of December 31, 2018 and as at the date of this report, the share capital of LUG Argentina SA is 300.000,00 Argentine Pesos, with the Issuer's share in the share capital it is equal to 150.000 Argentine Pesos and is divided into 1.500 shares with a nominal value of 100.00 Argentinian pesos each. As at the date of this report, the share capital of LUG Argentina SA is 8.700.000,00 Argentine pesos, with the Issuer's share in the share capital amounted to 4.350.000 Argentine pesos, divided into 43.500 shares with a nominal value of 100 Argentines pesos each.
- As of 31.12.2018 and as at the date of this report, the share capital of LUG Aydinlatma Sistemleri Anonymous Sirketi is 50.000 TRY, with the Issuer acquiring 33.400 series A shares with a nominal value of 1 TRY, representing 66,8% of the share capital and entitles to casting the same number of votes at the General Meeting of the Company.



### 1.1.5. Shares on ownership structure

#### LUG S.A. shares

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

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

In November 2012, pursuant to the provisions of the Extraordinary General Meeting of Shareholders of September 28, 2012, the shares were merged in a ratio of 25:1, while increasing their nominal value. This means that the nominal value of the shares of all LUG series was increased from PLN 0,01 (PLN 0,01) to PLN 0,25 (PLN 0,25). The merger was carried out with a proportional reduction in the total number of shares, from 179.964.250 to 7.198.570, that is, by combining every 25 shares with the current nominal value of PLN 0,01 per one share of the Company, with a new nominal value of PLN 0,20. The entire procedure did not affect the share capital of LUG S.A. in the amount of PLN 1,799,642.50, which remained unchanged.

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

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

Source: LUG S.A.

In 2018, 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 December 31, 2018 and as at the date of this report, is as follows:

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

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

Source: LUG S.A.

## LUG S.A. ownership structure

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

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

Name and surname/ name	Shares Series	Number of shares	Share in the the share capital	Shares to Vote ratio at GMS
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	1 266 810	17,60%	17,60%
Other shareholders	B, C	2 141 150	29,74%	29,74%
TOTAL	A,B,C	<b>7 198 570</b>	100,00%	100,00%

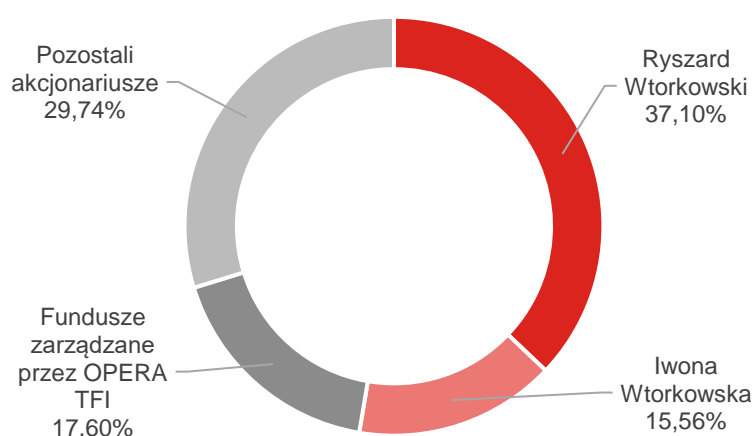
Source: LUG S.A.

**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 25/06/2018 (09/06/2018 - day of registration of participation in OGM LUG S.A.);
- Iwona Wtorkowska - list of people entitled to participate in the Ordinary General Meeting of LUG S.A. on 25/06/2018 (09/06/2018 - day of registration of participation in OGM LUG S.A.);
- Funds managed by OPERA TFI - lists of people entitled to participate in the EGM of LUG S.A. on 25/08/2014 (9.08.2014 - day of registration of participation in the EGM of LUG S.A.).

In 2018, the Issuer did not receive any information from shareholders about the change in the ownership of shares in LUG S.A.

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



Source: LUG S.A.

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

**Quotation of LUG S.A. for the period from 01.01.2018 - 31.12.2018**

In 2018, the share price of LUG S.A. reached the lowest value in the fourth quarter of November 23, 2018 (share price amounted to PLN 7,30). The highest price observed in the fourth quarter was PLN 8,50 per share recorded on December 4, 2018 and was maintained in the period 07- 3.12.2018. After the increases from the beginning of the year (on February 21, 2018 noted a record value of PLN 12,25, which was the highest value of the entire 2018) and after fluctuations in the second quarter, a fall to the lowest quarter was recorded (PLN 8,00 on June 18, 2018), after which there was a breakthrough to the the level of 9,40 PLN (July 04, 2018). Since July 2018, LUG's prices have been stable and the year closed at a level of PLN 8,10 on December 28, 2018.

**Chart 3** Quotation of LUG S.A. shares for the period 01.01.2018 – 31.12.2018



Source: LUG S.A.

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

On September 19, 2018, LUG S.A. paid dividend in the amount of PLN 0,17 per share, in the total amount of PLN 1 233 756,90.

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

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

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

Name and surname/ name	Function	Company shares	Shares number	Share in the share capital	Shares to votes ratio at the GMS
Ryszard Wtorkowski	The CEO of LUG S.A. Management Board	LUG S.A.	2 670 610	37,10%	37,10%
Małgorzata Konys	Member of LUG S.A. Management Board	LUG S.A.	15 200	0,21%	0,21%
Iwona Wtorkowska	The President of LUG S.A. Supervisory Board	LUG S.A.	1 120 000	15,56%	15,56%

Renata Baczańska	Member of LUG S.A. Supervisory Board	LUG S.A.	28 408	0,39%	0,39%
Eryk Wtorkowski	Member of LUG S.A. Supervisory Board	LUG do Brasil Ltda.	100 000	20,00%	20,00%

Source: LUG S.A.

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

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

#### The Management Board of the dominant company

Composition of the Issuer's Management Board as at December 31, 2018 and as of the date of this report:

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

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

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

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

Source: LUG S.A.

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

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

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

## **Experience and competences of Management Board members of the parent company**

### Ryszard Wtorkowski – The CEO of the Management Board

He is the founder and largest shareholder of LUG S.A. By education - electronics. In the years 2002-2007 he was the President of the Management Board of LUG Sp. z o.o. After changing the legal form to a joint-stock company in September 2007, he became the President of the Management Board of LUG S.A. Currently, he is also the President of LUG Light Factory Sp. z o.o., LUG GmbH and LUG Lighting UK Ltd. 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.

### 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.

### 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](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 current term of the Management Board of LUG Light Factory Sp. z o.o. commenced on January 17, 2011, on the day of the Extraordinary Meeting of Shareholders and adoption of Resolution No. 1/2011 appointing Members of the Board.

Composition of the Management Board of LUG Light Factory Sp. z o.o. on December 31, 2018 as of the date of this report, is presented in Table 13.

**Table 13** Term in office of the Management Board of LUG Light Factory Sp. z o.o. as on December 31, 2018. <sup>1)</sup>

<b>Name and surname</b>	<b>Function in the Management Board of LUG Light Factory</b>	<b>First term in office</b>
Ryszard Wtorkowski <sup>2)</sup>	CEO of the Board	01.08.2007
Beata Tustanowska <sup>3)</sup>	Board Member	17.01.2011
Mariusz Ejsmont <sup>4)</sup>	Board Member	17.01.2011
Wiesław Bielenin <sup>5)</sup>	Board Member	17.01.2011

Source: LUG S.A.

<sup>1)</sup> In accordance with the Company's founding act, the Management Board is appointed for an indefinite period, and Management Board members are appointed and dismissed by a resolution of shareholders.

<sup>2)</sup> Until 17 January 2011, the LUG Light Factory Sp. z o.o. had a one-member Board, in the person of Ryszard Wtorkowski.

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

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

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

The composition of the Management Board of LUG Light Factory Sp. z o.o. as of the date of publication of this report has changed on the basis of Resolution No. 1 of the Extraordinary General Meeting of LUG Light Factory Sp. z o. o. of 29.05.2019 regarding the dismissal of Ms. Beata Tustanowska from the position of Member of the Company's Management Board.

The composition of the Management Board of LUG Light Factory Sp. z o.o. as of the date of publication of the report (30/05/2019), see Table 14.

**Table 14** Term in office of the Management Board of LUG Light Factory Sp. z o.o. as on May 30, 2019.

<b>Name and surname</b>	<b>Function in the Management Board</b>	<b>First term in office</b>
Ryszard Wtorkowski	CEO of the Board	01.08.2007
Mariusz Ejsmont	Board Member	17.01.2011
Wiesław Bielenin	Board Member	17.01.2011

Source: LUG S.A.

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

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

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

#### **Board of LUG Argentina SA**

As at December 31, 2018 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, who represents a partner, Provider Argentina SA and Mr. Jorge Chamarro Escalona, Vice President of the Management Board of LUG Argentina SA representing the second partner, LUG S.A.

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, 2018 and as of the date of this report, BIOT Sp. z o.o. has a two-member Management Board, in the form of the President of the Board, Mr. Kamil Burzyński, who represents the partner company Toka Burzyński Guzowski Sp.j. and Mr. Wojciech Lewandowski, Vice President of the Management Board of BIOT Sp. z o.o., representing the majority shareholder, LUG S.A.

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

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

#### **Board of LUG Aydınlatma Sistemleri Anonim Sirketi (LUG Turkey)**

As of December 31, 2018 and as of the date of this report, LUG Turkey has a one-member board in the person of Mr. Mariusz Ejsmont, which represents LUG S.A., the major shareholder.

### **1.2.2. The supervisory bodies for LUG S.A. Capital Group**

The current term of the Supervisory Board of LUG S.A. commenced on June 17, 2016, 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 composition of the Issuer's Supervisory Board as at December 31, 2018 and as at the date of this report:

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

- Szymon Ziolo - Member of the Supervisory Board

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

Name and surname	Function in the Supervisory Board	First term in office	Current term in office	Term end date
Iwona Wtorkowska	President of the Supervisory Board	02.08.2007	17.06.2016	do 16.06.2019
Renata Baczańska	Supervisory Board Member	02.08.2007	17.06.2016	do 16.06.2019
Eryk Wtorkowski	Supervisory Board Member	02.08.2007	17.06.2016	do 16.06.2019
Zygmunt Ćwik	Supervisory Board Member	21.09.2007	17.06.2016	do 16.06.2019
Szymon Ziolo	Supervisory Board Member	21.09.2007	17.06.2016	do 16.06.2019

Source: LUG S.A.

### 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.

### 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 .;
- 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 2018.

### **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 2018, 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 and risk management system in the process of preparing financial statements is based on the following principles:

- using accounting procedures and compliance monitoring ;
- verification of the application of a uniform accounting policy by the companies of the LUG S.A. Capital Group in terms of recognition, valuation and disclosures in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union;
- application of uniform unit standards and consolidated financial statements and annual verification of the correctness of their application in the companies of the LUG S.A Capital Group;
- using the authorization procedure and issuing opinions on annual financial statements before publication,
- functioning in a subsidiary company LUG Light Factory Sp. z o.o. Integrated Quality Management System, compliant with the requirements of the international standard ISO 9001, whose re-certification took place in March 2018.

In addition, the record of economic events in the LUG S.A. Capital Group takes place through an integrated financial and accounting system, whose configuration is consistent with the accounting policy adopted in the Group. Security and availability of information contained in this financial and accounting system are controlled at every level.

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

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

**Table 16 Stock exchange history of the Issuer**

Event	Details
Quotation market/ segment	Building branch
IPO date	20.11.2007
IPO - securities placed on the market	27 000 000 A series shares 8 922 850 B series shares
Issue value	PLN 20,6 mln
Original nominal price	PLN 0,04
Split date 1:4	26.03.2010
Shares amount after split	143 971 499 units
SPO date	19.07.2010
SPO – securities placed on the market	35 992 850 C series shares
Issue value	PLN 5,4 mln
Shares amount	179 964 250
Number of votes on GM	179 964 250
Nominal price	PLN 0,01
Shares capital	1 799 642,50
Integration date of 25:1	23.11.2012
Number of shares after integration	7 198 570 units
Nominal price	PLN 0,25

Source: LUG S.A.

## 2.2. Specification of the activity

LUG S.A. Capital Group is one of the leading manufacturers of lighting fixtures and solutions in Poland and in Europe. The business model of the companies belonging to the Group focuses on the use of professional knowledge and 30 years of experience to comprehensively advise clients, develop for them individual solutions and produce innovative and energy-saving lighting. The offer includes a wide range of outdoor luminaires - for illumination of buildings, streets, parking lots, sports and indoor facilities - for lighting large shopping galleries, sales networks, offices, cultural and public facilities. For several years ahead of the market trends, LUG S.A. started the investment process in LED technology, thanks to which at the moment it is one of the leaders in the production of high-quality LED lighting. This technology is used in both indoor and outdoor luminaires and constitutes over 95% of all solutions sold by LUG.

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

**Table 17** Chosen foreign LUG completions of 2018

<b>Foreign completions</b>	
Office building lighting <i>Google Expansion Mietbereich Youtube</i>	Germany
Logistic Center of Cold Storage, Norac do Brasil	Brazil
Chain of car showrooms of: <i>Porsche, Mercedes new concept, BMW, Renault</i>	Europe
Internal lighting of <i>Bons Secours Hospital, Cork</i>	Ireland
Parking lot of <i>LOG.IQ Gelsenkirchen</i> in Bavaria	Germany
Lighting of the complex of <i>DHL rooms, Lipsk</i>	Germany
<i>Equinix Data Center, Frankfurt am Main</i>	Germany
Street lighting <i>Aziziya District, Riyadh</i>	Saudi Arabia
Office building <i>Plaza View, Khalidiya, Abu Dhabi</i>	United Arab Emirates
Headquarters of <i>Imprimerie Indika, Toulouse</i>	France
Building complex of <i>Morkvedlia Studentboliger, Bodø</i>	Norway
<i>BY Gewerbehof Office Building, Berlin</i>	Germany
Modernisation of prestigious <i>Rublowka district, Moscow</i>	Russia
New office of Russian airlines <i>S7, Moscow</i>	Russia
Lighting illumination of <i>Toy's'RUS shop, Illes Balears</i>	Spain

Source: LUG S.A.

**Table 18** Chosen domestic LUG completions of 2018

<b>Domestic completions</b>	
External lighting <i>European Hotel</i>	Warszawa
Lighting of <i>KGHM gantry cranes and parking lot</i>	Głogów and Lubin
Office building <i>Centrum Komina</i>	Zielona Góra
Apartment buildings at <i>Wrocławska and Raclawicka Street</i>	Kraków
<i>Palmhouse and Vine Park</i>	Zielona Góra
<i>Theater Cultural Center</i>	Grudziądz
External lighting of the logistic center of <i>Zalando</i>	Olsztyn
Office building of <i>Regional Fund for Environmental Protection and Water Management</i>	Koszalin
Training ground of an Army Military Training Center in <i>Oleszno</i>	Drawsko Pomorskie
Complex lighting of <i>BMW car showrooms</i>	Gorzów Wielkopolski and Szczecin
Internal lighting of <i>Szczawnica Park Hotel</i>	Szczawnica
<i>Fabryka II service and office building</i>	Szczecin
Regional Center of Animation and Culture	Zielona Góra

Source: LUG S.A.



## 2.3. Assortment

Lighting fixtures of the LUG S.A. Capital Group are designed and then produced in the Issuer's factory located in the Subzone of the Kostrzyńsko-Słubicka Special Economic Zone in Zielona Góra, while electronic components are produced in the second factory of the Issuer - so-called a Research and Development center with a production complex located in Nowy Kisielin near Zielona Góra.

The LUG assortment is a diversified product portfolio under the LUG brand, the Flash DQ brand and the LUGBOX product line, in which the following categories of luminaires can be distinguished:

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

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

Source: LUG S.A.

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

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

## 2.4. Lighting market and perspectives of its development

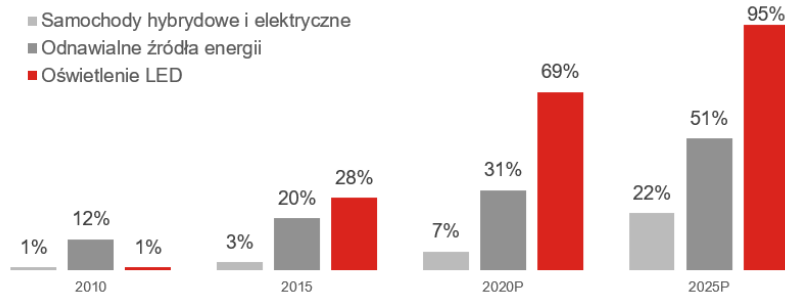
### 2.4.1. Industry characteristics

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

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



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



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

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

The latest LEDinside report shows that in the years 2018-2023, the value of the global LED lighting market will grow steadily to eventually reach USD 56.6 billion in 2023, with a CAGR of 9%. The Global Market Insights report indicates that the European LED market alone will grow at 15.5% CAGR in 2017 - 2024 and will reach more than USD 30 billion in 2024.<sup>2</sup>

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

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

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.<sup>5</sup>

<sup>3</sup> "Global LED Lighting Market Update, 2017", Frost & Sullivan, 2017

<sup>4</sup> „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.

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

The year 2019 will bring even greater prevalence of digitization related to the emphasis on energy efficiency in industries proposing entire system solutions for commercial facilities. In the lighting sector, intensive development of LED technology and automation of services continue. The main trends in 2019 will primarily be:

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

The forecasted 30% increase in the costs of electricity, forces professional lighting manufacturers to propose to their users more and more advanced systems that, thanks to remote control, will not only allow convenient control, but also return investment costs within a few years.

According to the LEDinside 2018 report, the LED lighting market in Europe reached USD 8.292 with an annual increase of 9.5%. The popularity of energy-saving lighting is constantly growing, and entrepreneurs are increasingly turning to the modernization of the traditional system for LED replacements. Managers looking for savings will first find them in the lighting installation. Although the investment in modern LED technology is at the beginning much higher than in the case of traditional light sources, it returns faster, not only in the form of real savings, but also the convenience and longer life of the fittings. Currently available LED luminaires can replace traditional light sources in a 1:1 ratio, which will generate profits of up to 50-75% compared to conventional lighting.

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

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 commercial lighting industry is growing dynamically and is increasingly responding to the market demand for efficient and intelligent lighting devices. The greatest development can be seen primarily in LED technology, where energy-saving and pro-environmental orientation has taken over a larger part of the professional lighting market, driven by population growth, climate change or progressing urbanization. In the next few years, professional lighting producers will strengthen their position, as the priority is to design solutions that take into account the aforementioned changes.<sup>6</sup>

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. Prospects for market development**

The factors that positively stimulate the development of the lighting market remain unchanged for several years:

##### **Regulatory factors and related to the need for modernization:**

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

##### **Technological factors:**

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

The year 2018 in the lighting industry did not bring such significant changes, as caused by the appearance of light sources and light fittings using LED technology. In the global lighting industry, the offer evolved from the emphasis on energy efficiency related, to the use of LED lighting and continue

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<sup>6</sup> [www.lighting.pl](http://www.lighting.pl), 5 wiodących trendów w oświetleniu profesjonalnym na 2019 r., 23.01.2019 r.

the current trends related to digitization of LED lighting systems. There has been further development of related trends with lighting that responds to human needs (Human Centric Lighting) and Li-Fi technology - for transmitting data via lighting.<sup>7</sup>

Digitization and emphasis on energy efficiency are the most popular trends that can be noticed in industries proposing installation solutions for commercial facilities. In the lighting sector, intensive development of both LED technology products and automation of offered services is noticeable. The main trends in 2019 will be primarily: cost optimization and looking for savings using LED technology, but also intelligent and economical management of street lighting or progressive automation. The forecasted 30% increase in electricity prices forces professional lighting manufacturers to propose to their users more and more advanced systems that, thanks to remote control, will not only allow convenient control, but will also pay back investment costs within a few years. The popularity of energy-saving lighting is constantly growing, and entrepreneurs more often decide to modernize the traditional system for LED replacements.

In 2019, experts forecast the 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.

The commercial lighting industry is growing dynamically and is increasingly responding to the market demand for efficient and intelligent lighting devices. The biggest development and milestone is mainly visible in LED technology, whose energy-saving and pro-ecology orientation has taken over a larger part of the professional lighting market, driven by population growth, climate change or progressing urbanization. In the next few years, professional lighting producers will strengthen their position, as the priority is to design solutions that take into account the aforementioned changes.<sup>8</sup>

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

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<sup>7</sup> Najważniejsze trendy w branży oświetlenia profesjonalnego w 2018, www.lighting.pl, M.Kołąkowski, 06.02.2018

<sup>8</sup> Ibidem

in demand for lighting, in particular in the general lighting segment. In urban areas, the demand for lighting is much higher than in rural areas, that is why cities will be an important growth driver for the lighting industry. In addition to Asia, the strongest urbanization will be seen in South America, Eastern Europe and Central Asia, the Middle East and North Africa and Sub-Saharan Africa.

- irreversible climate change

Climate change and scarcity of resources, including limited energy resources, promotes the spread of energy-efficient products to a global trend, that leads to a gradual departure from the cheapest solutions to more expensive but energy-efficient lighting options. It is important that in contrast to the other methods of reducing CO2 emissions, exchanging energy-intensive lighting for energy-efficient solutions has no negative impact on the global economy, on the contrary, it positively stimulates it.

- high increases in electricity prices

Autumn is the time of energy purchases for the next year, and the year 2018 brought record high prices. They increased on the wholesale market by up to 80% for the rotating part compared to the previous year. This translates into an increase in energy prices from 35% to even 45%. Analysts emphasize that due to the growing rates of CO2 emission allowances, there is no indication that this trend will change. In turn, up to 40% of the energy consumed by self-government units is allocated to public lighting.

The development trend of the Polish lighting market is partly a result of growing export revenues. The total value of exports of the Polish lighting industry accounts for approximately 1/3 of the market value. The largest recipient of products in the Polish lighting industry are countries European Union, which accounts for an estimated 3/4 of all exports.

## **2.5. Main operating markets and branch information**

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

In 2018, the local commercial structure of the Issuer consisted of 12 regional offices in the largest Polish cities:

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

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

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

Berlin, Londyn, Dubaj, Sao Paulo

Branches in Berlin, London and Sao Paulo operate through subsidiaries, branch in Dubai is functioning as a foreign representation. Headquarters of LUG do Brasil Ltda., LUG Lighting UK Ltd., LUG GmbH, in the regional office in Warsaw and the headquarters of the Company in Zielona Góra feature

showrooms of LUG luminaires. There, the latest LUG luminaires can be seen in a close-to-natural environment. In addition, in the third quarter of 2018, LUG and partners opened two new showrooms for customers in North Africa: LUG and LUMISPHERE joint showroom in Casablanca in Morocco and a joint LUG and EURL CFEA Electricité & Domotique showroom in Algiers, Algeria.

LUG S.A. Capital Group through its companies operates on the Polish market, as well as on European and global markets. The most important directions of the export countries are European countries, whose share in the total revenue from sales was in 2018, 37% percent

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

	2016 [PLN mln]	2017 [PLN mln]	2018 [PLN mln]
<b>Poland</b>	<b>55,60</b>	<b>61,96</b>	<b>81,89</b>
<b>Other countries in total, including:</b>	<b>65,26</b>	<b>80,34</b>	<b>88,90</b>
Europe	52,26	62,28	63,46
Near East and Africa	3,61	6,57	8,46
Others	9,38	11,48	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 observing market trends;
- analysis of the LUG portfolio for products meeting the needs and tastes of customers, in line with the life cycle of products of the professional lighting sector on individual markets;
- previous experience - in order to limit the risk associated with entering new markets, LUG has strategically chosen the markets on which it has been operating for several years, hence the conditions: odds and limitations that may exist on a given market are known;
- analysis and geographical segmentation - the selection of several different markets results from the need to provide a guarantee of an appropriate level of sales (various countries from different parts of Europe and the world allow for the diversification of foreign exchange risk);
- the dynamics of economic growth and the potential value of the market;
- political stability;
- respecting international contracts and standards.

In 2018, the goal of LUG S.A. Capital Group was to maximize revenues by exploiting the potential of the markets on which LUG companies were present. An additional element supporting the implementation of the objective were the effects of expenditures from previous years incurred for investments in building a commercial network, launching showrooms and building the LUG brand on particular markets.

As part of the LUG S.A. Capital Group, the production activity is carried out by the subsidiary LUG Light Factory Sp. z o.o. Additionally, in 2018, as the result of agreements signed with the Government of the Misiones Province and as the result of forming LUG Argentina SA, construction of LUG luminaires factory in Posadas, Argentina has started. The new plant, opened in 2018, is the first



LUG factory outside of Poland. In 2018, the new company named LUG Aydınlatma Sistemleri Anonim Şirketi was established. It is a part of the foreign expansion of the LUG S.A. Capital Group on the Turkish market and similar markets.

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

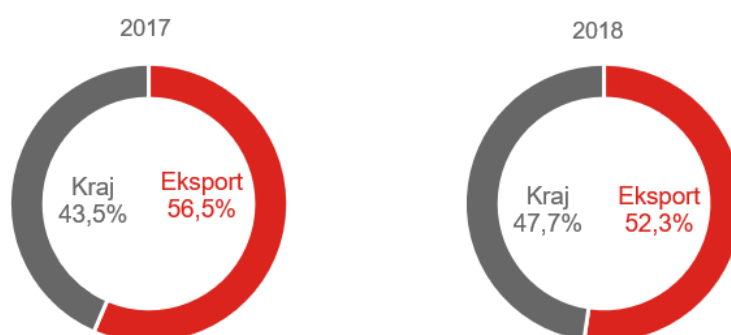
## 2.6. The Issuer's income structure

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

In 2018, the share of export revenues decreased to 52,3% mainly due to the significant strengthening of domestic sales in the second and third quarter of 2018, caused by the finalization of local government investments in street lighting. In 2018, export revenues increased by 11,2% to PLN 89,37 million, while domestic revenues were up 31,4% to PLN 81,42 million. Thus, the LUG Group is the largest Polish exporter in the lighting industry.

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

**Chart 6** The structure of sales revenues in a growing approach



Source: LUG

S.A.

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

	2017		2018	
	Value [thousand PLN]	Share [%]	Value [thousand PLN]	Share [%]
Poland	61,96	43,5%	81,42	47,7%
Export	80,34	56,5%	89,37	52,3%
<b>Total</b>	<b>142,3</b>	<b>100%</b>	<b>170,79</b>	<b>100%</b>

Source: LUG S.A.

In 2018, the company sold its products to 70 countries (given in alphabetical order):

Algeria, Saudi Arabia, Argentina, Armenia, Australia, Austria, Azerbaijan, Bahrain, Belgium, Belarus, Bosnia and Herzegovina, Brazil, Bulgaria, China, Chile, Croatia, Montenegro, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Greece, Georgia, Spain, the Netherlands, India, Iraq, Iran,

Ireland, Iceland, Israel, Qatar, Kazakhstan, Kenya, South Korea, Kuwait, Lebanon, Lithuania, Luxemburg, Latvia, Macedonia, Malta, Morocco, Mauritius, Moldova, Germany, Norway, New Zealand, Oman, Peru, Poland, Portugal, South Africa, Russia, Romania, El Salvador, Serbia, Slovenia, Switzerland, Sweden, Turkey, Ukraine, Hungary, United Kingdom, Vietnam, Italy, Curacao Islands, United Arab Emirates.

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

Year	Dynamics Poland	Dynamics Export	Total dynamics
2016 / 2015	+9,24%	+11,20%	+10,29%
2017 / 2016	+11,45%	+23,11%	+17,75%
2018 / 2017	+31,41%	+11,24%	+20,02%

Source: LUG S.A.

Structure of the recipients of the LUG S.A. Capital Group in the period from 01/01/2018 to 31/12/2018 it was significantly diversified, both subjectively and geographically, which was an important factor stabilizing its financial situation. The Group cooperated with a large number of regular customers, among which there were no entities clearly dominant in business dealings with the company.

## 2.7. Competitive environment

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

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

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

In the second half of 2018, the general financial situation of the enterprise sector was good, but the potential for deterioration in economic conditions intensified - mainly due to external factors. The dynamics of foreign sales has clearly decreased, and the downward trend of the aggregated profitability index was becoming more visible, although it remained at a good level. In the fourth quarter of 2018, the surveyed enterprises assessed their situation as good and stable, signalling increasing cost at the same time, increased wage pressure, lack of qualified employees and changes in the law. Favorable demand assessments continued, and forecasts for the first quarter of 2019 was also optimistic, although in the case of exports they showed a clear downward trend. In the second half of 2018, investments of medium and large enterprises grew dynamically. The liquidity of the enterprise sector was also at a good level, and it does not expect major problems in that respect in the first quarter



of this year. The financing of investments was still dominated by own funds and the percentage of borrowers remained low, despite good availability of financing sources.<sup>9</sup>

## **2.8. Participation in lighting market**

Sales revenues of LUG luminaires in 2018 amounted to PLN 170,79 million. 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, LUG S.A. Management Board undertook a number of maintenance activities in 2018 to keep and expand the share in the lighting market, including:

- Expansion of the sales network, both domestic and foreign, with the aim of increasing the penetration of markets on which the Issuer is present;
- Entry into new markets, including:
  - opening of the first foreign LUG factory in Argentina based on the decision of the Issuer's Management Board of August 24, to establish the LUG Argentina SA company, registered on August 30, 2017 and based on signing on November 11, 2016 a contract with the Government of the Misiones Province for the supply of luminaires with a total value of over EUR 20 million and the construction of a LUG factory in Argentina;
  - the formation of LUG Aydınlatma Sistemleri Anonim Şirketi with its registered office in Istanbul, registered on August 6, 2018, operating and registered in accordance with Turkish law. The establishment of the Company results from the foreign expansion of LUG S.A. Capital Group, whose element is the expansion of activities on the Turkish market and related markets;
- Intensified activities for the dissemination of broadly understood smart lighting and intelligent light management technologies;
- 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 assortment and investments in new lighting solutions, an example of which is the founding of BIOT Sp. z o.o., dealing with development from the IoT area.

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<sup>9</sup> Szybki monitoring NBP „Analiza sytuacji sektora przedsiębiorstw” no. 01/19 (January 2019)

### 3. IMPORTANT EVENTS AFFECTING THE ACTIVITIES OF LUG S.A. CAPITAL GROUP IN 2018

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#### 3.1. The most important circumstances and event affecting the business

The most important events that affected the operating activities and financial results of companies from the LUG S.A. Capital Group in 2018 they were:

##### Foreign Expansion of LUG S.A. Capital Group:

- **Opening of the first foreign LUG factory in Argentina and commencement of production**  
On October 29, 2018, the final construction phase was completed and the LUG Argentina SA plant in the Misiones Province was officially opened. The production plant was the subject of an agreement concluded on April 10, 2017 with Parque Industrial Posadas S.A.P.E.M., communicated in the current report ESPI 4/2017. The official opening was made by the President of the LUG S.A. Ryszard Wtorkowski and the Governor of the Province of Misiones, Hugo M. Passalacqua. The event was attended by numerous representatives of the provincial authorities of Misiones and the city of Posadas, members of the House of Representatives, business representatives from whole Argentina and local entrepreneurs. The event was also honored by the presence of a delegation of the Polish embassy in Argentina, honorary consul of the Republic of Poland, Mr. Miguel Antonio Skowron and representatives of the local Polish community. The first foreign factory of the LUG Group produces the latest generation LED lighting fixtures, designed for lighting urban spaces, road infrastructure, schools, public buildings and industrial facilities.

As part of cooperation with provincial city offices, LUG estimates that only in the province of Misiones over the next few years, will replace 50,000 street luminaires, which will allow the owners to generate energy savings up to 70% of current consumption. The factory in Argentina is a strategic expansion center for LUG in the region of South America.

- **LUG Turkey - opening and registration of a new company of the LUG S.A. Capital Group.**  
On August 1, 2018, the joint-stock company LUG AYDINLATMA SISTEMLERİ ANONİM ŞİRKETİ (LUG Turkey) was established, operating and registered in accordance with Turkish law with its registered office in Istanbul, Republic of Turkey. The initial capital of the Company is 50,000 TRY (in words: fifty thousand Turkish Lira), in which the Issuer has taken up in its original form 25,000 (in words: twenty five thousand) series A shares with a nominal value of 1 TRY (in words: one Turkish Lira) each share and total value nominal TRY 25,000 (in words: twenty five thousand Turkish Liras), representing 50% of the share capital and entitling to the same number of votes at the General Meeting of Shareholders of the Company.

The remaining shares in the share capital of the Company were acquired by the following persons:

- Mr. Ruhan Konsol took up 8.400 (in words: eight thousand four hundred) series B shares with a nominal value of 1 TRY (in words: one Turkish lira) each share and a total nominal value of 8.400 TRY (in words: eight thousand four hundred Turkish Liras), which constitutes 16,8% of the share capital and entitles to the same number of votes at the General Meeting of the Company's Shareholders;
- Mr. Tomasz Jacek Dąbrowski took up 8.300 (in words: eight thousand three hundred) series B shares with a nominal value of 1 TRY (in words: one Turkish lira) each share and a total nominal value of 8.300 TRY (in words: eight thousand three hundred Turkish lira), which

is 16,6% of the share capital and entitles to the same number of votes at the General Meeting of Shareholders of the Company;

- Mr Piotr Przemysław Byzdra took up 8.300 (in words: eight thousand three hundred) series B shares with a nominal value of 1 TRY (in words: one Turkish lira) each share and a total nominal value of 8.300 TRY (in words: eight thousand three hundred Turkish lira), which is 16,6% of the share capital and entitles to the same number of votes at the General Meeting of Shareholders of the Company.

The capital of the company was covered by a financial contribution in the amount of TRY 12,500 (in words: twelve thousand five hundred Turkish lira). The remaining amount of capital, i.e. 37.500 TRY (in words: thirty seven thousand five hundred Turkish lira) will be covered by a cash contribution within 24 months from the moment of registration of the company in accordance with the provisions of Turkish law.

The company was established for an indefinite period.

The Corporate Security of LUG S.A. in the Company in connection with the distribution of votes at the General Meeting of Shareholders are in particular included in the shareholder agreement of the so-called deadlock provision with the buy-sell option, the right to join the sale (tag along) and the appointment of a two-person Management Board: Mr. Ruhan Konsol - President of the Management Board of the Company and Mr. Mariusz Ejsmont - Vice President of the Management Board of the Company, who represents the Management Board of LUG S.A. In accordance with the Company's Articles of Association, both members of the board represent it jointly.

On August 6, 2018, the company belonging to the Issuer's Capital Group was registered: LUG AYDINLATMA SİSTEMLERİ ANONİM ŞİRKETİ with its registered office in Istanbul (the "Company") in the Istanbul Trade Registry under number 150668-5 (mersis number: 0609084882000001).

The company's goal is to conduct commercial, production and consulting activities in the field of professional lighting solutions. The creation of the LUG Turkey company results from the LUG S.A. Capital Group foreign expansion, which element is the business expansion on the Turkish market and markets in the region.

- **Purchase of a block of shares in LUG Aydınlatma Sistemleri Anonim Şirketi (LUG Turkey)**  
On November 12, 2018, the Issuer acquired a stake in the Turkish company LUG Aydınlatma Sistemleri Anonim Şirketi (LUG Turkey) from one of the existing shareholders  
- Mr. Ruhan Console. The Issuer has purchased a block of 8,400 (in words: eight thousand four hundred) series B shares of the Company with a nominal value of 1TRY (in words: one Turkish lira) each share and a total nominal value of 8,400 TRY (in words: eight thousand four hundred Turkish Liras), which is 16.8 % of the Company's share capital and entitles to give the same number of votes at the General Meeting of the Company, for a total purchase price of 1,000 euros (in words: one thousand euros). In connection with the acquisition of the above block of shares, the Issuer's share in the share capital and votes at the General Meeting of the Company increased from 50% to 66.8%. LUG AYDINLATMA SİSTEMLERİ ANONİM ŞİRKETİ (LUG Turkey) was established on August 1, 2018, is active and registered under Turkish law with its registered office in Istanbul, Republic of Turkey. The company was established for an indefinite period.

## Events regarding the technology company BIOT Sp. z o.o. :

- **BIOT Sp. z o.o. project classified**

On May 9, 2018, the Management Board of LUG S.A. had learnt about the classification of the project of BIOT Sp. z o.o. to the list of projects selected for co-financing in the competition announced under the Regional Operational Program - Lubuskie 2020 (European Regional Development Fund), Priority Axis 1. Economy and innovation, Measure 1.1. Research and innovation, Project type: I. R&D projects of enterprises. The total value of the project is PLN 4 899 356.61, of which: the value of eligible costs is PLN 4 217 042.89, the co-financing amount to PLN 2 123 671.26, and the remaining expenditure in the amount of PLN 2 775 685,35 will be financed from the Company's own funds. The project concerns the Company's research and development activities named: "Intelligent sensory systems for lighting management in solutions from smart lighting to smart city. Research and prototyping. "

- **Conclusion of a contract for co-financing the project of BIOT Sp. z o.o.**

On June 13, 2018, the Management Board of BIOT Sp. z o.o. based in Zielona Góra concluded a contract for co-financing the project entitled "Intelligent sensory systems for lighting management in solutions from smart lighting to smart city. Research and prototyping" implemented regarding to Regional Operational Program - Lubuskie 2020, Priority Axis 1. Economy and innovation, Measure 1.1. Research and innovation, Project type: I. R&D projects of enterprises. The total cost of the project is PLN 4 899 356.61, of which: the value of eligible costs is PLN 4 217 042.89, the co-financing amount is PLN 2 123 671.26, and the expenditure in the remaining amount in the amount of PLN 2.775.685,35 will be finalized with the Company's own funds. Project submitted by BIOT Sp. z o.o. is a research project of industrial research implementation and experimental development works is planned, the effect of which will be creation of systems and solutions in the field of IoT. The main purpose of the project is to increase the company's competitiveness on the domestic and international markets by increasing R&D activity, creating innovative products and solutions.

- **Increase of share capital in BIOT Sp. z o.o.**

On June 22, 2018, the Extraordinary General Meeting of BIOT Sp. z o.o. based in Zielona Góra ("Company") adopted a resolution regarding the increase of the Company's share capital. Pursuant to the resolution, the share capital of the Company was increased from PLN 160,000.00 to PLN 200,000.00, ie by PLN 40,000.00 through the creation of 800 new shares with a nominal value of PLN 50.00 each. The newly created shares were acquired by the existing shareholders of the Company: LUG S.A. and Toka - Burzyński, Guzowski Spółka Jawna with its registered office in Zielona Góra. The Issuer acquired 408 shares with a total nominal value of PLN 20,400 covered in cash in the amount of PLN 275,000.00. Toka - Burzyński and Guzowski Spółka Jawna based in Zielona Góra, took up 392 shares with a total nominal value of PLN 19,600 and covered them with a non-cash contribution in the form of intellectual property rights. The funds obtained from the increase of the share capital of the Company were used to finance the subsequent stages of implementation of BIOT Sp. z o.o.

- **Increase of share capital in BIOT Sp. z o.o.**

On 20 April 2018, the Extraordinary General Meeting of BIOT Sp. z o.o. based in Zielona Góra ("Company") adopted a resolution regarding the increase of the Company's share capital. In accordance with the resolution, the share capital of the Company increased from PLN 120,000.00 to PLN 160,000.00, by PLN 40,000.00 through the creation of 800 new shares with a nominal value of PLN 50.00 each. The newly created shares were acquired by the existing shareholders of the Company: the Issuer and Toka - Burzyński, Guzowski Spółka Jawna with its registered office in Zielona Góra. The Issuer acquired 408 shares with a total nominal value of PLN 20,400 and covered them in full in cash in the amount of PLN 275,000.00. The other partner of the Company: Toka - Burzyński and Guzowski Spółka Jawna, based in Zielona Góra, took up 392 shares with a total nominal value of PLN 19,600 and covered them in full with a non-cash contribution in the form of

intellectual property rights. The funds obtained from the increase of the share capital of the Company were used to finance the subsequent stages of implementation of BIOT Sp. z o.o.

- **Increase of share capital in BIOT Sp. z o.o.**

On February 23, 2018, the Extraordinary General Meeting of BIOT Sp. z o.o. based in Zielona Góra ("Company"), adopted a resolution regarding the increase of the Company's share capital. Pursuant to the resolution, the share capital of the Company was increased from PLN 80,000.00 to PLN 120,000.00, ie by PLN 40,000.00 through the creation of 800 new shares with a nominal value of PLN 50.00 each. The newly created shares were acquired by the existing shareholders of the Company: the Issuer and Toka - Burzyński, Guzowski Spółka Jawna with its registered office in Zielona Góra. The Issuer acquired 408 shares with a total nominal value of PLN 20,400 and covered them in total in cash in the amount of PLN 315,000.00. The other partner of the Company: Toka - Burzyński, and Guzowski Spółka Jawna based in Zielona Góra, took up 392 shares with a total nominal value of PLN 19,600 and covered them in full with a non-cash contribution in the form of intellectual property rights. The funds obtained from the increase of the share capital of the Company were used to finance the subsequent stages of implementation of BIOT Sp. z o.o.

#### **Other significant events in the LUG S.A. Capital Group:**

- **Statuette of the 11th edition of the "Golden Website of the Issuer" for LUG S.A.**

For the seventh time, LUG S.A. is a laureate of a competition organized by the Association of Stock Exchange Issuers, this time defeating competitors in the combined category for small companies from the NewConnect regulated market and the alternative market. The Issuer's Golden Website is awarded for high standards in running websites and the company's communication process with investors. The received statuette confirms the highest level of investor relations service LUG S.A. continued and perfected for years.

- **Medal "Merited for Export of the Republic of Poland"**

On February 6, 2019, at the Congress Center of the University of Life Sciences in Lublin, the Export Gala 2019 was held. During the event chosen laureates were awarded with medals "Merited for Export of the Republic of Poland" in three categories: personalities, institutions and companies. Capital Group of LUG S.A. received the medal in the *Company* category.

- **Economic Award of the Marshall of the Lubuski Voivodeship 2018**

LUG S.A. received the Economic Award of the Marshal of the Lubuskie Voivodeship emphasizing the company's contribution to development and promotion of the Lubuskie region. The awards ceremony took place during the ceremonial Gala of Economic Congress - Lubuskie in 2018. On October 11, 2018, 45 best companies from the Lubuskie region were awarded, among the laureates there was also the LUG S.A. Capital Group.

- **European Hotel among the hundred most beautiful places in the world**

In October 2018, the list of one hundred most beautiful places in the world was announced 2018 according to the American Time magazine. Among the awarded locations there is the European Hotel in Warsaw, with illumination created by LUG Light Factory Sp. z o.o.

- **Completion of the next stage of the research and development project**

LUG Light Factory Sp. z o. o., a subsidiary of the Issuer, completed the first year of the project co-financed by the European Regional Development Fund regarding to the Regional Operational Program - Lubuskie 2020. Until the end of October 2017 intensive research and design work (stage I of the Project) was in progress, focusing on the development of prototypes lighting fixtures, including the development of design specifications for each proposed prototype. At the end of last year,

45 prototyping projects for new luminaires and lighting sets were open. So far, several dozen prototypes of luminaires have been completed. In January 2018, the second stage of the project ended, i.e. the purchase of necessary fixed assets for research, testing and validation. Currently, works on patent applications created during research and development are in progress.

- **Economic Congress of Lubuskie 2018**

On October 12, 2018, LUG participated in the Lubuski Business Congress 2018. During the discussion panel, LUG acted as an expert of Smart City, which implemented a project that fits in with smart technology, sharing its many years of experience as a lighting manufacturer. Issues such as economic reasons leading to the implementation of Smart City, its financing, or the essence of lighting infrastructure, which can become the basis for creating the Smart City communication network, were discussed.

- **Light + Building 2018 Trade Fairs**

On 18 - 23 March 2018 in Frankfurt am Main held one of the largest and the most important trade fair of the lighting industry, Light + Building 2018. Light + Building is a place of inspiration and the largest lighting market in the world. Over 2,700 leading lighting manufacturers from 55 countries from around the world show news, inspire and sets lighting trends. Every year, the Light + Building trade fair attracts to Frankfurt over 200,000. professionals visiting the fair and looking for the latest, most innovative solutions for the lighting and construction industry. Each edition of the fair is related to a prevailing trend in the industry. This year, the theme of the event was expressed in a slogan "Connected - Secure - Convenient" - intelligent network lighting solutions that increase the safety and comfort of users, while caring for for the economic efficiency of buildings. The future of the industry is aesthetics and functionality created for the needs of the human body and the impact of light on the human psyche.

As one of exhibitors, LUG presented a wide spectrum of innovative solutions designed to meet the wide range of needs of its business partners. During this year's edition of Light + Building, LUG 240 sq m. stand reflected the strategic directions of the company's development. In three unique zones of the stand, dedicated solutions were presented to LUG strategic target groups: architects, interior designers and city authorities.

After the fair, on 12 April 2018, LUG got to know the list of laureates of the 57th Edition of the StandOUT Light + Building Competition. The LUG company received the prestigious Honorable Mention in the category: stand above 200 sq.m.

- **Withdrawal from application of the principle contained in point 16 of the Best Practices of Companies Listed on NewConnect**

In current report No. 3/2018, the Management Board of LUG S.A. informed about the withdrawal with the day January 16, 2018 from the publication of monthly reports referred to in point 16 Best Practices of NewConnect Listed Companies included in Annex No. 1 to Resolution No. 795/2008 of the WSE Management Board in Warsaw S.A. of October 31, 2008 "Good Practices of NewConnect Listed Companies", subsequently amended by Resolution No. 293/2010 of the WSE Management Board in Warsaw S.A. from March 31, 2010 In the opinion of the Management Board of LUG S.A. taking into account the convergence of information contained in monthly reports with information provided regularly through current and periodic reports, which the Company prepares in accordance with applicable law, timely published current and periodic reports enable all interested parties, including individual investors, to familiarize themselves with all circumstances and events that may have a significant impact on the Company's economic, property and financial situation or that could significantly affect the price or value of LUG S.A.



- **Payment of dividends to shareholders of LUG S.A.**

On September 19, 2018, the third dividend in the history of LUG was paid based on a decision of the General Meeting of Shareholders which positively considered the request of the LUG SA Management Board and adopted a resolution to enable the payment process to be carried out. Shareholders received PLN 1.22 million of profit generated in 2017, PLN 0.17 per share.

Detailed parameters of the paid dividend:

- dividend resolution: PLN 1,223,756.90
- the value of the dividend per share: PLN 0.17
- the date of setting the right to dividend: 12/09/2018.
- dividend payment date: 19/09/2018

- **Lubuski Business Leader and Innovation Leader 2018**

On September 24, 2018 in the Kepler Science Center in Zielona Góra a ceremonial Gala was held, during which the best Lubuskie entrepreneurs were awarded for the tenth time. The purpose of the competition organized by the West Chamber of Commerce and Industry and Gazeta Lubuska was to select and reward the best enterprises in the region. This year, 56 companies competed for the title of the Lubuski Business Leader. LUG S.A. Capital Group took first place in the category of "large enterprises" for the second year in a row. . For the fifth time, the statuettes for Innovation Leaders were also awarded and LUG was also amongst the winners.

- **Business Gazelles 2018**

LUG Light Factory, a company forming part of the LUG S.A. Capital Group for the fourth time is in the group of companies awarded with the prestigious Gazelle of Business title, taking 44th place among companies from the region and 2167 in the nationwide ranking. This year's ranking prepared by "Vital Signs of Business" was attended by a record number of 4.5 thousand companies from all over Poland, including over one hundred from the Lubusz Province. Gazelles of Business is the oldest ranking of the most dynamically developing companies that stand out, among others increase in sales revenues in recent years. A good position in the ranking correspond with commercial contacts and strengthens the credibility of companies. The companies listed in the statement are characterized by trust and dynamic development.

- **NewConnect bulls and Bears**

Gazeta Giełdy Parkiet for the 24th time presented capital market awards "Bulls and Bears" and "Golden Wallets" awarded to the best companies, institutions and personalities of the Warsaw Stock Exchange. The statuette in the category "Company of the year from the NewConnect market" was awarded to the LUG S.A. Capital Group. During this year's gala "Bulls and Bears", which took place on March 21, 2018 at the head office of the Warsaw Stock Exchange, prizes for the best companies of the Polish capital market were distributed. The Bull statuette for the "Best company on the NewConnect market" was won by LUG S.A.

- **The Best Lighting Investment 2017**

The Competition Commission organized by the Polish Lighting Industry Association awarded the projects realized by LUG Light Factory for the use of the best lighting solutions that perfectly harmonize with the adopted architecture concept. The ceremony of awarding the prizes to the winners of the competition took place on 31 January 2018 during the Light 2018 trade fair in Warsaw. The awarded buildings are the Comarch building in Łódź and the Bulwary Quay of the Old Town in Szczecin.



### 3.2. Achievements in the field of research and development

The constant condition for the competitiveness of the offer of the LUG S.A. Capital Group companies is constant development, which in 2018 was implemented based on several fundamental elements:

- research and development works related to the design of new solutions,
- investments in the research and production center in Nowy Kisielin,
- technological development based on a new company in the Group - BIOT Sp. z o.o.,
- improving the qualifications of the internal LUG laboratory,
- extending ISO certification,
- improvement of internal processes.

Research and development activities in LUG S.A. Capital Group concerns mainly designing new lighting solutions, testing their parameters and improving the parameters of products already on offer. In 2018, a subsidiary of the Issuer, LUG Light Factory Sp. z o.o. implemented a project co-financed from the European Regional Development Fund within the framework of the Regional Operational Program - Lubuskie 2020. Until the end of October 2017 intensive research and design works (stage I of the Project) were in progress, which focused on the development of prototypes of lighting fixtures, including the development of design specifications for each proposed prototype. At the end of 2017, there were 45 prototyping projects for new lighting fixtures and lighting sets, with dozens of prototype luminaires. In January 2018, the second stage of the project ended, i.e. the purchase of necessary fixed assets for testing, testing and validation. Patent applications were also filed and intellectual property protection selected from technological solutions that were born during research and development work. The total value of the project is PLN 12,85 million, with a co-financing rate of 42,05% of eligible costs.

Starting from 2015, the R&D Division, Laboratory and Electronic Division operate in a research and production center located in Nowy Kisielin, less than 10 km from the headquarters of LUG. In 2017, the Issuer carried out an investment in the construction of a production and warehouse hall, which was an extension of the existing center, in 2018 no investments were made in this area.

From August 01, 2008 research and development activities are carried out by LUG Light Factory Sp. z o.o. in an internal laboratory located at the headquarters of the LUG S.A. Capital Group in Zielona Góra. In January 2016, the photovoltaic laboratory was moved and launched to the center in Nowy Kisielin. In the laboratory, fittings and components are tested mainly in terms of safety of use. Among other things, thermal conditions, tightness of fittings (IP degree), resistance to mechanical shocks (IK degree), aging of plastics are examined, as well as all electrical parameters. Laboratory of the LUG S.A. Capital Group is equipped in the unobstructed chamber for thermal tests of lighting fittings in accordance with the PN-EN 60598-1 standard and a device for testing the combustibility of materials using the hot wire method (GWT) in accordance with PN-EN 60695-2-10. In addition, the thermal testing chamber allows for aging tests of plastics, which in combination with UV exposure allows to simulate the durability of plastics over time. The laboratory also includes a photometric darkroom equipped with a high-class automatic system for very precise measurements of light distribution curves of lighting fixtures and other light sources (C-Gama type Goniophotometer). The laboratory is fully adapted to the needs of a wide spectrum of product quality control, and in 2018 the laboratory obtained the approval of the ISO 17025 system by the TUV SUD unit.

Designers of lighting fixtures, employees of the Development Department and the Technical Department each year work intensively on new luminaire designs, as well as modify existing products in order to increase their quality and functionality and adjust their features to customer requirements. In 2017, many new products were implemented, all of which were based solely on LED technology. The LUG Capital Group has completely withdrawn from the offer of conventional technology, its minimum percentage of sales results only from the implementation of the last projects from several years ago offered on the basis of traditional light sources.

Design and conceptual work of the LUG S.A. Capital Group are currently focused on intensive development within IoT and the SmartCity segment. For this purpose, in 2017 a technology company BIOT Sp. z o.o., whose aim is to strengthen the potential of the LUG Group in the area of development of new lighting technologies and implementation of strategic assumptions. The main area of activity of the new entity is research and implementation of new technological solutions.

Another direction of realized development activities is cost optimization. As part of these activities, in 2017 the Issuer implemented a number of activities, including the most important implementation of the philosophy of KAIZEN and the 5S method. The philosophy of KAIZEN, as a concept of continuous improvement, went to 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. From the entire organization, the implementation team received over 250 improvement proposals from very different areas affecting: cost optimization, work ergonomics, product quality and environmental impact. Out of 278 applications, 181 applications were applied in the organization, and many other activities are implemented through a large degree of self-fulfillment. The most important of the implemented techniques turned out to be the 5S Method (selection, systematics, cleaning, standardization and self-discipline), which caused significant improvements in work. The implementation of KAIZEN and 5S resulted in an increase in production efficiency by 4% within the Production Division itself, including 7% in the area of electrical assembly. Another effect of the completed works is greater availability of LED modules and the possibility of flexible response to market needs, which builds a competitive advantage of the LUG S.A. Capital Group.

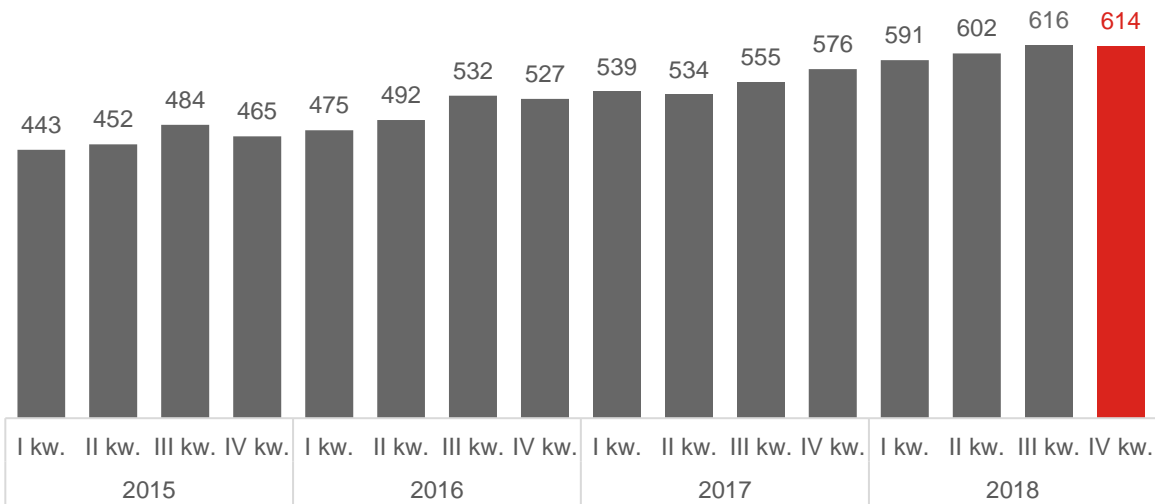
**3.3. Essential information and non-financial data**

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

**3.3.1. Human resources**

LUG S.A. Capital Group as at 31.12.2018 employed 614 people in relation to 576 people at the same time in the previous year.

**Chart 7** Employment level at the LUG S.A. Capital Group in 2015 - 2018 in quarterly terms (employment based on a contract of employment)



Source: LUG S.A.

Employment level at the LUG S.A. Capital Group in 2015 - 2018 in quarterly terms (employment based on a contract of employment)

**Table 23** Human resources of the LUG S.A. Capital Group and LUG S.A. on December 31, 2018

Specification	LUG S.A. Capital Group	LUG S.A.
Number of employees (full-time)	614	0
Number of employees (part-time job)	2	0
Other forms of employment	62	0
Average age of employees	38 years 0 m-ths	-
Employment structure by education	higher - 52% average - 31% professional - 13% basic - 4%	-
Employment structure by gender	Women – 39%, Men – 61%	-

Source: LUG S.A.

### 3.3.2. Corporate social responsibility

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

One of the elements of building relationships with the local community is the charitable activity carried out by LUG. It takes the form of targeted donations for the purposes of non-governmental organizations and material support.

Acting within the framework of the LUG S.A. Capital Group, the Issuer in 2018 once again supported the Poviatic Children's Home from Żary. As part of an intentional Christmas initiative, employees and the company in response to the letters of children to Santa Claus, they made their children's dreams come true.

The total amount of donations for social purposes amounted to 36,4 thousand in 2018. PLN (compared to PLN 47,3 thousand in 2017). Among the recipient organizations and institutions included, among others:

- *People for People Association, Gold Heart Patrons*
- *It Pays to Help Association*
- *Foundation elephants on balcony*
- *BAMMBAAMM Art Theater*
- *Christmas Action Xmas Ornaments for children from the Poviatic Children's Home in Żary*
- *LUG plays with the The Great Symphony of Help*

- Poviát Children's Home in Żary
- Aid Foundation for Disabled People *Sunshine*
- Foundation for helping children from the Grodno region
- Sponsorship of cultural and entertainment events

The LUG company also provided material support, that took various forms:

- renovation of a flat intended for a single mother with children who remain under care of the Crisis Intervention Center in Zielona Góra;
- employee collecting Santa Claus gifts and Christmas gifts for children from the Children's Home in Żary, as well as support for other material needs of the whole House;
- sponsoring T-shirts for the WOŚP volunteers during the last two editions (2017 + 2018).

At the end of 2018, the company LUG Light Factory Sp. z o.o. funded the lighting of the hippotherapy and horse riding square for the Zielonogórski Equestrian Club worth over PLN 23,000. Hippotherapy classes are carried out in the club, and over 1000 people with disabilities participate in them, including students with special needs, people with multiple sclerosis, participants of Occupational Therapy Workshops and children from the Disabled Children's Association from rural areas, Amazons, autistic, children with Down syndrome and cerebral palsy and people with all kinds of balance disorders and motor coordination issues. In addition, the club runs equestrian classes for a wide range of children and youth from the area of Zielona Góra and the surrounding areas. Thanks to the newly built location, hippotherapy and riding classes take place in conditions that meet the current standards and regardless of the weather, which significantly improves the quality and safety of the training.

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

In 2018, the LUG Group also carried out activities in the field of sponsoring industry and cultural events with a total value of PLN 158,809, including:

- XII Conference Lighting Roads and Public Places, Wisła 2018
- Academy of Effective Designing 2018 - spring edition
- 2nd Annual Latin America Rail Expansion Summit 2018
- City Matters, Warsaw 2018
- Aube Berlin 2018
- The London Lighting Engineers Group 2018
- Everylife 2018
- Architecture Days in France 2018
- Western Economic Forum, Nowa Sól 2018
- Stadt, Licht und Verkehr, Leipzig 2018
- Visualization workshops for architects and interior designers, Wrocław 2018
- Workshops for architects SARP, Łódź 2018

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

## **Social responsibility in the field of environmental protection**

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

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

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

Activities for environmental protection are among the LUG's priorities. The implemented and used Environmental Management System according to the international standard ISO 14001: 2015 and the Energy Management System according to the ISO 50001: 2011 standard confirm that the Issuer's subsidiary, LUG Light Factory Sp. z o.o., meets legal requirements related to environmental protection. Both the Environmental Management System Certificate according to the ISO 14001: 2015 standard and the Energy Management System Certificate according to the ISO 50001: 2011 standard, the company LUG Light Factory Sp. z o.o. has since 2018.

The companies of the LUG S.A. Capital Group did not incur in 2018 any criminal penalties for violation of environmental protection requirements.

## **Social responsibility in the area of human resources development**

Capital Group LUG S.A. pays great importance to the promotion of such values as equality, honesty and dialogue. Bearing in mind social justice and gender equality, the Issuer cares for balance in terms of the gender structure of human resources, and also opposes all forms of discrimination and racism. The ratio of female employees to male employees is 38% to 62%. In the composition of the Management Board and the Supervisory Board of LUG S.A. 1/3 of the members are women. The employees of the company are people of different nationalities.

In 2018, a significant extension of the training program took place, primarily in the field of mid-level staff. The average number of training hours per manager or manager increased by nearly 160% to 76,3 hours over the last year. In the case of persons belonging to the top management, the number of training hours increased in 2018 by 125.5% to over 37 hours. In the group of other employees, the number of training hours was also increased to an average of 28 hours (an increase by 19.0% y/y). The increase in the number of training hours was influenced by the launch of important training programs in project management and development of English-language organizational culture.

As part of the development purposes, employees of the LUG S.A. Capital Group participate in numerous trainings improving their professional qualifications and expanding their competence in language courses organized at the company's headquarters. In addition, every person starting work in the

company has a series of trainings in the field of lighting technology. The Issuer also supports the sporting activity of employees gathered in LUG TEAM runners and in mountain bikers LUG MTB TEAM. Under direct care of the company there is also a titled powerlifting player of the disabled, who has participated in the Olympic Games in Rio and many sports events of international importance.

Activities of the LUG Capital Group S.A. in the area of sport patronage, were recognized by the authorities of Zielona Góra. In April 2016, Ryszard Wtorkowski, President of the Management Board, received the City Mayor's award for activities related to the patronage of sport.

### **Business responsibility as part of local sport support**

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

The LUG company also supports its employees, including Mr. Marek Trykacz, LUG employee and multiple Polish champion, medalist of the European Championships and the world runner-up in weightlifting for people with disabilities. Mr. Marek Trykacz is the best athlete in his weight in Europe and takes the first place on the ranking list of our continent.

### **3.3.3. Awards**

In 2018, the Issuer and the companies of the LUG S.A. Capital Group, including in particular LUG Light Factory Sp. z o.o. received prizes and distinctions presented in the table below.

**Table 24** Prizes in 2018 year

<b>Award</b>	<b>Description</b>	<b>Organizer</b>
<b>Najlepsza Inwestycja Oświetleniowa 2018</b>	Wine Hills (Palm House and Wine Park) and the illumination of the ruins of the castle in Zatonie were awarded the first prize in the category "Illumination of public, private and sacred buildings". The II prize in the category "Internal lighting of public facilities, shopping centers and buildings as well as service and hotel facilities" was awarded to the Bałtyk Office Building	Polski Związek Przemysłu Oświetleniowego (Polish Association of the Lighting Industry)
<b>iF Design Award 2018</b>	Avenida LED luminaire as a laureate of iF DESIGN AWARD contest in lighting products category	iF International Forum Design
<b>Business Gazelle 2018</b>	LUG - Business Gazelle of year 2018	Puls Biznesu
<b>Lubuskie Innovation and Business Leader of 2018</b>	Lubusz Innovation and Business Leader for LUG Light Factory Sp. z o.o.	Zachodnia Izba Przemysłowo - Handlowa
<b>Laureate of the Economic Award of Marshal of the Lubuskie Voivodeship 2018</b>	Award underlining the company's contribution to the development and promotion of the Lubuskie region	Institute of Accountancy and Taxes

**Issuer's Golden Website XI**

Award in the category for small companies from regulated and alternative market of Warsaw Stock Exchange

Association of Stock Exchange Issuers

**Award of Polish Investment and Trade Agency**

Statuete „Wspólna Wartość” („Common Value”) for LUG Light Factory Sp. z o.o. in CSR area for acting in the local communities interest

Polska Agencja Inwestycji i Handlu (Polish Investment and Trade Agency)

**„Bulls and Bears” of NewConnect**

Company of the year from NewConnect market

Gazeta Giełdy Parkiet (Parkiet Stock market newspaper)

**Polish Economy Brilliant of 2018**

Independent ranking based on business intelligence data

Institut Europejskiego Biznesu (European Business Institute)

**Zasłużony dla Eksportu RP Merited for Polish Export**

LUG S.A. Capital Group received the medal in Companies category representing Lubusz voivodeship

Krajowe Stowarzyszenie Eksporterzy Rzeczypospolitej Polskiej (Polish Exporters Association)

Source: LUG S.A.

### 3.3.4. Trade fairs and conferences

LUG Light Factory Sp. z o.o., as a subsidiary of the Issuer and an entity implementing design, production and trade activities, represented the LUG S.A. Capital Group in 2018 at many trade fairs and industry meetings:

- **Light + Building 2018**

On March 18-23, 2018, light + building trade fairs took place. The event is organized every two years and attract over 200,000 professionals looking for the latest, most innovative solutions for the lighting and construction industry. The LUG Light Factory, one of the leading European manufacturers of professional lighting solutions, was also among the exhibitors. During this year's edition of the light + building fair, the LUG stand reflected the strategic directions of the company's development. In three unique zones of the stand, solutions were presented dedicated to the strategic LUG target groups: architects, interior designers and city authorities.

- **BUILD 2 PERFORM 2018**

On November 27-28, LUG participated in the BUILD 2 PERFORM trade fair in London. This is one of the most diverse and interesting events in the construction industry in the United Kingdom, where LUG product news were presented: AVENIDA, ATLANTYK 2.0 and luminaires: CRUISER, POWERLUG, CALIBRO. In addition, on November 27, LUG specialists took part in the CPD Exhibition Session, during which the Support Program in Architectural Lighting and the Full BIM Support Package was presented.



- **LUX LIVE 2018**  
 On November 14-15, representatives of LUG took part in one of the largest European lighting events - LUX LIVE 2018 in London. During the "BIM and lighting" conference, the LUG specialist introduced students to issues related to lighting in the BIM environment. During the fair, participants could visit the LUG Lighting UK stand, where new LUG products: AVENIDA, ATLANTYK 2.0., LUGTRACK EVO and NOISE were presented.
- **LE SALON DES MAIRES**  
 On November 20-22, 2018, LUG participated in the Le Salon des Maires trade fair, which every year brings together specialists responsible for urban planning and development. At the LUG stand presented LUG product: AVENIDA, ATLANTYK 2.0. and a number of opportunities offered by smart city class solutions.
- **LUG Light Factory at ENERGETAB 2018**  
 On September 11-13, 2018, the company LUG Light Factory Sp. z o.o. participated at ENERGETAB 2018 International Energy Fair in Bielsko-Biała, leading workshops and accepting interested parties in a specially prepared LUG booth. ENERGETAB is Poland's largest exhibition of modern equipment, apparatus and technologies for the energy industry and one of the most important meetings of the leading representatives of the power sector.
- **UK Construction week in Birmingham**  
 On 9-11.10.2018 the UK Construction Week in Birmingham took place - the largest industry event in Great Britain, organized for the fourth time. It was an opportunity for numerous conversations as well as exchange of valuable experiences. LUG acted as an expert, discussing among others on demystification of lighting in the BIM process.
- **Economic Congress of Lubuskie 2018**  
 On October 12, 2018, LUG participated in the Lubuski Business Congress 2018. During the discussion panel, LUG as an expert of Smart City, which implemented a project that fits in with smart technology, shared its many years of experience as a lighting manufacturer. Issues such as economic reasons leading to the implementation of Smart City, its financing, or the essence of lighting infrastructure, which can become the basis for creating the Smart City communication network, were discussed.
- **BIM Academy of Effective Design**  
 On 22-26.10.2018 LUG participated in the *BIM Akademia Efektywnego Projektowania* workshop organized in cooperation with ProCad SA, which took place in five cities in Poland (Bydgoszcz, Warsaw, Łódź, Poznań, and Szczecin). This is the second edition in which LUG participated, in this edition, LUG experts trained over 350 architects. Discussed among others the energy efficiency of lighting fixtures in the BREEAM certification process.
- **Dubai Solar Show 2018**  
 On 23-25.10.2018 LUG took part in the Dubai Solar Show, presenting modern lighting solutions for public space. Dubai Solar Show is organized for the second time by Dubai Electricity and Water Authority (DEWA). Their goal was to create space for the public and private sectors to build partnerships, review the latest solar technologies, learn about current and future projects in the region and market needs, as well as discover opportunities for participation in solar energy.
- **EXPOARCON 2018**  
 On 4/7 July 2018 in Peru, LUG participated together with the Partner, CEYESA, in a trade fair for the exchange of experiences and discussions about professional lighting solutions for LED technology.

- **Procad Expo 2018**

On September 13, 2018, LUG took part in the 26th edition of the largest CAD / BIM event in Poland PROCAD EXPO 2018 at the AMBEREXPO Conference Center in Gdańsk. This year's event included over 60 lectures, 17 thematic tracks, 40 speakers from Poland, Germany, Great Britain, Bulgaria and the Czech Republic.

### **3.3.5. Investor Relations**

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

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

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

In 2018, LUG S.A. as one of the few companies on the NewConnect market published the annual report for 2017 in the online version. This form of the report, apart from the traditional printed version, is a modern form of communication corresponding to the global trends of digitization of all business areas. It is a standard that permanently entered the communication context at LUG S.A. Capital Group. - this is another report after the reports for the years 2012, 2013, 2014, 2015, 2016 and 2017 communicated to investors in this form.

- **Victory in the Golden Website of the Issuer**

In 2018, the investor relations service of LUG S.A. won the XI edition of the Golden Website of the Issuer in the category of companies from the NewConnect market. The results of the plebiscite organized by the Association of Stock Exchange Issuers were announced in June 2018.

Investor relations service LUG S.A. for the ninth time in a row ended up in the final three, while the title of the best page on the NewConnect market was awarded for the sixth time in a row and seventh time in the competition's history (awards in 2009, 2013, 2014, 2015, 2016, 2017). The justification of the verdict lists such features of the investor relations service LUG S.A. like the current content update, very attractive graphic layout, and the unprecedented functionality of the companies listed on the NewConnect market that is the ability to synchronize the calendar of events important for investors with Google calendar.

### **3.3.6. Marketing activities**

Year 2018 was the time of communicating and implementing the Strategic Directions of Development for the years 2017-2021 in the organization. The directions adopted for implementation focus on three groups of decision makers - architects, interior designers and interior designers. It was on these groups that all marketing activities within the LUG S.A. Capital Group were focused. The main motive for creating marketing materials was their personalization and adaptation to the needs of each of the identified groups of decision makers.

At the end of 2018 and the beginning of 2019, the marketing department prepared and conducted a new product campaign that presented the latest LUG solutions dedicated to LUG target groups.

Other selected marketing activities:

- P-Zone - completion and implementation of self-service tools for employees as part of improving efficiency of internal processes;
- LUG's participation in the largest trade fairs Light & Building in Frankfurt am Main - conceptual work, selection of contractors. The fair took place in March 2018.
- Unified Project Management System - conceptual work and selection of contractors, implementation took place in 2018.
- Strategic film - video material presenting the philosophy of LUG in the area of cooperation with decision-makers and in the context of emerging values.
- Let's follow the strategy! - an integration event for LUG employees, whose goal is to consolidate the LUG environment around the mutually determined values and strategic directions of development.

The key project implemented by Marketing Department in 2018 was the participation of LUG at the world's largest lighting industry fair Light + Building in Frankfurt am Main. Light + Building is a place to draw inspiration and the world's largest lighting market arena. Over 2,700 leading lighting manufacturers from 55 countries from around the world show new products, inspire and set lighting trends. LUG S.A. Capital Group presented the latest innovative lighting solutions at its stand covering the area of 240 sq m. The theme of this year's Light + Building edition was "smartification" - smart technology in everyday life. The brand's philosophy was reflected in the thematic zones of the stand, where solutions for architects, interior designers and municipals were presented.

### **3.3.7. Proceedings in a court of justice**

In the reporting period, i.e. from 01.01.2018 – 31.12.2018 and as of the date of this report, LUG S.A., and other companies forming the LUG S.A. Capital Group did not conduct other significant proceedings before a court, a competent arbitration authority or a public administration body.

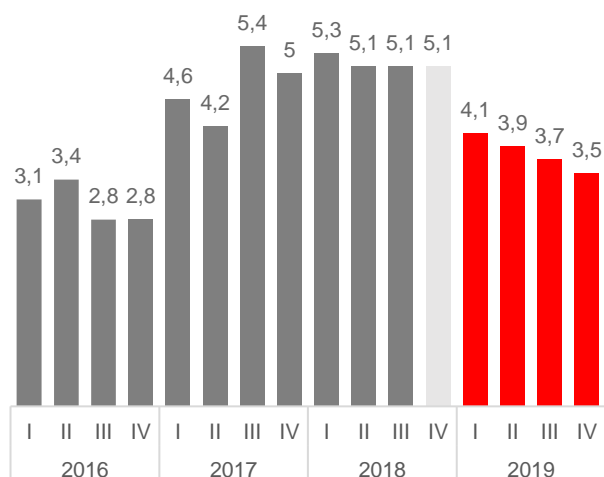
### 3.4. Current and projected financial situation of the LUG S.A. Capital Group

#### 3.4.1. Macroeconomic background

The Capital Group of LUG S.A. in 2018 operated in an environment characterized by the following economic indicators:

According to preliminary Main Statistical Office data and the opinion of the European Commission, GDP in Poland increased by 5,1% y/y in 2018 compared with a 4,8% increase last year. In 2018, domestic demand increased by 5,3% in comparison with an increase of 4,9% in 2017.<sup>10</sup> The economic growth rate published in 2018 at the level of 5,1% is the highest since 2007, i.e. for eleven years. Regarding to the assessment of the Institute of Economic Forecasts and Analyzes, it means that in the fourth quarter of last year GDP increased by 5,1 percent compared to the same period of the previous year, the same as in the previous two quarters. It was the sixth quarter in a row when the economic growth rate was at the level of five or more percent. Taking into account seasonal factors, the GDP growth rate from October to December amounted to 1,5 percent compared to the previous quarter.<sup>11</sup>

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



Źródło: NBP, IPAG

Analysts emphasize that the fast growth of domestic demand remained the driving force of Polish economy growth in the last year. This was the effect of a solid increase in household consumption, accumulation of significant inventories and acceleration of investments. In the current year, according to the majority of economists, it will be difficult to maintain GDP growth at 4% level, while some of them expect a significant decline below 4%.<sup>12</sup>

The Polish economy is already behind its peak. In the opinion of IPAG, in 2019-2020 we should expect a drop in the growth rate of gross domestic product. In the following quarters of 2019, economic growth will be slowing down, which is mainly the result from insufficient rate of investments in previous years and some external factors, i.e. a weakening of demand on export markets and a decrease in consumption on the domestic market. The annual growth rate in 2019 will reach 3.8 percent, on the other hand in 2020 it will decrease by 0.3 percentage point.<sup>13</sup>

On the basis of the information of February 7 this year, the European Commission has reduced GDP growth forecasts for Poland for the next two years. In EC's opinion, in 2019 Polish GDP will increase by 3.5 percent and in 2020 by 3.2 percent. In autumn 2018 estimated that it would reach respectively 3.7 and 3.3 percent. If this forecast confirms, it would still be one of the best results in the European Union. Brussels forecasts a drop in Polish import and export. As risk factors for the Polish economy, it mentions those related to external demand and trends in the private investment sector. At the same time, the EC expects a strong increase in public investment in 2019 with the support of EU funds. On the other hand, a high degree of domestic production capacity is going to be an important factor strengthening private investment. According to EU officials, fast growing wages should have a positive impact on private

<sup>10</sup> „O ile wzrośnie PKB Polski w 2019 roku? Oto prognozy analityków”, [www.forsal.pl](http://www.forsal.pl) (31.01.2019)

<sup>11</sup> Stan i prognoza koniunktury gospodarczej nr 4/2018, IPAG, październik 2018r.

<sup>12</sup> „O ile wzrośnie PKB Polski w 2019 (...)”, op.cit.

<sup>13</sup> Stan i prognoza koniunktury (...), op. cit.

consumption, however a slowdown in employment and higher inflation will have a negative impact at the same time. <sup>14</sup>

In Fitch Ratings analysis, the forecast of Poland's GDP dynamics for 2018 and 2019 increased respectively in 2018 to 5.1 percent (from 4.8 percent) and in 2019 to 3.8 percent (from 3.6 percent). In 2020, Fitch expects the economic growth rate in Poland to slow down to the level of 3 percent in comparison with the previously forecasted 2.9 percent. In the opinion of the agency, before the parliamentary elections of 2019, the government will apply fiscal easing, mainly in the form of an increase in social spending which will support economic growth.

The Fitch analysts report shows that despite factors supporting economic growth, it is expected to slow down, both in 2019 and 2020, along with a decrease in the absorption rate of EU funds. Private investment growth will be lower than public investment because companies are struggling to find employees. The net contribution of export to GDP over 2019-2020 will be positive, which will be supported by a relatively strong increase in export. The output gap should remain positive, reaching a peak of 1.5 percent in 2018 and 2019, as estimated by the European Commission. According to Fitch analysts, the forecasted exchange rate of PLN will remain stable. <sup>15</sup>

As well as Fitch Ratings, Morgan Stanley (MS) analysts also forecast a slowdown in Poland's GDP growth rate for 2019 dropping from 5.1 percent to the level of 3.8 percent. The announced slowdown will have sustainable background, which in the perspective of supply challenges, a slowdown in the euro area and the lack of an additional customer' encouraging impulse will be their natural consequence. <sup>16</sup>

Construction was the fastest growing sector of the economy, both in 2018 and in the fourth quarter, with record growth rates. From October to December, the value added in construction increased by 13.5 percent, and sold production of construction in enterprises employing more than nine people, by 15.5 percent. In the whole 2018, these rates amounted respectively to 17.0 and 17.9 percent. The rapid growth is the result of many infrastructure projects and the favorable economic situation in housing. The effects of the decline in construction and assembly output from 2016 were also recovered.

This situation will also persist in 2019-2020, when, despite the decline in growth, construction will remain the fastest growing sector of the economy. In these years, value added in construction will increase respectively by 10.9 and 8.2 percent, and sold production of construction (in enterprises employing more than nine people) will increase accordingly by 10.0 and 7.0 percent. The expected low growth rates in the first quarter of 2019, due to weather conditions and the exceptionally high reference level in 2018, should not be alarming. <sup>17</sup>

The strong correlation of the global economic situation with the situation in the lighting industry is indicated, among others in a report of McKinsey & Company<sup>18</sup>, which emphasizes that lighting fixtures market, light sources market and lighting control systems market are mainly driven by new installations that are directly related to investment activity, which is directly correlated with GDP dynamics.

Based on an analysis by SPECTIS research company, profitability drops sharply as a result of increased costs in building. What is worse, in 2019 the construction industry will experience a further increase in costs as a result of minimum wage increase, rising fuel and electricity prices. Spectis' report 'Construction market in Poland - December 2018' shows that in third quarter of 2018 the aggregated net profit of 22 construction groups listed on the Warsaw Stock Exchange (WSE) amounted to nearly PLN 170 million, against PLN 162 million net profit a year earlier. However, Spectis' analysts emphasize that a positive financial result is not indicative of a good financial condition of construction, because the third quarter of the year is usually the best for the construction industry. The rolling average for the last four

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<sup>14</sup> „KE obniża prognozy PKB dla Polski na lata 2019-2020. Bruksela prognozuje spadek importu i eksportu w Polsce”, (07.02.2019)

<sup>15</sup> „Fitch podwyższa prognozy wzrostu PKB Polski w 2018 i w 2019 r.”, [www.businessinsider.com.pl](http://www.businessinsider.com.pl), 5.12.2018 r., 16:41

<sup>16</sup> „Ile wyniesie wzrost PKB Polski w 2019 roku? Morgan Stanley opublikował prognozy”, [www.forstal.pl](http://www.forstal.pl), 26.11.2018, 16:05

<sup>17</sup> Stan i prognoza koniunktury gospodarczej nr 1/2019, IPAG, luty 2019 r.

<sup>18</sup> McKinsey&Company, „Lighting the way: Perspectives on the global lighting market”, second edition, 2012.

quarters tells more about the real state of construction. In the period of Q4 2017 - Q3 2018, the net loss amounted to PLN 281 million, compared to a loss of PLN 288 million a quarter earlier. As a result, the net return on sales dropped to minus 1.2 percent. The sector's financial result is negative for the fourth quarter in a row. The only good news is that the loss of the analyzed group has not increased. <sup>19</sup>

In 2018, the export growth rate (in national accounts) was lower than the import growth rate. According to IPAG, exports increased by 5.3 percent during this period, and imports by 5.9 percent. Situation, in which the import dynamics is higher than the dynamics of exports, is natural for the economies developing at a faster pace than the economies of the most important trading partners. Despite this, in the fourth quarter the growth rate of exports and imports amounted to respectively 5.1 and 4.9 percent, so, temporarily the growth rate of exports exceeded the growth rate of imports. However, in the next two years we will observe a stable advantage of the growth rate of imports over the growth rate of exports. Imports will increase at this time by 5.0 and 4.5 percent, and exports respectively by 4.6 and 4.2 percent.

The value added in industry increased in the fourth quarter of 2018 by 5.3 percent, and sold production of industry by 5.4 percent. Throughout 2018, these ratios increased respectively by 5.5 and 5.8 percent. The next two years will bring a decline in industrial growth. According to IPAG, the value added in industry will increase in 2019 by 4.3 and by 4.0 percent the next year, and sold production of industry respectively by 4.5 and 4.1 percent. In 2019, a slightly slower growth rate than in industry will be observed in services. The value added in market services will then increase by 4.2 percent. <sup>20</sup>

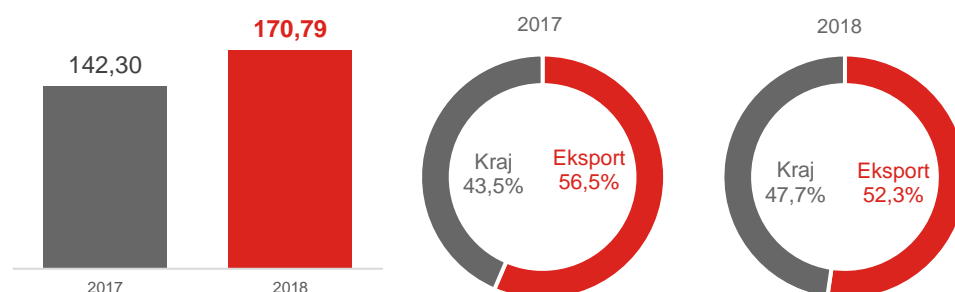
The latest macroeconomic data confirm the thesis that the domestic economy is already behind the economic peak, so in the upcoming quarters we should expect worse readings of economic indicators. This is confirmed by the falling PMI index for the Polish industry, which has been falling for another month in a row, as well as the decreasing overall economic climate index of the Central Statistical Office.

Both, the Issuer's own experience and the report of McKinsey & Company indicate a strong correlation of the global economic situation with the situation in the lighting industry (lighting fixtures market, light sources market and lighting control systems market). LUG S.A. Capital Group is strongly influenced by the presented factors of the macroeconomic environment, among which the most important role is played by: increase in costs as a result of wage pressure and increase in prices of construction and assembly works.

### 3.4.2. Financial situation

#### Revenues

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



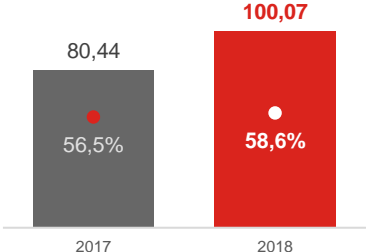
<sup>19</sup> „Rynek budowlany: rentowność firm budowlanych najniższa od 5 lat! Co czeka rynek budowlany?”, [www.muratorplus.pl](http://www.muratorplus.pl), 28.12.2018 r.

<sup>20</sup> Stan i prognoza koniunktury gospodarczej nr 1/2019, IPAG, luty 2019 r.

In 2018 consolidated revenues of the LUG S.A. amounted to PLN 170,79 million and were 20,0% higher than last year. The share of exports amounted to 52,3% and was lower by 4,1 pp than last year. This was primarily the result of a significant strengthening of domestic sales in the second and third quarter of 2018, caused by finalizing the local government investments in street lighting. At the end of 2018, a return of the growth trend in exports was visible, which was the result of shifting some of the foreign contracts in the fourth quarter of 2018 and the commencement of regular sale by the Argentine company after the opening of the production plant in Posadas.

**Costs and investments**

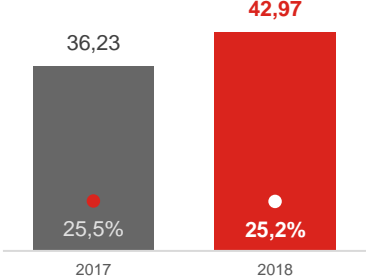
**Chart 10** Costs of products, goods and materials sold  
[mln PLN, %]



The costs of products, goods and materials sold in 2018 amounted to PLN 100.07 million and were 24,4% higher than a year before. In particular, one should pay attention to the one-off event in the fourth quarter of 2018 connected with one lighting contract, in which a combination of unforeseeable external factors and the need to increase LUG resources to finalize the investment, violated the rigorous financial framework of the project. This event contributed directly to the increase in the cost of sold products, goods and materials by PLN 5,7 million. Excluding this event, costs in 2018 would amount to PLN 94,37 million and would be higher by 17,3% than a year before, which was lower than the rate of revenue

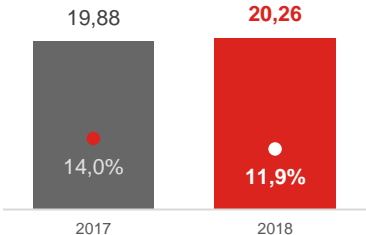
growth rate. The wage pressure observed throughout 2018 was also affected by the increase in costs, with particular emphasis on its growth in the third and fourth quarters of 2018.

**Chart 11** Sales costs  
[mln PLN, %]



Selling costs in 2018 amounted to PLN 42,97 million and were 18,6% higher than a year before (dynamics lower than the increase in revenues). The ratio of sales costs to revenues decreased in the last year by 0,3pp to 25,2%, which is primarily a derivative of the scale of the Group's operations and the use of synergies. The key elements of selling costs are the costs of marketing activities in the form of participation in trade fairs and industry conferences as well as payment of sales commissions.

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

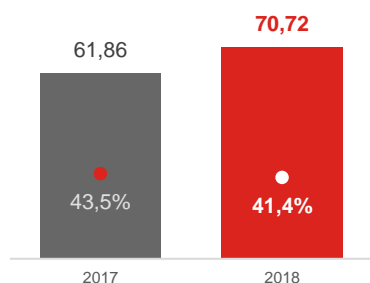


In 2018, general administrative expenses amounted to PLN 20,26 million and increased by only 1,9% y/y. Stabilization of general administrative expenses indicates optimal adjustment of their amount to the current scale of the Group's operations. Thanks to this, the ratio of general management costs to revenues decreased by 2,1pp to 11,9%.



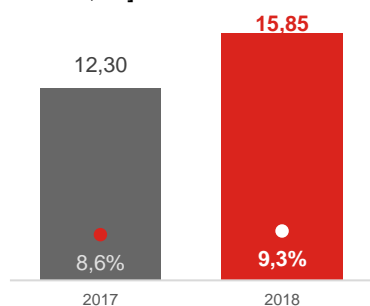
## Profit

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



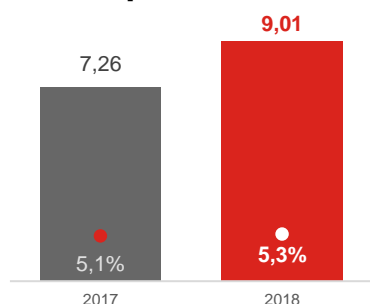
Gross profit on sales in 2018 amounted to PLN 70,72 million and was by 14,3% higher than last year. Gross sales margin decreased to 41,4% (by 2,1pp y/y), which was mainly caused by the one-off event in the fourth quarter of 2018. Excluding this event, gross profit on sales would amount to 76,42 million PLN PLN, and gross margin would increase by 1,2pp to 44,7%.

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



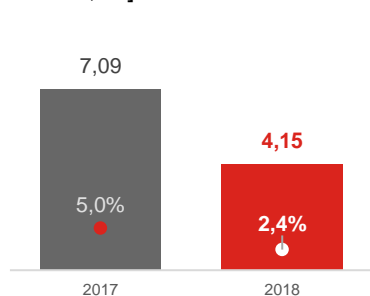
In 2018, EBITDA amounted to PLN 15.85 million and was 28,9% higher than a year before. The EBITDA margin despite the one-off event described earlier was increased by 0,6pp y/y and amounted to 9,3%.

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



Operating profit in 2018 amounted to PLN 9,01 million, which means an increase by 24.1% y/y. Operating margin increased by 0,2pp to 5,3%, despite the described one-off event in the fourth quarter of 2018 it increased.

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



Net profit attributable to equity holders of the parent company amounted to PLN 4,15 million in 2018 and was 41,5% lower than a year before, which means a drop in net profitability by 2.6 pp to the level of 2.4%. The described one-off event in the fourth quarter of 2018, as well as the impact of exchange rate differences, had an impact on the decrease in profit and net margin. In 2017, the Group recorded PLN 2.15 million of positive exchange rate differences, which resulted in an increase in the comparative base. In 2018, the result on exchange differences was negative and amounted to -3,06 million PLN. In the event of eliminating the impact

of exchange rate differences, the net profit for 2017 would amount to PLN 4.94 million, and in 2018 PLN 7.21 million, ie it would be higher by 46.0%.

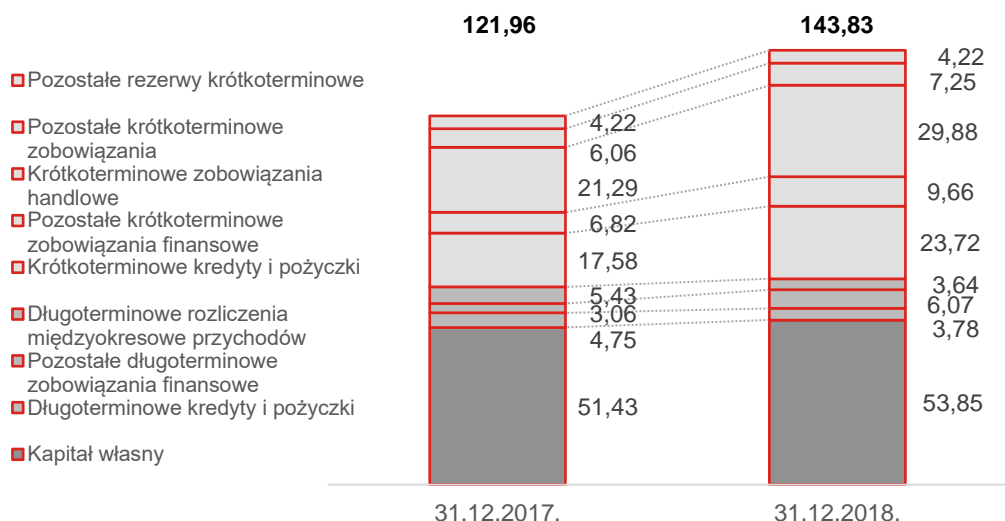
**Chart 17** The composition of EBITDA result in 2018  
[mln PLN, %]



The increase in EBITDA in 2018 was mainly caused by an increase in gross profit on sales by PLN 8.86 million and an increase in depreciation by PLN 1.81 million. In a significant part, it was offset by an increase in selling costs by PLN 6.74 million. The increase in general administrative expenses was a minor (of PLN 0.38m scale) negative impact on EBITDA. A decrease in other operating income (by PLN 0.26 million) and a decrease in other operating expenses (by PLN 0.28 million) almost offset.

## Balance sheet

**Chart 18.** Selected liabilities  
[mln PLN, %]

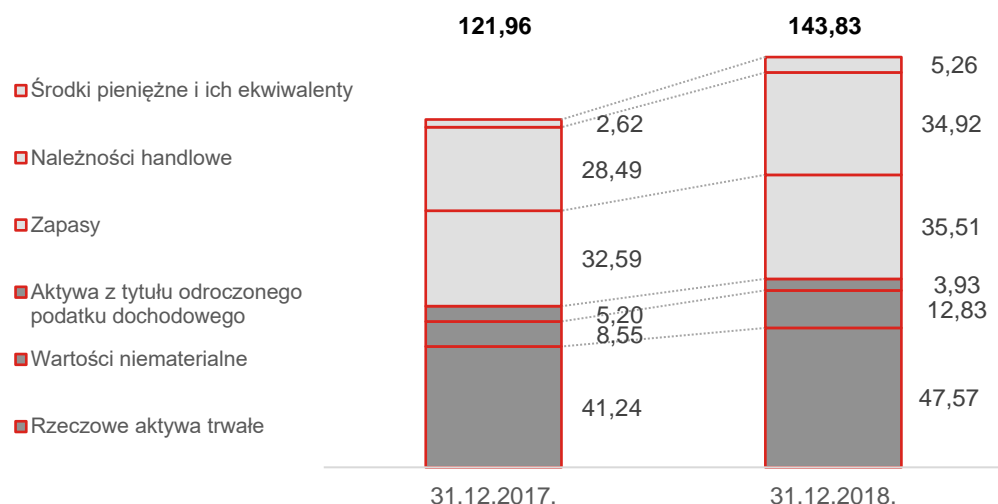


The balance sheet total as at 31/12/2018 amounted to PLN 143,83 million and was 17,9% higher than last year. Book value per share at the end of 2018 amounted to PLN 19.98. In the structure of liabilities, the weight of short-term liabilities increased, they increased by 33,6% to PLN 75,05 million. This was mainly due to greater use of trade credit (short-term trade liabilities increased by 40,3% y/y to PLN 29,88 million) and increased use of working capital loan (short-term loans and advances

increased by 34,9% y/y). up to PLN 23.72 million). In addition, the Group used almost twice as much of the lease used to refinance the machines and equipment purchased and installed as a result of the investments incurred (other financial non-current liabilities increased by 98.4% y/y to PLN 6.07 million). In 2018, the Group reduced the level of long-term loans (by 20.4% to PLN 3.78 million).

**Chart 19. Selected assets**

[mln PLN, %]



In the structure of assets the level of inventories increased by 9,0% to PLN 35,51 million and its dynamics is clearly lower than the rate of revenue growth. It was possible, among others thanks to the optimization of the purchasing policy and logistics processes. Trade receivables increased by 22,6% y/y to PLN 34,92 million. A significant increase in intangible assets (by 50,1% y/y to PLN 12,83 million) reflects the expenditures for research and development incurred by the Group. In 2018, the Group continued to use deferred income tax assets whose value decreased by 24,4% to PLN 3,93 million. The cash balance on accounts increased twice in the year to the level of PLN 5,26 million.

## Cash flow

**Table 25 Cash flow [mln PLN]**

	2017	2018
Cash at the beginning of the period	0,98	2,62
Net cash flow from operating activities	+8,47	+10,74
Net cash flow from investing activities	-8,50	-8,88
Net cash flow from financial activities	+1,67	+0,77
Cash at the end of the period	2,62	5,26

In 2018, the Group generated positive cash flows from operating activities of PLN 10,74 million, which was 26,8% higher than cash flows in 2017. These funds were used primarily to finance investments that remained at a similar level (4,5% higher) than last year and amounted to PLN 8,88 million in 2018. Net flows from financing activities amounted to PLN 0,77 million in 2018 and as a result, in the whole 2018, net cash flows amounted to PLN 2,64 million, which allowed for a doubling of cash at the end of the period to PLN 5,26 million.

## Indicators analysis

**Table 26** Selected consolidated financial ratios of the LUG Capital Group S.A. for 2018 and comparable indices for 2017 [% , pp]

	2017	2018	Change y/y
Gross margin on sales	43,5%	41,4%	-2,1pp
EBITDA profitability	8,6%	9,3%	+0,6pp
Operational profitability	5,1%	5,3%	+0,2pp
Net profitability	4,9%	2,1%	-2,8pp
Return on equity (ROE)	13,6%	6,7%	-6,9pp
Return on assets (ROA)	5,7%	2,5%	-3,2pp
Overall liquidity ratio	118,5%	105,9%	-12,6pp
General debt ratio	57,8%	62,6%	+4,7pp
Net debt / EBITDA	2,41	2,40	-0,01
EV/EBITDA (at the end of the period)	7,90	5,94	-1,95

Gross margin on sales and net profitability decreased in 2018, which was caused by a one-off event in Q4 2018 and a negative result of exchange rate differences in 2018 as compared to a positive result in 2017. EBITDA and operating margin increased. The net debt to EBITDA ratio is maintained at a safe level, at the end of 2018 it amounted to 2,40. The indicator of EV / EBITDA decreased during the year by 1,95 to 5,94.

### Explanation of the indicators:

#### Gross margin on sales

Formula: gross result on sales/sales revenues

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

#### EBITDA profitability

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

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

#### Operational profitability

Formula: result on operating activity/sales revenues

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

#### Net profitability

Formula: Net result/sales revenues

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

#### Return on Equity

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

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

#### Return on Assets

Formula: Net result/total assets

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

#### Overall liquidity ratio

Formula: assets/current liabilities

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

#### General debt ratio

Formula: Total liabilities/total assets

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

#### Net debt/EBITDA

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

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

#### EV/ EBITDA

Formula: Enterprise value / EBITDA, where: Enterprise value = Capitalization (number of X shares, share price on a given day) + Total liabilities (short and long-term) - Minority capital - Cash, with capitalization determined

according to the share price on the last day of a given quarter; in the denominator the sum of EBITDA for the last four quarters

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

### **3.4.3. Implementation of the forecast for 2018**

The Issuer did not publish financial forecasts for the period from 01/01/2018 to 31/12/2018.

### **3.4.4. Expected financial situation**

Aspects such as operational stability of the LUG S.A. Capital Group, completed investments as well as prospects for the development of the lighting industry allow a positive assessment of the Issuer's development opportunities.

The LUG S.A. Management Board formulates positive expectations for future financial results, both at the level of sales revenues as well as other key financial items.

The fastest growing sector of the fourth quarter and whole 2018 was construction with a record growth rate. From October to December, added value in construction increased by 13,5%, and sold production of construction in enterprises employing more than 9. persons increased by 15,5%. Throughout 2018, these rates amounted to 17,0 percent and 17,9 percent respectively. Rapid growth results from the implementation of infrastructure projects and a favorable economic climate in housing construction. The effects of declines in construction and assembly production from 2016 were also still being recovered.

This situation will also be maintained in the years 2019-2020, when, despite the decline in the pace of growth, construction will remain the fastest growing sector of the economy. In these years, the value added in construction will increase by 10.9 and 8.2% respectively, and sold production of construction (in enterprises employing more than 9. people) will increase by 10,0 and 7,0%. The projected low growth rate in the first quarter of 2019 should not be worrying, due to weather conditions and an exceptionally high reference base from 2018.<sup>21</sup>

Current assessments regarding the portfolio of orders, construction and assembly production as well as the financial situation are - as in December 2018 - unfavorable. Forecasts of the order portfolio and construction & assembly production are less pessimistic than those formulated in December, while unfavorable expectations regarding the financial situation remain. Delays in payments for construction and assembly works are rising, as was indicated a month ago. Employment may be less limited than forecasted in December. The prices of construction and assembly works may grow faster than indicated last month. Of the entities surveyed by the Central Statistical Office, 32,7% plan to carry out construction and assembly works abroad (30,6% y/y).<sup>22</sup>

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

- The need to reduce the level of electricity consumption in Poland in order to fulfill obligations towards the European Union, which may make the process of replacing obsolete conventional lighting with LED technology products more dynamic;
- Compliant with the projected development of the general lighting segment, ie the segment of LUG S.A. According to the latest forecasts, general lighting will be the fastest growing segment of the

<sup>21</sup> Stan i prognoza koniunktury gospodarczej nr 1/2019, IPAG, luty 2019 r.

<sup>22</sup> Koniunktura w przemyśle, budownictwie, handlu i usługach 2000-2018, GUS, Warszawa, styczeń 2019

industry in the coming years. In its scope, the most important role is played by the LED segment, whose value is estimated at 80 billion dollars in 2020 (over 80 percent of the lighting market)<sup>23</sup>;

- Legal regulations in the area of limiting the impact of industry on the natural environment and in the area of increasing the energy efficiency of buildings and infrastructure facilities;
- The growth rate of the IoT segment (Internet of Things) and lighting control;
- Consumer maturity, which will result in a tendency to pay for an additional functionalities under intelligent lighting in the general ecosystem of related services with IoT and the "human centric lighting" trend;

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

- implementation of the „Strategic Directions of LUG Development for 2017-2021” assume that the most important for the condition of LUG is cooperation with the basic groups of decision-makers, i.e. architects, stewards and interior designers,
- expanding the portfolio in line with market needs based on the ideas of innovation and design at the highest global level;
- evolution of the organizational structure following the implemented development directions and allowing the organization to adapt to the changing operating conditions;
- further improvement of the effectiveness of customization processes as a result of absorption of the Customization Section by the R&D Division;
- development and changes in the scope of production capabilities, in particular in the scope of existing as well as new production capacities;
- revenue structure with a dominant share of LED solutions (> 99%);
- expansion into new markets;
- opening of the LUG factory in Argentina, implementation of a contract with the Government of the Misiones Province, further expansion in South America;
- formation of new LUG foreign company: Aydinlatma Sistemleri Anonim Sirketi with its headquarter in Istanbul;
- dynamic development on export markets, deepening the penetration of these markets and strengthening the position of a valued supplier of comprehensive lighting solutions outside the country.

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

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

In response to new market challenges, the Issuer formulated and made public in 2017 Strategic Directions of Development of LUG, which take into account the time horizon of the next 5 years.

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

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<sup>23</sup> McKinsey&Company, „Lighting the way: Perspectives on the global lighting market”, second edition, 2012.

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).

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

- Architects
- Stewards
- Interior Designers
- Owners
- Employees

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

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



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

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

### **3.6. Acquisition / sale of own shares**

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

In the period from 01/01/2018 to 31/12/2018, the Issuer did not acquire or sell its own shares. Persons acting on behalf of entities forming the LUG S.A. Capital Group are indicated in point 1.2.1. of this report.

### **3.7. Events and circumstances materially affecting the operations after December 31, 2018**

After the end of the financial year, i.e. after 31.12.2018 until the date of approval of the financial statements, the following events occurred that affected the operations of the LUG S.A Capital Group:

- **Best Lighting Project 2018**

The Competition Commission organized by the Polish Lighting Industry Association awarded projects implemented by LUG Light Factory for using the best lighting solutions that harmonize perfectly with the adopted architectural concept. The award ceremony took place at the beginning of 2019. The awarded objects are Wine Park (Palm House and Wine Park) and the illumination of the ruins of the castle in Zatonie, which received the first prize in the category 'Illumination of public, private and sacred buildings'. The II prize in the category "Internal lighting of public facilities, shopping centers and buildings as well as service and hotel facilities" was awarded to the Bałtyk Office Building

- **LUG as a member of World Economic Forum**

In January 2019, the LUG S.A.Capital Group joined the members of the World Economic Forum. By gaining the status of a member of the World Economic Forum, LUG has become a member of the global community of companies, international organizations and other institutions whose goal is to improve the overall condition of the world around us. As a company specializing in the design, development and production of comprehensive LED lighting solutions for professional applications such as infrastructure facilities and urban spaces, LUG offers complete answers to selected challenges faced by the modern world by increasing energy efficiency, reducing harmful gas emissions to the atmosphere, and improving our safety and comfort as well as the people around us.

- **iF DESIGN AWARD 2019 for AVENIDA luminaire**

For the third consecutive year, LUG has won the prestigious international design competition iF DESIGN AWARD 2019 thanks to the AVENIDA fixture, which won in the lighting product

category. AVENIDA is a professional solution for lighting public spaces, which are a strategic area of the company development. It complements the comprehensive LUG product portfolio for this application segment by responding to the needs and problems of present cities - its use allows you to increase security and the comfort of users of the surrounding space while ensuring high energy efficiency of the urban lighting system.

In previous editions of the competition, the POWERLUG LED luminaire in 2016 and CRUISER 2 LED in 2017 were also appreciated.

For over 60 years, iF DESIGN AWARD logo has been an internationally recognized symbol of the greatest achievements in the field of industrial design. The selection of winners is decided by nearly 60 valued specialists from over 20 countries based on clearly defined criteria. 6400 products sent from nearly 50 countries applied for this year's prize, which proves the unique nature of AVENIDA.

- **Lubuskie European Entrepreneur 2018**

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

- **LUG as a partner of the diplomatic opening of the year 2019**

On January 17, 2019, the fifth edition of the Diplomatic Opening of the year organized on the initiative of the Polish Chamber of Commerce took place. The LUG company took part in the event as a Partner. The Diplomatic Opening of the year organized by the Polish Chamber of Commerce is an annual event gathering in one place Ambassadors accredited in Poland, leading Polish entrepreneurs, politicians, experts and diplomats. The meeting is an opportunity to summarize the international activities of Polish companies and administration in the previous year and to present plans in the area of international economic cooperation implemented by individual institutions, departments and economic self-government in the following year.

- **LUG in Muni Expo trade fairs in Tel Aviv, Izrael**

On February 26 - 28, LUG specialists participated in the MUNI EXPO fair in Tel Aviv, Israel. This is one of the most important events in the Middle East, which last year brought together nearly 9000 people interested in the subject of urban technological development. The purpose of the fair is to create opportunities for exhibitors from Israel and around the world to present intelligent solutions for the various challenges faced by local governments and municipalities.

At the company's stand, LUG specialists presented the benefits of using modern lighting technologies, lighting management systems and Smart City class solutions.

- **LUG as a partner of Smart City Forum IX**

LUG was a partner of the 9th edition of the Smart City Forum conference, which took place on March 27 - 28 in Warsaw. Its purpose is to exchange knowledge and search for solutions aiming at modernizing the infrastructure of Polish cities, increasing their interactivity and improving the quality of life of their residents. During the Smart City Forum, LUG specialists eagerly discussed the benefits of using modern lighting technologies, lighting management systems and Smart City class solutions.

### **3.8. Information about the auditor**

Information on the remuneration of the entity authorized to audit the financial statements of LUG S.A. is provided in note 38 of the consolidated financial statements of the LUG S.A. Capital Group for year 2018.

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## **STATEMENT OF THE MANAGEMENT BOARD**

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

## **4. RISK MANAGEMENT**

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

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

#### **4.1.1. Risk related to macroeconomic and industry situation**

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

One of the main factors determining the level of economic activity of the LUG S.A. Capital Group on the global scale there was a dynamics of GDP growth. GDP growth in Poland in 2018 amounted to 5,1 percent in comparison to 4,7 percent in 2017, as the Central Statistical Office provided. This is by 1,3 p.p. more than the government assumed in the budget act for the previous year - and the best result since 2007 with predictions, 2019 will bring a decline in GDP growth.

In order to adequately respond to positive and negative changes in the business climate, the Issuer, while supervising the operations of subsidiaries, makes investment decisions and manages their costs, guided by the operational efficiency criterion and the optimization of all business processes taking place in the LUG S.A. Capital Group. In addition, the Issuer strengthens its position on the existing ones and entering new markets (South America), thus ensuring geographical diversification of revenues and increasing its share in the sold production of the global lighting industry.

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

#### **4.1.3. Risk of changes in tax regulations and their interpretation**

The Polish tax system is characterized by frequent changes of regulations, many of them have not been formulated in a sufficiently precise manner and there is no unambiguous interpretation. Interpretations of tax regulations are subject to frequent changes, and both the practice of tax authorities and judicial decisions in the sphere of taxation are not uniform. Due to divergent interpretations of tax regulations, in the case of a Polish company, there is a risk that the company's operations and its tax treatment

in tax declarations and declarations may be considered by the tax authorities as inconsistent with tax regulations. In the case of operating companies in more stable tax systems, the risk is smaller.

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

#### **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 means that the Issuer's Capital Group is exposed to the risk of deteriorating sales results.

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.

#### **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 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.

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

### **4.2.1. Risk related to the seasonality of sales**

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

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

An additional form of counteracting the risk of seasonality of sales is increasing exports of products to markets characterized by a different building cycle, or completely resistant to seasonal phenomena.

### **4.2.2. Risk related to the increase of operating costs**

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

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

### **4.2.3. Risk associated to the repayment of receivables by contractors**

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

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



#### **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 increases the risk of a rise in the prices of raw materials and components.

In order to minimize this risk, the Issuer monitors the prices of strategic raw materials. The threat to the Issuer resulting from the situation on the raw materials market is the difficult availability of electronic components. In order to minimize the indicated risk, the Issuer monitors the prices of strategic raw materials. There is also a system of suppliers' qualifications under ISO procedures, as well as cooperation with components 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 activity of the Issuer's Capital Group in the lighting industry, the Group may be exposed to the risk related to penalties for untimely execution of orders. LUG S.A. Capital Group hedges against this risk through careful analysis of contracts with contractors and long-term cooperation with suppliers of components based on contracts.

Group companies do not sign contracts with counterparties that provide unfavorable delivery dates. Occasionally agreements are signed containing clauses on contractual penalties for non-performance or untimely performance of luminaire supplies.

#### **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 2018, 52,3% 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 2018, 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 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 forming the LUG S.A. Capital Group.

In order to minimize this type of risk, each time the implementation of the strategy precedes the analysis of the consequences of business decisions in terms of the level of risk. If it is acceptable, then ways of managing it are defined. As a result of the indicated procedures, the Issuer's Management Board identifies and eliminates areas constituting a potential threat to the development of the LUG S.A. Capital Group.

#### **4.2.10. Risk related to the supply chain**

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

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

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

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

The Issuer identifies the risk that, as a result of unforeseen events, the LUG S.A. investment it may be delayed, in particular as regards the construction of the plant or it will not be implemented entirely in accordance with the original assumptions. In addition, according to the provisions of the agreement, the Government of Misiones Province in the absence of a positive implementation of the first stage of the contract may refrain from the purchase of further luminaires, which may have an adverse impact on the Issuer's Capital Group, its financial position and results. In order to limit the risk in question, the Issuer very precisely fulfills all arrangements between the parties and monitors on an ongoing basis the compliance with all obligations resulting from bilateral arrangements. In addition, in accordance with the geographical division of activities carried out by the Issuer within the framework of the LUG S.A. Capital Group all rights and obligations related to the investment in Argentina were taken over by the joint venture LUG Argentina, which in its entirety will be responsible for the Group's operations and investment in Argentina and other South America, which will significantly improve the supervision of the implementation of the provisions of the agreement with the Government Misiones Province, including the construction of an LED factory and further development of the Issuer's and its Group's activity on the Argentine market and other South American countries. At the time of publication of this report, the agreement with the Government of the Misiones Province is implemented on time and there are no indications that this risk will increase.

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

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

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

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

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

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

#### **4.2.14. Risk related to environmental protection**

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

- Directive 2002/95/EC on the restriction of the use of hazardous substances in electrical and electronic equipment (RoHS), Ordinance of the Minister of Economy of March 27, 2007 on specific requirements for restricting the use of certain substances that may have negative effects on the environment in electronic and electrical equipment (Journal of Laws No. 69, item 457);
- Directive 2002/96/EC of the European Parliament and the Council on waste electrical and electronic equipment (WEEE), Act of 29 July 2005 on waste electrical and electronic equipment (Journal of Laws No. 180, item 1495), as amended, together with executive acts;
- Directive 94/62/EEC on packaging and packaging waste, the Act of 27 April 2001 on waste (Journal of Laws No. 62, item 628), Act of May 11, 2001 on packaging and packaging waste (Dz. No. 63 item 638) and the Act of May 11, 2001 on the obligations of entrepreneurs in the field of management of certain wastes and the product fee and deposit fee (Journal of Laws No. 63 item 639) together with executive acts;
- Directive 2006/66/EC on batteries and accumulators and waste batteries and accumulators and repealing Directive 91/157 / EEC, Act of 24 April 2009 on batteries and accumulators (Journal of Laws No. 79, item 666).

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

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

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

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

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

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

In the scope of disputable proceedings, the companies from the LUG S.A. Capital Group only run debt collection disputes. Due to the value of the dispute, it do not affect the Group's financial liquidity. In 2018 and from the beginning of 2019 until the date of the report, no other court, administrative and tax proceedings that could have an impact on the functioning of the LUG S.A. Capital Group were pending against the Issuer or its subsidiaries and pose a potential threat.

#### **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. One of the important elements of the organizational culture is also the "Employee satisfaction survey".

#### **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.

The LUG S.A. Management Board informs that risks from the category of environmental, social, employee risks, etc. were also presented in the non-financial report of the LUG S.A. Capital Group for 2018.

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## **STATEMENT OF THE MANAGEMENT BOARD**

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



## 5. REPORT ON APPLICATION OF GOOD PRACTICES

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

On January 16, 2018, the Issuer published the current report no. 03/2018 informing to stop publishing monthly reports. In the opinion of the Management Board of LUG S.A. taking into account the convergence of information contained in monthly reports with information provided regularly through current and periodic reports, which the Company prepares in accordance with applicable law, timely published current and periodic reports enable all interested parties, including individual investors, to familiarize themselves with all circumstances and events that may have a significant impact on the Company's economic, property and financial situation or that could significantly affect the price or value of LUG S.A.

In addition, in 2018 in the current report 18/2018, the Issuer fulfilled rule 16a and informed about incidental violation of the ASO Rules in connection with the publication on 16 August 2018 of the LUG S.A. Capital Group Report. for the second quarter of 2018. In the indicated situation, the provisions of § 6 para. 9 of Annex No. 3 to the Regulations of the Alternative Trading System "Current and periodic information disclosed in the alternative trading system on NewConnect" in respect of timely disclosure of the interim report for the second quarter of 2018. The deadline for submitting the above The report was 45 days from the end of the quarter of the financial year, which was on August 14, 2018. The Management Board of the Company informed that the violation was a consequence of an error in the calculation of the deadline and ensured that the violation was of an incidental nature and that it would make every effort to prevent such situations from occurring in the future.

**Table 27** Issuer's report on the application of good practices in 2018

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 <a href="http://www.lug.com.pl">www.lug.com.pl</a> give a complete picture of the Issuer's situation, both in terms of his finances and the industry in which he operates. In addition, the Issuer annually submits the unnoticeable in regulations website dedicated to annual reports in the online version, which in an attractive way summarizes the business activities of the Issuer's

			Company over a given financial year, making them more affordable to the investor. In the opinion of the Management Board of the Company, the costs related to technical handling of transmission and registration of the course of the general meeting are incommensurable to potential effects.
2.	The company should provide effective access to information necessary to assess the company's situation and perspectives and how it operates.	YES	
3.	The company runs a corporate website and publishes on it:	YES	
3.1.	basic information about the company and its activities.	YES	
3.2.	description of the Issuer's activity with an indication of the type of activity from which the issuer receives the most revenue.	YES	
3.3.	a description of the market on which the issuer operates, together with the issuer's position in that market.	YES	
3.4.	Professional curriculum vitae of members of the bodies of the Company	YES	
3.5.	the management board received an information, based on the statement of a member of the supervisory board, regarding to the relations of a supervisory board member with a shareholder holding shares representing not less than 5% of the total number of votes at the general meeting of the company	YES	
3.6.	corporate documents of the company	YES	
3.7.	outline of the strategic plans of the company	YES	The Issuer has decided to create a separate subpage for the presentation of the strategic directions of the Company's development at: <a href="http://www.lug.com.pl/Strategia/">http://www.lug.com.pl/Strategia/</a>

3.8.	published forecasts of financial results for the current financial year, including assumptions for these forecasts (if the issuer publishes them)	<p>YES</p> <p>In the opinion of the Management Board of LUG S.A. the current high volatility of the economic situation is not conducive to the stability of the premises necessary to prepare reliable financial forecasts. In connection with the above, the Issuer's Management Board decided not to publish financial forecasts. If the Issuer's policy changes regarding the publication of forecasts, they will be published together with the assumptions on the Issuer's website in the Financial Data tab.</p>
3.9.	the issuer's shareholding structure, with the indication of the main shareholders and shares in the free float	YES
3.10.	data and contact to the person who is responsible in the company for investor relations and contacts with the media	YES
3.12.	published current and periodic reports	YES
3.13.	calendar of scheduled dates of financial publication of periodic reports, dates of general meetings, as well as meetings with investors and analysts, and press conferences	YES
3.14.	information on corporate events, such as the payment of dividends, and other events resulting in the acquisition or limitation of rights on the part of the shareholder, including the dates and rules for conducting such operations. This information should be published within a timeframe enabling investors to make investment decisions	YES
3.16.	shareholders' questions regarding matters included in the agenda, asked before and during the general meeting, along with answers to questions asked	YES
		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		
3.18.	information about the break in the general meeting and the reasons for ordering the break	YES	
3.19.	information about the entity with which the company has signed the contract for the provision of Authorized Adviser's services with an indication of the name, website address, telephone numbers and e-mail address of the Adviser	NOT APPLICABLE	The Issuer is not subject to the obligation to cooperate with an Authorized Adviser
3.20.	Information on the subject that acts as the market maker of the issuer's shares	YES	
3.21.	information document (prospectus) of the company, published in the last 12 months	YES	
	The information contained on the website should be published in a way that allows easy access to this information. The issuer should update the information posted on the website. In the event of new relevant information or significant changes to the information placed on the website, the update should be carried out immediately.	YES	
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 <a href="http://www.GPWInfoStrefa.pl">www.GPWInfoStrefa.pl</a> .	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	NOT APPLICABLE	The Issuer is not subject to the obligation to cooperate with an Authorized Adviser.

	responsible for contacts with the 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.	NOT 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.	At least twice a year, the Issuer, in cooperation with an Authorized Adviser, should organize a publicly available meeting with investors, analysts and the media.	YES	The Issuer independently organizes publicly available meetings with investors and analysts and media at least twice a year.
12.	The resolution of the general meeting regarding the issue of shares with pre-emptive rights should specify the issue price or the mechanism for its determination or oblige the body authorized to determine it before the date of establishing the pre-emptive right, within the time enabling the investment decision to be taken.	YES	
13.	Resolutions of the general meeting should ensure that the necessary time interval between decisions causing specific corporate	YES	

	events and the dates on which the rights of shareholders resulting from such corporate events are determined.		
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"> <li>• 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,</li> <li>• a list of all information published by the Issuer in the current report mode during the period covered by the report,</li> <li>• information on the implementation of the issue objectives, if such implementation, even in part, took place in the period covered by the report,</li> <li>• 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.</li> </ul>	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 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 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.	YES	

Source: Issuer

**Ryszard Wtorkowski, President of the Board**

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**Mariusz Ejsmont, Vice President**

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**Małgorzata Konys, Board Member**



# 2018

consolidated annual  
**REPORT**



## **STATEMENT OF THE MANAGEMENT BOARD**

of LUG S.A. dominant entity

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

**for the period  
from od 01.01.2018 till 31.12.2018**

Zielona Góra, Gorzowska 11 Steet

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 Board**

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**Mariusz Ejsmont, Vice President**

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**Małgorzata Konys, Board Member**

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

Zielona Góra, Gorzowska 11 Street

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

**Ryszard Wtorkowski, President of the Board**

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**Mariusz Ejsmont, Vice President**

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**Małgorzata Konys, Board Member**

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**LUG S.A.**

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65-127 Zielona Góra, Poland  
[www.lug.com.pl](http://www.lug.com.pl)

Investor Relations  
[relacje@lug.com.pl](mailto:relacje@lug.com.pl)