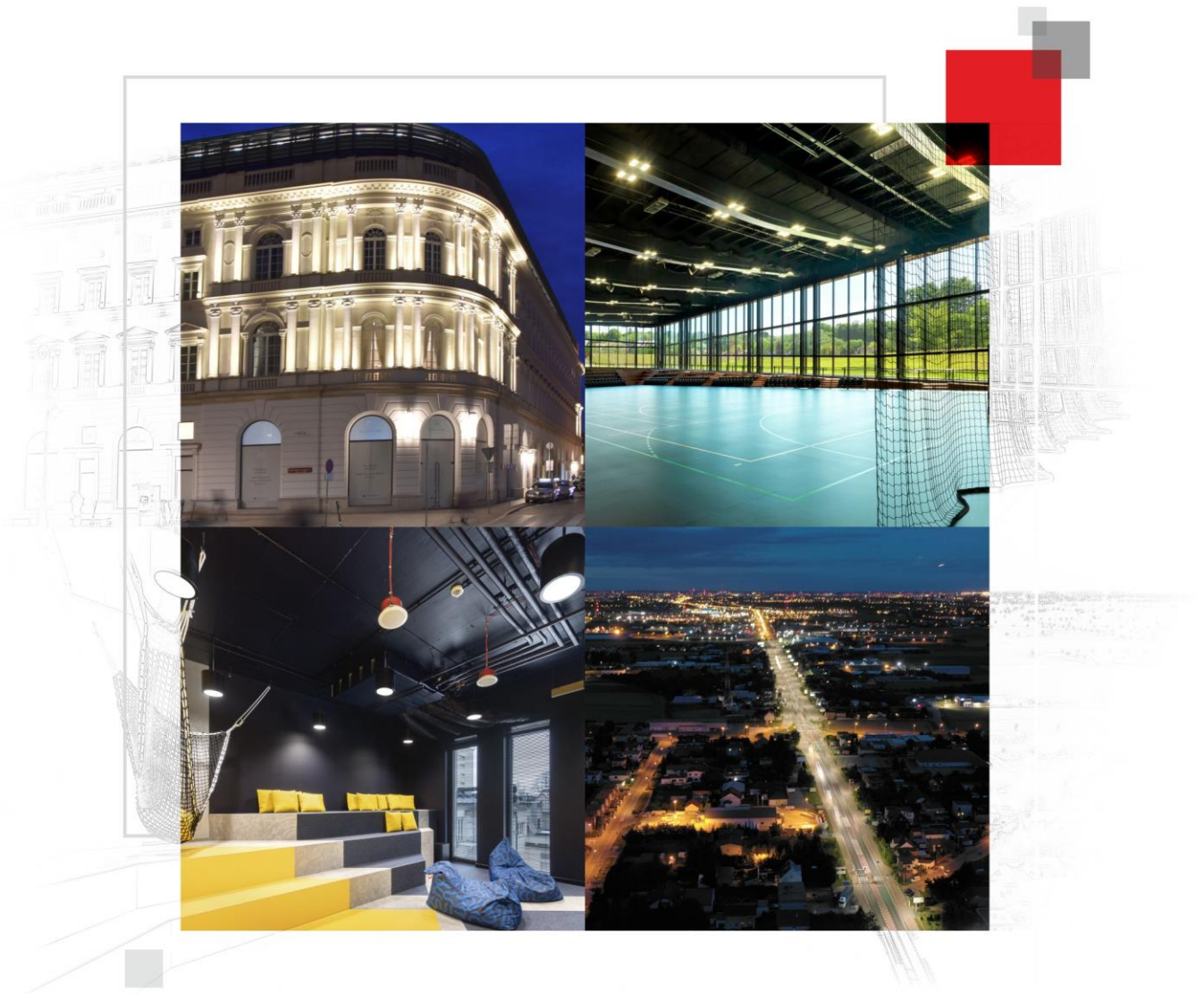


2019



NON-FINANCIAL STATEMENTS

of the LUG S.A. Capital Group

Table of Contents

- 1 Summary of non-financial information for 2019 3**
- 2 Letter from the President of the Management Board 4**
- 3 Business model and governance 7**
 - 3.1 Market 8
 - 3.2 Business model 9
 - 3.3 Value chain 12
 - 3.4 Capital Group 14
 - 3.5 Management structure 15
 - 3.6 Ethics at LUG 17
 - 3.7 Management systems 19
 - 3.8 Risk management and significant management risks 22
 - 3.9 Compliance with the Taxonomy for Sustainable Activities 23
- 4 Key non-financial performance indicators 26**
- 5 Social, human right and anti-corruption issues 28**
 - 5.1 Consumer safety 30
 - 5.2 Savings in local government budgets 33
 - 5.3 Educating architects and designers in the field of lighting design 33
 - 5.4 Local communities 34
 - 5.5 Preventing corruption 37
 - 5.6 Other social issues 38
 - 5.7 Significant risks related to social, human right and anti-corruption issues 41
- 6 Employee issues 43**
 - 6.1 Employment and wages 44
 - 6.2 Employee development and education 48
 - 6.3 Occupational Health and Safety 50
 - 6.4 Significant risks related to employee issues 53
- 7 Environmental issues 56**
 - 7.1 Climate Change 60
 - 7.2 Fuel and energy consumption 63
 - 7.3 Emissions to the atmosphere 65
 - 7.4 Consumption of resources and materials 68
 - 7.5 Waste 69
 - 7.6 Limiting light pollution 70
 - 7.7 Other environmental issues 71
 - 7.8 Significant environmental risks 73
- 8 About the report 77**
 - 8.1 Relevance of information in the report 77
 - 8.2 Relevant stakeholders 78
 - 8.3 Significant non-financial issues 78
 - 8.4 Significant non-financial risks 79
- 9 Compliance tables 80**
 - 9.1 Table of compliance with the requirements of the Accounting Act 80
 - 9.2 Table of compliance with the TCFD Recommendations 80
 - 9.3 SIN compliance table 81
- 10 Approval for publication 87**
- Appendix 1: Data on employees 88**
- Appendix 2: Environmental data 95**

2019 for

the LUG Group means:



431,136
luminaires produced



PLN 170.7
million in revenue



6,486 MWh of
energy consumed



2,238 Mg CO₂e
(Scope 1+2)



5,089 m³ of water
used



396 Mg of generated
waste

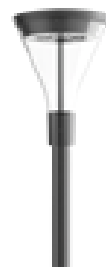
The average LUG luminaire:

will shine for over **13 years**
throughout its life cycle

the institution using it will
emit **5.42 Mg CO₂e** to the
atmosphere

but only **0.96 per mille*** of these
greenhouse gas emissions (**5.2
kg**) are "built in" by the
manufacturer

Replacing lighting with LEDs is the most cost-effective way of reducing greenhouse gas emissions because as early as the first year after the installation of a new luminaire, the balance of emissions to the atmosphere is positive thanks to energy efficiency exceeding 50% compared to traditional light sources.



was produced using:
1.70 kg of steel
1.45 kg of aluminium
0.32 kg of plastic
0.16 kg of glass

used:
15.0 kWh of energy
11.8 l of water

and produced:
0.9 kg of waste
11.8 l of sewage

almost **600 employees** of the LUG Group devote on average **2.4 hours** of work per year to its design, production, delivery to the customer and service

* Assumptions: (1) luminaire lifetime 60,000 h (min. 30,000 h, max. 100,000 h); (2) average daily rate of 12h power 110W (min. 10W, max. 200W); (3) luminaire used in Poland, with emission intensity of 7165 g CO₂e/kWh according to RGGGG data for 2018.

2 Letter from the President of the Management Board

Dear Sir or Madam,

It gives me great pleasure to invite you to read the non-financial report of the LUG S.A. Capital Group, a report presenting the non-financial results of our operations.

The future begins today, not tomorrow – these are the words of John Paul II that have never been more relevant. Progressive climate change and the COVID-19 pandemic will make us all the more aware of the essence of our impact on the environment and lives. Sustainable development is also gaining a new dimension, the balance that we should maintain between production and consumption.

Today, social responsibility is not pre-emptive thinking, but an integral part of modern management. Business based on values, where people are at the centre of activities, is an element of our company's identity. That is why I am glad you will have the opportunity to get to know us better by reading this report. In the following pages of the study, we show how we work and what the source of our development is.

Responsible business is about concrete actions in our organisation that are in line with the principles of sustainable development. In the LUG Group we identify these in three areas: employee, social and environmental issues. We place great emphasis on reducing the energy consumption and emissivity of our products.

While working on this report, we have taken a step into the future. We are the first Polish company that is able to determine and disclose what percentage of its activity is compliant with the EU Taxonomy for Sustainable Activities. Perhaps not everyone knows that this obligation will only be mandatory for companies from 2021.

I am proud to boast the results of the audit, which showed that 99% of revenue and 53.7% of capital expenditure of the LUG Group in 2019 were found to meet the criteria of an environmentally sustainable economic activity in accordance with the TEG Final Report.

We are constantly changing, improving and implementing new environmental procedures and technologies, the aim of which is to minimise the generation of waste during production and to eliminate environmentally hazardous factors. Climate change issues are very important to us. This year, for the first time, we present the mutual impact of climate change and the LUG Group in the report, as well as a list of climate risks, threats and opportunities. Our report has been prepared taking into account the Task Force Recommendations for Climate-related Financial Disclosures, which is the world's most widely recognised disclosure framework on climate change issues, which the European Commission also recommends.

One of the priority values of LUG is innovation. Thanks to innovative technologies and top-class lighting solutions, our products contribute to improving safety and increasing people's comfort, as well as reducing the negative impact of light on the environment. An example is the Smart Lighting Management System which allows, among other things, to automatically adjust the power of street lighting to traffic and prevailing conditions.

Last year, our activity in the area of smart light management was appreciated by the World



Economic Forum granting LUG the status of the World Forum Member. Thus, we have joined the global community of companies, international organisations and institutions that aim to improve the overall state of the world around us.

The source of pro-ecological behaviour is wide-scale education. That is why we engage in programmes that aim to raise awareness about conscious production and manufacture of luminaires and good ecological habits. We conduct educational projects aimed at architects and lighting designers, so that their projects are environmentally friendly and energy-saving. We show urban planners and city authorities not only how to reduce costs with the help of our solutions, but also how to create cities free from “light pollution”.

Another important issue raised in the report is the subject of radical changes in HR mega-trends. We are not only a significant employer in the region, but also a transnational employer with a commitment to diversity management, transfer of knowledge between generations and the use of a universal language. The development capital of LUG is our employees, their experience and mutual relations. This is why, even during the pandemic, we make sure that our employees have guaranteed access to personal protective equipment and are covered by additional dedicated COVID-19 insurance.

I am convinced that responsible development and integration with the environment we live in are key to developing a company that is friendly to both people and nature. I would like to wish you an interesting and insightful read.

Yours sincerely,

Ryszard Wtorkowski,
President of the Management Board of LUG S.A.

2019



Business model and governance

3 Business model and governance

[G.1.2] The LUG S.A. Capital Group is a leader among manufacturers of professional luminaires and their biggest Polish exporter. The company, which was established in 1989, has undergone a dynamic transformation over the years from a local company to an international capital group present in over 70 markets around the world.

The target market of the LUG S.A. Capital Group is the general lighting segment. When operating in this segment, LUG specialises in providing professional solutions aimed in particular at professional customers (B2B). The offer includes a wide range of infrastructure, industrial and architectural luminaires used in areas such as industrial, commercial, sports, office, hotel, medical, educational, cultural and public utility illumination, city and park lighting, and road infrastructure.

LUG also offers its partners services in the field of design, delivery of complete lighting solutions, as well as technical advice.

The LUG Capital Group consists of 11 companies (the structure of the Group is described in detail in chapter 3.4 *Capital Group*). In 2019, the distribution of products offered by LUG was carried out in over 70 countries worldwide.

Export revenue in 2019 increased by 15.3% compared to 2018 and accounted for 60.4% of total revenue. The most important export direction are European countries, whose share in total sales revenue in 2019 accounted for 40.7%, which was an increase in the share in revenues by 3.5 percentage points compared to the previous year. The share of export revenue to other countries increased by almost 5 pp to 19.72% in 2019. The objective of the LUG S.A. Capital Group is to achieve a 75% share of the total export revenue in 2021.

As part of the Strategic Development Directions for the LUG S.A. Capital Group for the years 2017-2021, the internationalisation of activities was considered one of the key areas. An important stage for this was the opening of a production plant in Posadas, Argentina at the end of 2018. In recent years, feeling the increasingly negative effects of changes taking place on the local market, in 2019 the LUG Group additionally strengthened activities related to the development of exports, strengthening sales structures, maintaining relationships and acquiring new customers on foreign markets and becoming independent from the Polish economy. By 2019, the production plant in Argentina was already fully operational.

In 2019, LUG operated abroad based on representative offices located in Berlin, Dubai, London and Sao Paulo. The branches in Berlin, London and Sao Paulo operate through subsidiaries and the Dubai branch operates as a foreign representative office.

On the Polish market, the distribution of LUG products is largely based on wholesale networks as well as electrical and general construction wholesalers. The commercial structure of LUG in Poland in 2019 consisted of 12 commercial offices located in the largest cities in the country: Warsaw, Poznań, Gdańsk, Wrocław, Lublin, Kraków, Katowice, Łódź, Szczecin, Rzeszów, Tarnów, Białystok.

In 2020, as part of the Project to optimise the costs of regional offices within the Polish commercial structure, the work organisation of selected regional offices was changed, as a result of which the Group reduced the number of offices to the largest urban centres. This was made possible by reorganising the mode of operation in the other locations. A final summary of this project will be possible after its completion in the second half of this year.

In addition, in 2019, the LUG Group joined the group of members of the World Economic Forum, which confirms that as a company specialising in the design, development and production of comprehensive LED lighting solutions, it wants to actively respond to the challenges posed by the modern world

by increasing energy efficiency, reducing emissions of harmful gases into the atmosphere and improving the safety and comfort of societies around the world.

3.1 Market

The lighting industry is fragmented, diverse and complex, and its products are used in many areas. There are three main segments within the entire lighting market:

- general lighting;
- backlighting;
- automotive lighting.

The European lighting sector is diverse and large in size. It includes a number of entities with a significant global presence and several thousand SMEs, which are mainly active in the distribution of luminaires. The lighting sector employs around 150,000 people in Europe and accounts for around 30% of the industry's global revenue. It is a mature segment, characterised by a stable customer market.

The lighting market in Poland, much as in Central and Eastern Europe, is very fragmented. In addition to small domestic manufacturers and importers, there is a group of several entities operating in the field of professional lighting technology, which specialise in the production of luminaires for commercial applications. The Polish lighting market is also characterised by seasonality and strong dependence on the construction industry, but thanks to its openness to innovations and megatrends related to sustainable development it has good prospects for development and growth.

The target market of the LUG Group is the general lighting segment which includes application segments, such as the architectural, infrastructure, commercial, industrial, office, medical and educational segments, as well as hotels and restaurants. The competitive advantage of the LUG Group is the comprehensive service in the scope of design services, providing complete lighting solutions, adjusting ready-made solutions to the individual needs of customers, as well as technical consultancy. The LUG Group is also distinguished by its advanced approach to research and development issues, which results in developing new solutions tailored to customer needs.

Currently, the most popular technology on the market is solid-state lighting (LED), which is the fastest growing lighting segment due to its versatile and energy-efficient character. Europe is the largest market for LED lighting, with the European industry's share in the global market being 23%. The main demand drivers in the lighting industry are expected to be population growth, increasing urbanisation and climate change, increasing interest in and demand for energy efficient and environmentally friendly products. Therefore, the vast majority of luminaires in LUG's offer are LED luminaires, which enable the reduction of energy consumption and greenhouse gas emission to the atmosphere. The share of LEDs in our sales structure in 2019 was 99%, compared to 1% for conventional luminaires.

3.2 Business model

The business model of the LUG S.A. Capital Group is based on the design, production and sale of innovative lighting solutions, providing design and consulting services for architects, designers, contractors and wholesalers, as well as offering a comprehensive formula for selling light as a service (*LaaS – Light as a Service*) with the use of professional knowledge and long-term experience.

Sustainability is an important issue in the Group's activities and climate change is seen as an important challenge, therefore the LUG Group adjusts its business model, and strategic and management activities accordingly, which are described in more detail in chapter 3.5 *Management Structure*.

In recent years, the LUG Group, while improving its business model, has taken into account the issues of climate change, among others, by applying the following measures:

- development of innovative technologies as one of the three priority areas for the Group;
- introduction of “Strategic development directions of the LUG S.A. Capital Group for the years 2017-2021”, as well as setting the key non-financial efficiency indicators, which include areas contributing to the reduction of greenhouse gas emissions, improvement of energy efficiency and respect for the natural environment;
- design, production, and a high share (99%) in the sales structure of LED luminaires, which are considered the most energy-efficient and versatile lighting technology that reduces energy consumption and greenhouse gas emissions.

A detailed description of the impact of the LUG Group on climate change, as well as the impact of climate change on the Group's operations can be found in chapter 7.1 *Climate Change*.

Group strategy

[G.1.1] In 2017 the Executive Board of LUG S.A. passed a resolution on adopting the document “Strategic development directions of the LUG S.A. Capital Group for the years 2017-2021”. The description of the adopted mission and objectives of LUG included in it opens with the slogan:

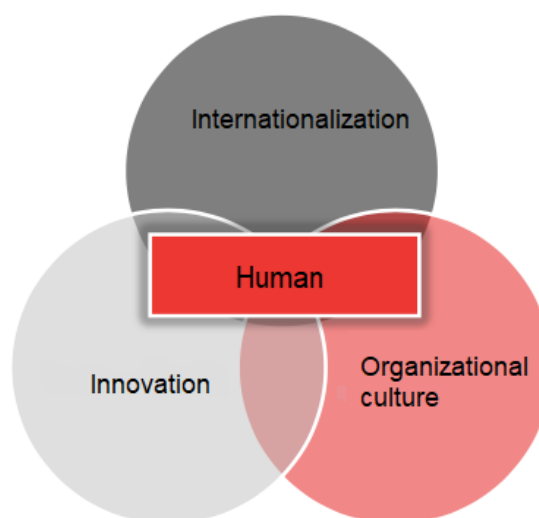
**WE CREATE INNOVATIVE LIGHTING
FOR A LIFE OF PASSION.**

The strategy distinguishes three priority areas in which the Capital Group identifies the need for development:

- internationalisation – building local structures allowing for foreign activities;
- innovation – takes into account the implementation of R&D projects with a total value of about PLN 25 million;
- organisation culture – management through values.

The focal point for the various planes of planned development are people. This foundation is the basis for the division of stakeholder groups defined in the development strategy. In terms of cooperation in achieving the objectives set, in particular, the importance of the following five groups was highlighted:

- stewards – persons who determine the conditions of spatial development, i.e. local governments, mayors, village heads, city presidents;



- architects – people creating architectural spaces, deciding on the elements of their designs in cooperation with industry professionals;
- interior designers – people who design the smallest unit of space, which is the interior;
- employees – people employed in the LUG S.A. Capital Group companies;
- owners – shareholders and investors of LUG S.A.;

In terms of supporting stakeholder groups, LUG has gone beyond product distribution by developing the Architect Support Programme. Within the scope of this Program, LUG offers the cooperation of its consultants and lighting designers with architects and interior designers.

The main objective included in the Strategic Development Directions is to achieve a growth rate of the LUG S.A. Capital Group in relation to sales revenue at a level of 10% CAGR in 2017-2021.

The document defines three supporting objectives:

- growth – the share of completed projects worth more than EUR 1 million in sales revenue at a level of 10% by 2021;
- globalisation – an increase in the share of export revenue to a level of 75% in revenue of the Capital Group by 2021;
- margins – increasing and permanently maintaining, over a period of several years, the gross sales margin at a level exceeding 40%.

Moreover, in the field of sustainable development, the LUG Group plans to achieve the following objectives:

- an increase in the average number of training hours per employee;
- a reduction in the rotation rate of employees employed for an indefinite period of time;
- an increase in the proportion of women among employees;
- an increase in the number of architects and designers attending training courses and lectures on lighting;
- a lack of complaints from local communities;
- a reduction of energy consumption per product unit;
- a reduction in greenhouse gases emitted to the atmosphere within ranges 1 and 2 per product unit;
- a reduction of waste weight per product unit.

The above objectives result from the issues identified as significant as a result of the materiality survey carried out in 2019, and joined the other priorities of the LUG Group strategy. The objectives set include the areas of labour, social and the environment. The main objective selected from among the issues of the employee area is investing in employees and taking care of their development, safety, employment stability and diversity, as well as increasing interest in the lighting industry and the exchange of knowledge and experience among architects and designers in this area. The LUG Group also cares about the comfort of the local community and the places where LUG's production plants are located. Out of concern for the environment, the Group seeks to minimise its negative impact by reducing energy consumption, improving energy efficiency, reducing greenhouse gas emissions, and managing waste in a way that moves towards a circular economy model.

More information on the Group's Strategy is available on the company's website at: <https://www.lug.com.pl/Strategia/>.

LUG values

[G.1.2] The foundation of LUG's development strategy and the direction of shaping the organisational culture is management through values. In practice, this means that every day the LUG Group is guided by certain values at each decision-making level. During work on the "Tree of Values" project, LUG developed a set of common principles and values:

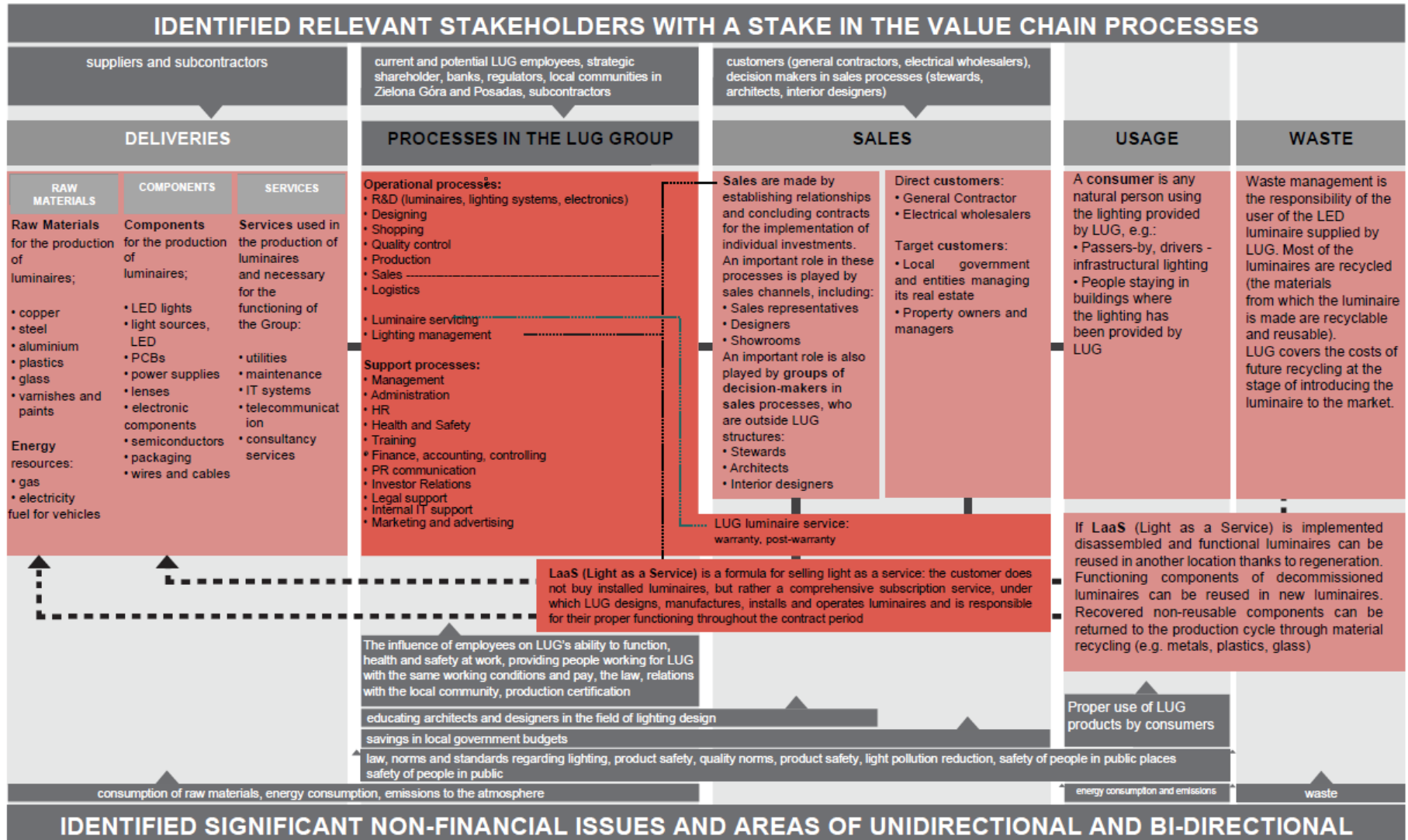
- Responsibility – We take responsibility for all our choices, actions and words.
- Satisfaction – We derive joy from our actions, we care about comfort and satisfaction.
- Partnership – We are guided by understanding, a willingness to cooperate and respect for all.
- Innovation – We think outside the box and create new ideas in the areas of products, technology and management.
- Development – We want to grow every day.

The basis for the work on the "Tree of Values" project was primarily the social aspect of LUG's business activity. The commitment to values translates not only into the professional life of LUG employees, but also their families and the entire environment in which LUG operates.

One of the priority values of LUG is innovation. Owing to innovative technologies and top-class lighting solutions, LUG products contribute to improving safety and increasing people's comfort, as well as to the reduction of the negative impact of light on the environment, including the increasingly better known and identified problem of light pollution. LUG has introduced the Urban control system developed by its subsidiary BIOT. The system is universal and very versatile – due to the fact that it is a wireless solution, on the one hand, it can be used in a compact urban structure, and on the other hand, it can cope perfectly with dispersed rural areas, and the speed and dynamics of the system allows it to be used where the requirements are greatest, i.e. on motorways and expressways. It is a lighting management system that allows you to monitor the condition of each luminaire, measure the electricity used, schedule and automatically adjust lighting to the prevailing conditions such as the weather or traffic. The BIOT company is constantly developing the system with new areas.

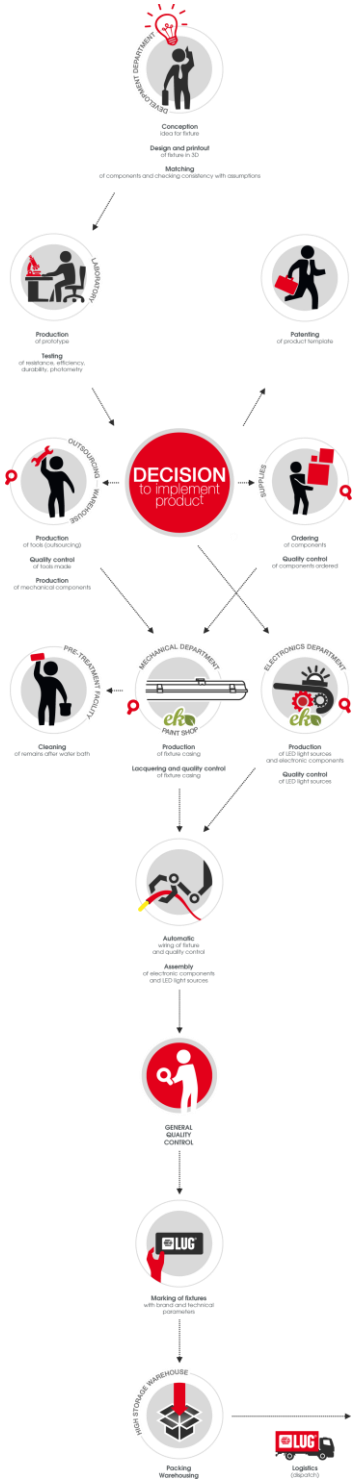
For more information on Group Values, please visit: <https://www.lug.com.pl/Strategia/>.

3.3 Value chain



The value chain model presented on the previous page is based on a material flow analysis. It includes operations at the stage of extraction of raw materials, creation of materials and components and their transport to the LUG Group, a set of operational processes in progress in the LUG Group and the transport of products to customers, the phase of their use and the end of life phase. This model is used in the processes for calculating greenhouse gas emissions, analysing processes in the circular economy model and analysing the mutual influences of the LUG Group and the environment.

The model of the luminaire value creation process – the main product of the LUG Group - is presented below.



3.4 Capital Group

The LUG S.A. Capital Group consists of 11 companies operating in various areas of business activity. Within the structure of the Capital Group the parent company LUG S.A. acts as a holding vehicle. The parent company's activity was focused on the area of supervision and control over subsidiaries and the implementation of a new development strategy.



* The activities of T.O.W. Ukraine are suspended for an indefinite period of time.
** ESCOLIGHT Sp. z o.o. is not a subsidiary.

The LUG S.A. Capital Group as at the date of publishing this report:

In 2019 ESCOLIGHT Sp. z o.o. with its registered office in Zielona Góra was established, in January 2020 LUG Services Sp. z o.o. followed suit and in June 2020 LUG West Africa Ltd. joined the LUG S.A. Capital Group.

LUG Group subsidiaries:

- LUG Light Factory Sp. z o.o. - conducts operational activities at the stages of design, implementation, production and sale of luminaires. Most of the processes taking place in the business activities of the Capital Group are located there. The company's structure includes two key facilities for the entire enterprise: the headquarters of LUG Light Factory Sp. z o.o. located in Zielona Góra, performing production, storage and administrative functions, and the LUG Research and Production Centre located in Nowy Kisielin near Zielona Góra.
- LUG Argentina S.A. – was established in 2017 in Buenos Aires, whose aim is to conduct industrial activity, including, among others, production, processing, assembly and installation of luminaires, commercial activity, including, among others, sales of luminaires and accessories, and consulting activity in the field of lighting technology, including for projects related to energy saving.
- LUG GmbH, LUG Lighting UK Ltd, LUG Turkey (LUG AYDINLATMA SISTEMLERI ANONİM ŞİRKETİ), LUG do Brasil Ltda, T.O.W. LUG Ukraine – sells and promotes LUG products and conducts business in the field of professional lighting solutions on foreign markets such as Germany, the United Kingdom, Ireland, Turkey and other markets in the region, as well as South America. T.O.W.'s activities LUG Ukraine is suspended.
- BIOT Sp. z o.o. – a technological company, being the result of the cooperation between LUG S.A. and TOKA Burzyński Guzowski Sp.j., aimed at conducting research and stimulating development in the area of new lighting technologies.

- LUG Services Sp. z o.o. – established on 27 January 2020, the object of which is the design and construction of lighting installations, as well as the integration of software elements cooperating with lighting installations.
- ESCOLIGHT Sp. z o.o. – established on 24 October 2019 as a related entity, the object of which is to provide lighting management services: Light-as-a-Service, consisting of comprehensive project management including preparation, financing, execution and service of lighting investments.
- LUG West Africa Ltd. – established on 5 June 2020, the object of its activity is to carry out commercial activities in the field of professional LED lighting solutions in Nigeria and other West African countries.

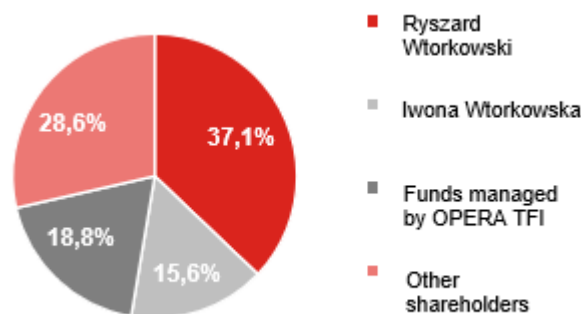
LUG Group Shares

The company's share capital is divided into 7,198,570 ordinary bearer shares. Since 2007, LUG Group shares have been listed in the Alternative Trading System (NewConnect), belonging to the NCIndex (0.8% share) in the NC Base segment. Ticker: LUG.

In order to ensure the transparency of the company's activities, as well as an effective information policy, LUG S.A. has been applying the principles of "Good practices of companies listed on NewConnect" since 2009. 16 out of 17 recommended rules have been adopted for use, which can be downloaded from the LUG website (<https://www.lug.com.pl/relacje-inwestorskie/spolka/lad-korporacyjny>).

Shareholding structure

The share of shareholders in the initial capital holding at least 5% of LUG S.A. shares as of 31 December 2019 is as follows:



3.5 Management structure

[G.2.1] The governing bodies of LUG S.A. are the Management Board, the Supervisory Board and the General Meeting. The operation and selection of the company authorities are regulated by the Articles of Association of LUG S.A.

The corporate governance of LUG S.A. consists of the following documents:

- The Articles of Association of LUG S.A.;
- The Regulations of the Management Board of LUG S.A.;
- The Regulations of the General Meeting;
- The Regulations of the Supervisory Board;
- The statement of the Management Board of LUG S.A. on the relations of the Supervisory Board members with the shareholders.

Management Board of the Company

As of 31 December 2019 and as of the day of approving this report for publication, the Management Board of LUG S.A. acted in the following composition:



Ryszard Wtorkowski
President of the Management Board



Mariusz Ejsmont
Vice-President of the Management Board
Technical Director



Małgorzata Konys
Member of the Management Board
Chief Financial Officer

Supervisory Board

As of 31 December 2019 and as of the day of approving this report for publication, the Supervisory Board of LUG S.A. acted in the following composition:



Iwona Wtorkowska
Chairperson of the Supervisory Board



Renata Baczańska
Member of the Supervisory Board



Eryk Wtorkowski
Member of the Supervisory Board



Zygmunt Ćwik
Member of the Supervisory Board



Szymon Ziolo
Member of the Supervisory Board

On 28 June 2019 the Ordinary General Meeting of Shareholders adopted resolutions on appointing the existing Members of the Supervisory Board for another term in office. The current term of the Supervisory Board of LUG S.A. is shared among its members and lasts 3 years.

The role of senior management structures in the area of sustainable development

Sustainable development issues related to ESG areas (*Environment* – natural environment, *Social* – employee and social issues, *Governance* – management governance) are an important element of the LUG Group's operations and are of ongoing interest to higher management structures. The Management Board does not hold regular meetings dedicated to ESG issues, but it does monitor actions taken on an ongoing basis, and individual issues in the ESG domain are the responsibility of the appointed relevant teams. The highest level of governance for ESG issues is the President of the Management Board, who coordinates and assigns responsibilities to designated persons from the team for individual issues.

Activities related to individual ESG areas are constantly supervised by the following members of the senior management of the LUG Group:

- cooperation with industry organisations – Vice-President of the Management Board;
- cooperation with local and government authorities – President and Vice-President of the Management Board;
- cooperation with the local community (including support for non-profit organisations and charity work) - HR Director / Proxy;
- cooperation with universities and training – Head of the Training Department;
- environmental issues – Vice-President of the Management Board.

The Company's Management Board periodically analyses non-financial data, discusses planned activities related to a given ESG area and participates in the creation of the non-financial report by accepting the structure and its main assumptions. In 2019, the Management Board together with the senior management of the Company and the Group took part in workshops held as part of the materiality survey, the purpose of which was to identify stakeholder groups, significant non-financial issues and risks related to significant non-financial areas. In order to determine the significance of issues and the company's involvement in important ESG areas on an ongoing basis, the materiality survey with the participation of the Management Board will be repeated every two years.

There is no separate structure responsible for climate change issues in the LUG Group, and they are included in the overall activities of the senior management. Some of the activities were carried out in cooperation with the Pol-Lighting industry organisation. In 2019, the topic of climate change was taken up by the LUG Group in preparation for a project aimed at identifying and analysing the risks and opportunities related to climate change for the functioning of the company. This project was launched in 2020 and will be continued and will be followed by the planning and implementation phase. All commenced and planned activities related to climate change in the LUG Group are described in detail in Chapter 7.1 *Climate Change*.

3.6 Ethics at LUG

[G.4.1] The broadly understood ethical activity in business is one of the priority areas for the Capital Group and the LUG Management Board. As a company with a recognisable brand and organisational culture, LUG cares about the observance of generally accepted standards and creating standards tailored to the conducted activity at every level of business.

In accordance with the guidelines for companies listed on NewConnect, the LUG S.A. Capital Group focuses on a transparent and effective information policy in its operations. People are the focal point of the Capital Group's development, as indicated in the Strategic Development Directions. Based on the "Tree of Values" built around this foundation, LUG attaches great importance to the observance of ethical standards in its business activities.

The function of LUG's Value Ambassador was appointed to control the observance of the values adopted in the Capital Group.

Documents and procedures

The project of developing and implementing the Code of Ethics of the LUG S.A. Capital Group was launched in 2018. As part of the first stage of conceptual work on the creation of the Code of Ethics, a multidisciplinary project team consisting of specialists from different areas of the company was established. Thanks to comprehensive work and internal consultations, the project was successfully introduced into the second stage, which ended in 2019 with the creation of the first draft of the Code. At the turn of 2019/2020, the document covering all major areas of the Group's operations entered the final stage of work, consisting of verification, supplementation and preparation of the final version ready for implementation by the Management Board and communication to employees and other stakeholders. This stage was scheduled to end in March 2020. Given the state of emergency caused by the coronavirus

pandemic, the company's Management Board adopted a new safe work schedule with a deadline for completion of the project and implementation of the Code of Ethics by the end of 2020.

At LUG Light Factory Sp. z o.o. the issues of employee ethics are partially regulated in the Labour Regulations binding in the company. In addition, the companies of the Capital Group are bound by the Code of Good Practices, which contains a set of internal rules of cooperation and ethics. The Code regulates issues such as:

- the standard for organising external meetings;
- the standard for organising internal meetings;
- cooperation between departments;
- taking care of LUG data and resource security;
- occupational health and safety.

[S.3.4] [S.3.6] [S.6.1] The issue of counteracting mobbing is regulated in LUG Light Factory Sp. z o.o. under the Anti-Mobbing Policy adopted in 2011. The Policy defines the procedure for the complaint process together with its accompanying functions:

- Any employee who considers that they have experienced harassment may make a written complaint to their employer.
- The employer, within 14 working days from the date of the complaint, shall appoint an Anti-Mobbing Commission consisting of a representative of the employer, a representative of the employees, and a person appointed jointly by the employer and the employees.
- The employer conducts training in the Anti-Mobbing Policy for new employees as part of adaptation training.

In addition to the reporting procedures described in the Anti-Mobbing Policy, each employee, regardless of the level in the organisation, has the possibility of personal, informal and direct contact with the President of LUG in order to discuss needs, challenges, successes and problems.

Statistics and control

[S.6.2] [S.6.3] [S.7.1] [S.7.2] [S.8.1] [S.8.2] In 2019, no complaint was filed relating to mobbing, forced labour, child labour or discrimination. There were also no claims concerning elements of the working environment.

[G.4.2] [G.4.3] [G.4.4] [G.4.5] [G.4.7] [S.7.3] [S.7.4] [S.8.3] [S.8.4] Ongoing monitoring of the highest ethical standards is carried out in companies of the LUG S.A. Capital Group. In the reporting period, no ethical audits were carried out at the companies of the LUG Capital Group or at subcontractors. No ethical clauses were included in contracts with contractors. At the beginning of 2020, design work began on the introduction of General Terms and Conditions of Cooperation with Contractors, which will contain guidelines and standards for entities cooperating with the LUG S.A. Capital Group. When selecting suppliers and business partners, the Company places an emphasis on the quality and management standards they meet, as well as legal and technical requirements that guarantee the highest quality of solutions, also in ethical terms. On a daily basis, cooperation within the supply chain takes place with suppliers with an established position on the European market and a good reputation, who, in LUG's opinion, also meet the requirements of socially responsible business.

In 2019, LUG conducted direct audits of component suppliers' factories, which were carried out by a local partner on behalf of LUG. The results of the audits were directly verified by the Vice-President of the Management Board of LUG, as well as the Operational Director for Supply Chain and Production and the Director of the Research and Development Division.

3.7 Management systems

[G.2.2] The role of the parent company LUG S.A. is to perform management and control functions towards other entities in the Capital Group, whereas operating activities are conducted in the subsidiary LUG Light Factory Sp. z o.o. Due to the structure of the Capital Group, the need to implement a uniform Management System for the whole LUG S.A. Capital Group was not identified.

In 2019 and at the beginning of 2020 audits ISO 9001:2015 (Quality Management System), ISO 50001:2011 (Energy Management System), ISO 14001:2015 (Environmental Management System) were conducted at LUG Light Factory Sp. z o.o. Furthermore, the Integrated Management System also complies with ISO 17025:2005. The certificate obtained within the scope of this standard in 2018 confirms the recognition of the LUG laboratory to perform photometric, thermal, tightness, colorimetric and electrical tests. The ISO 17025 standard certificate is valid until April 2021, after which a recertification will be made to extend its validity. In 2019, the process of implementing the BS OHSAS 18001 standard (Occupational Health and Safety) began, which ended at the beginning of 2020. OHSAS standard will be withdrawn in 2021, therefore the next audit of LUG Light Factory Sp. z o.o. will take place in accordance with the ISO 45001:2018 standard. Everything will be carried out as a continuous process where, upon the expiry of the OHSAS standard, the company will receive an ISO 45001:2018 certificate of compliance after meeting its requirements.

In 2019 the following inspections of LUG Light Factory Sp. z o.o. took place:

- two inspections in the field of industry and trade carried out by the National Labour Inspectorate in Zielona Góra;
- inspection carried out by the Kostrzyn-Słubice Special Economic Zone.

On the basis of the audits and inspections carried out within the framework of the ISO standards, the following areas of improvement were identified, among others:

- documentation supervision;
- human resource management;
- environmental protection;
- internal audits;
- documented information management;
- production and operational control;
- hazard identification, precautionary measures, occupational risk assessments;
- monitoring, measurement and emergency response readiness;
- supplier assessment;
- analysis of energy inputs.

At LUG Light Factory Sp. z o.o. the Integrated Management System consists of:

- Energy Policy – assumes, inter alia, striving to implement production in accordance with the applicable law and the requirements of new technologies, reducing energy consumption for the manufactured product, cooperation in the field of energy with suppliers and raising employee awareness of energy management issues.
- Quality Policy – created on the basis of ISO 9001:2015, it aims to meet all its requirements, assumes the improvement of the company's infrastructure, the development of the organisational culture and image building among contractors.
- Environmental Policy – assumes continuous improvement and development in order to meet the requirements of PN EN ISO 14001:2015, operating activities in accordance with environmental law, placing requirements on subcontractors, paying attention to the overall impact of the product (*Life Cycle Assessment* – LCA) on the environment from the initial production phases.

The listed policies are available at: <https://www.lug.com.pl/firma/polityka-firmy>.

Diagram of the management structure responsible for the Integrated Quality Management System

Management level	Position	Number of persons per position	Responsibilities
Management level:	President of the Management Board of LUG Light Factory Sp. z o.o.	1	The ISO Quality Management System Representative is responsible for the proper implementation and operation of the ISO IMS. The work of the Representative is supervised by the Director of Supply Chain and Production from the level of the Division Director and finally by the President of the Management Board of LUG Light Factory Sp. z o.o.
Director level:	Operational Director for Supply Chain and Production	1	
Employee level:	Representative for ISO Quality Management Systems	1	

The ISO Integrated Management System was not implemented in the Posadas factory during the reporting period. However, the process of introducing the ISO 9001: 2015 standard is underway. Upon the successful completion of the initial certification stages, the process is expected to be completed in the second half of 2020. Due to the situation caused by the global coronavirus pandemic, the Issuer identifies the risk of delaying the implementation of the IMS.

LEAN Management

In August 2016, the Kaizen project was launched at LUG, the purpose of which was to enable LUG employees to influence their workplace, internal processes and identify areas that could be improved. A particular emphasis was placed on improving quality, increasing safety, improving ergonomics and cost optimisation. The Kaizen philosophy, in a place of fast and revolutionary changes based on individual work, is based on continuous and sustainable changes in the organisation, technology and internal processes. These changes took place with the support of the management and the involvement of the largest possible number of LUG employees. Already at the initial stage of the project, the way of submitting and implementing employee applications and the principles of their evaluation were regulated. The Kaizen database was created to gather the submitted applications. The new methodology was positively received by LUG employees: 278 applications were submitted, 181 of which were implemented.

In order to further optimise the processes at LUG, in 2018 work began on the implementation of the 5S program, which initially covered production areas. The Kaizen project has given employees an impact on their direct workplaces and the 5S programme has developed this methodology to standardise activities in the entire Production area.

Under the Programme, the necessary training and workshops were carried out for all employees from given areas, both directly and indirectly in production. Then, the areas where it was implemented were selected. First of all, it was the widely understood area of Production, then extended to the Supply Chain area. The analysis and selection of the equipment for the workstations was carried out in terms of its suitability for the performance of duties, thus tidying up the workplace and leaving only necessary items, with optimal use of the work area. Any discrepancies in the equipment of individual stations led to retrofitting them with tools of the same standard.

The introduced changes translated into an increase in the quality, efficiency and safety of the workplace. The 5S standards introduced at LUG have influenced the uniform marking of zones, division into areas of responsibility and uniform material flow. Employees were involved in the process by introducing area ownership to ensure that their areas were directly affected by the changes and to enable them to initiate changes. The 5S methodology, and therefore standardisation, means that changes introduced in one area are also introduced in other areas. Compliance with the 5S principles is verified during periodic audits.

The Organisational changes at LUG Light Factory Sp. z o.o. that took place in 2019 provoked an intensification of activities in the field of 5S methodology. As part of the project, in the areas of assembly, paint shop and offices, we managed to:

- implement procedures and conduct training;
- define areas of responsibility;
- carry out the 3S action, i.e. remove all unnecessary tools and equipment in the areas, making the material flow process more transparent;
- start systematic 5S audits.

The Kaizen philosophy is expected to resume in 2020, coupled with the 5S solutions already developed. This is to ensure the continuation of a consistent methodology of maintaining the proper, most optimal processes at LUG, ultimately ensuring the reduction of production costs while providing the highest quality products.

The internal activities described above correspond also to the external activities of LUG, which are described in more detail in chapter 5.4. *Local communities*.

Inspection and Internal Audit

[G.2.1] [G.2.3] The internal inspection of LUG is coordinated by the ISO Quality Management Systems Representative, who cooperates within the framework of their duties with the internal auditors, who have received their certificates on the basis of the completion of certified trainings. The internal auditors carry out the audit at LUG preparing the final audit report with conclusions and recommendations. The ISO Quality Management System Representative is responsible for the implementation and proper functioning of the ISO 9001, ISO 14001, and ISO 50001 procedures in the company, while also maintaining inspection powers regarding the completeness of documents, as well as supervision over the implementation and proper functioning of new ISO procedures.

The frequency of audits is defined in the annual Audit Schedule, which also defines their scope. Audits are based on the competences of individual internal auditors obtained during training and confirmed by experience and practical knowledge of internal processes taking place in the organisation. Each internal unit is audited according to internal ISO procedures.

As part of internal inspections, LUG monitors compliance with the requirements of ISO 14001. In the environmental area, the Company commissions the implementation of regulatory obligations, controls the completeness, timeliness and correctness of documentation through cooperation with the Oś Eko consulting company. The competences of the external company focus on areas such as LUG's internal audit, representing LUG outside in strictly defined environmental areas and performing an advisory function in the field of environmental protection.

3.8 Risk management and significant management risks

Risk management is an important element of the Group's operations, therefore higher management structures and those responsible for individual areas of the unit are involved in the identification, monitoring and assessment of risks. The highest level that manages risk and coordinates the work of individual units is the Management Board of the Company, and its work in the field of risk management is coordinated by the President of the Management Board.

The risk management system in the LUG Group is not formalised. As part of the system, individual areas affected by risks are assessed during meetings and in the communication mode of teams responsible for these areas. Risk management related to a given area is performed by individual organisational units according to the division presented in the table below. In all cases, the responsibility for risk management in a given area lies with the manager of a given organisational unit. In the case of risks related to the occurrence of emergency situations and in the case of detection of new risk factors, the management of a given type of risk is subject to the assessment of the Management Board, which assigns responsibility to persons appointed to particular areas.

In addition, in 2019, a materiality study was conducted with the participation of the Management Board and the Group's senior management to identify material non-financial risks. The study revealed the following significant non-financial risks:

Area	Risk	Persons/units managing the risk	Details
Management area	Risk of LUG intellectual property theft	Vice-President of the Management Board of LUG S.A., Marketing Director, R&D Director	Description given later on in this chapter
	Risk of adverse changes in lighting regulations	Vice-President of LUG S.A., Director of the Legal Department, Director of Strategic Finance and Risk	
	Risk of occurrence of other changes in regulations, negatively influencing the Capital Group's operating activities.	Director of the Legal Department, Director of Strategic Finance and Risk	
Social, human right and anti-corruption issues	-	-	Description in chapter 5.7
Labour issues	Risk of a shortage of employees	HR Director / Proxy	Description in chapter 6.4
	Risk of loss of key personnel	President of the Management Board of LUG S.A., HR Director / Proxy	
	Risk of insufficient competence of sales teams	Sales Director	
	Risk of wage pressure	Director of Strategic Finance and Risk, HR Director / Proxy	
	Risk of employee shortage as a result of COVID-19 infection*	HR Director / Proxy	
Environmental issues	Risk of tightening the regulations regarding the circular economy	Vice-President of the Management Board of LUG S.A., Oś Eko (external company)	Description in chapter 7.8

* Risk identified in March 2020

Significant management risks

Risk and its description	Risk management method
<p>Risk of LUG intellectual property theft LUG is a manufacturer of innovative solutions in the lighting industry. The theft of LUG's intellectual property could mean that competitors would gain an advantage.</p>	<p>LUG monitors the risk, i.a., through the analysis of products offered by competitors. Risk management measures taken:</p> <ul style="list-style-type: none"> - securing IT systems; - provisions in contracts with employees related to the obligation to keep company secrets confidential; - employee education; - activities aimed at building employee loyalty, preventing their possible tendency to work for competitors; - submitting selected design solutions for patent protection; - willingness to take legal action in case of detection of cases of intellectual property theft;
<p>Risk of adverse changes in lighting regulations Possible changes in the regulations governing the production, installation and operation of lighting could force the necessity to make design and construction changes in LUG products.</p>	<p>LUG monitors the risk, i.a., through constant analysis of legislative processes performed independently and in cooperation with professional advisers and law firms. Risk management measures taken:</p> <ul style="list-style-type: none"> - advance preparation of R&D and design departments for anticipated changes in legal regulations; - active participation in the work of the Pol-Lighting industry organisation, which co-shapes the lighting regulations as part of its public affairs activities. <p>It should be stressed that this risk is also an opportunity for development. Thanks to the monitoring of planned changes to regulations, LUG prepares to meet new requirements in advance. At the same time, the introduction of stricter regulations may lead to a reduction in competition from companies focusing on lower-quality products.</p>
<p>Risk of occurrence of other changes in regulations, negatively influencing the Capital Group's operating activities Possible changes in other legal regulations could lead to difficulties in LUG's functioning or to a decrease in the profitability of its activity.</p>	<p>LUG monitors the risk, i.a., through constant analysis of legislative processes performed independently and in cooperation with professional advisers and law firms. The monitoring is particularly focused on regulations in areas such as:</p> <ul style="list-style-type: none"> - tax law; - labour law; - regulations applicable to public companies; - provisions for the circular economy. <p>Risk management measures taken:</p> <ul style="list-style-type: none"> - advance adaptation of relevant departments of the company to the anticipated changes in the law; - applying to the Ministry of Finance for individual tax interpretations.

3.9 Compliance with the Taxonomy for Sustainable Activities

The business activity of the LUG Group is 99% compliant with the EU Taxonomy for environmentally sustainable activity in terms of revenue and 53.7% in terms of investments as an activity making a significant contribution to climate change mitigation (mitigation – *enabling activity*), meeting the criteria of the DNSH (*Do No Significant Harm*) and meeting minimum safeguards. This above disclosure is based on the proposals contained in the TEG final report and the direct content of Article 8 of Regulation 2020/852 on establishing a framework to facilitate sustainable investment.

On June 18, 2020, Regulation (EU) 2020/852 of the European Parliament and of the Council was adopted on establishing a framework to facilitate sustainable investments. Its application will start gradually as from 1 January 2022. At the same time, on 9 March 2020, TEG (*Technical Expert Group*), an expert group set up by the European Commission, issued its final report containing the Taxonomy project. The regulatory framework and detailed criteria for assessing which economic activities can be considered sustainable are already known. Anticipating the regulatory requirement (provided for in Article 8 of the Regulation), the Management Board of the LUG Group commissioned an analysis, the result of which is published in this report.

The analysis was carried out in the following stages:

- Stage I: Determining the NACE sector(s) in which the economic activities carried out by the LUG Group are located and whether these sectors are included in the Taxonomy.
- Stage II: Determining whether the activities of the LUG Group can be considered as making a significant contribution to the implementation of one of the first two objectives set out in the Regulation and the Taxonomy, i.e. climate change mitigation or adaptation to climate change (the requirement of Article 3(a) and in connection with Article 9 and Articles 10-16 of the Regulation).
- Stage III: Where an activity makes a significant contribution to a given objective, determining whether it meets the DNSH criteria ('do no significant harm' principle) for the other purposes (requirement of Article 3(b) in accordance with Articles 9 and 17 of the Regulation).
- Stage IV: Determining whether activities are carried out in such a way as to ensure compliance with minimum safeguards (requirement of Article 3(c) according to Article 18 of the Regulation).
- Stage V: Determining the percentage of revenue or capital expenditure that meets the above criteria.

The analysis did not include the fulfilment of technical eligibility criteria (requirement of Article 3(d) of the Regulation), as these criteria have not yet been defined by the European Commission.

Stage I

According to the ASO NewConnect classification, LUG S.A. belongs to the sub-sector of construction and telecommunications installations in the construction sector and the macro-sector of industrial production and construction-assembly production. The main activity of the LUG Group is the design and production of lighting equipment and installations, which are then used in the construction and engineering sectors. This allows for the classification of the business activities conducted by the LUG Group into category 27.90 *Manufacturing of other electrical equipment* and 26.11. *Manufacturing of electronic components* at NACE level 4 (Statistical Classification of Economic Activities in the European Union). Both categories are covered by the Taxonomy and belong to a category *Manufacture of low carbon technologies*.

Stage II

The above allows for the recognition of the business activity conducted by the LUG Group as potentially contributing significantly to the implementation of two objectives defined in the Regulation and the Taxonomy:

- climate change mitigation (as an enabling activity);
- adaptation to climate change.

LUG Group products are sold and installed in buildings and public spaces (outdoor lighting), where they are then used by customers and end users. Therefore, in the course of the analysis it was decided to consider that the revenue obtained from sales by the LUG Group and investment outlays for research and development activities may be considered as revenue from or outlays for activities that make a significant contribution to climate change mitigation, respectively.

Stage III

All the criteria of the DNSH (*Do No Significant Harm*) of the LUG Group's activities were examined in relation to the other five objectives, namely (objective 2) Substantial contribution to adaptation to climate change, (objective 3) Substantial contribution to the sustainable use and protection of water and marine resources, (objective 4) Substantial contribution to the transition to a circular economy, (objective 5) Substantial contribution to pollution prevention and control, (objective 6) Substantial contribution to the protection and restoration of biodiversity and ecosystems.

The analysis showed that the activity conducted by the LUG Group meets all the DNSH criteria for the production of low emission technologies.

Summary conclusions from the analysis:

- Adaptation to climate change: The activity of the LUG Group in the scope related to the production of products based on LED technology meets the criteria for the review of activities facilitating adaptation to climate change as defined in the Taxonomy.
- Sustainable use and protection of water and marine resources: Water is used to a small extent in the activities of the LUG Group. The Group monitors water consumption and sewage disposal. These processes take place in accordance with legal regulations and are covered by the Integrated Management System in accordance with PN EN ISO 14001:2015.
- Transitions to a circular economy: Less than 50% (exactly 0.96% on average) of greenhouse gas emissions related to the use of the LUG Group's products are emissions embedded in the product (refers to the emissions in scopes 1 and 2).
- Pollution prevention and control: The activity conducted by the LUG Group is carried out in accordance with legal regulations, including the REACH regulation. Pollution prevention issues are also the subject of the Integrated Management System compliant with the PN EN ISO 14001:2015 standard.
- Protection and restoration of biodiversity and ecosystems: The LUG Group carried out the analysis of collisions with the areas subject to protection in relation to the factory in Zielona Góra and the Research and Production Centre in Nowy Kisielin. The analysis showed that the Group's activities do not have a negative impact on the surrounding protected areas.

Stage IV

The analysis concluded that the LUG Group carries out its activities in such a way as to comply with the minimum guarantees laid down in Article 18 of the Regulation.

Stage V

It has been established that 99% of the LUG Group's revenue comes from the manufacture and sale of LED lighting products which meet the criteria mentioned under point 3 of the Measuring and Threshold for the manufacture of low emission technologies (*High efficiency lighting appliances rated in the highest energy efficiency class that is significantly populated in the energy efficiency label (or higher classes) according to EU energy labelling regulations*). 1% of the LUG Group's revenue comes from the production and sale of lighting products in other technologies that do not provide the highest class of energy efficiency.

Moreover, it was established that the outlays incurred by the LUG Group in 2019 on the research and development activity were fully incurred for the development of products in LED technology. In 2019, the outlays on research and development activity amounted to 53.7% of the total investment outlays of the LUG Group.

Therefore, 99% of revenue and 53.7% of investment outlays of the LUG Group in 2019 were considered to meet the criteria of environmentally sustainable business activity according to the TEG Final Report.

4 Key non-financial performance indicators

	Unit	2018	2019	Change YOY	Purpose
Work area					
Average number of training hours per employee	H	28	18	-35.8pp	30
Rotation rate of employees employed for an indefinite period of time	%	4.2%	11.7%	+7.4pp	4.0%
Percentage of women among employees	%	38.9%	39.3%	+0.4pp	43%
Social area					
Number of complaints reported by local communities	pcs.	0	0	-	0
Number of architects and designers attending training courses and lectures on lighting	pcs.	604	1,377	+128.0%	1000
Environmental area					
Energy consumption per product unit	MWh/1000 pcs.	13.7	15.0	+9.9%	12.3
Mass of greenhouse gases emitted to the atmosphere within Scope 1 and 2 per product unit	kg CO2e/pc.	4.6	5.2	+11.7%	4.3
Weight of waste per product unit	kg/pc.	0.75	0.92	+22.9%	0.63
Compliance with the EU Taxonomy for Sustainable Economic Activities					
Percentage of revenue according to the Taxonomy	%	-	99.0 %	-	-
Percentage of investment outlays compliant with the Taxonomy	%	-	53.57 %	-	-

The objectives of the LUG Group indicated in the key non-financial efficiency indicators are planned to be achieved in the perspective defined by the “Strategic development directions of the LUG S.A. Capital Group for the years 2017-2021”.

2019



**Social, human right
and anti-corruption issues**

5 Social, human right and anti-corruption issues

Relevant issues

The LUG S.A. Capital Group exerts its influence on society in a number of areas and is also subject to the influence of society itself. As a result of the materiality survey, the following important social, human right and anti-corruption issues were identified:

- laws, norms and standards regarding lighting;
- product safety, production certification, quality standards;
- relations with local communities;
- savings in local government budgets;
- safety of people in public spaces;
- educating architects and designers in the field of lighting design;
- proper use of LUG products by consumers;
- preventing corruption;

The highlighted issues reflect, among others, the ongoing internationalisation process at LUG. By opening a factory in Posadas, Argentina in 2018, the company expanded its impact on the local community in the region.

LUG conducts activities focused on dialogue and cooperation with groups of its stakeholders, mentioned among others in the Strategic Development Directions of the Capital Group. Within their scope, cooperation programmes with architects and interior designers have been developed. LUG also addresses its offer to local governments, presenting solutions aimed at following the latest trends, such as Smart City technology.

Dialogue

Activities in the sphere of social involvement are connected with the LUG mission **We create innovative lighting for a life of passion**. The Group maintains a dialogue with identified groups of significant stakeholders through, i.a., meetings, telephone contact, e-mail, external newsletter, information boards and posters. The company informs its employees about its social involvement through an internal newsletter, mailing list, the LUGpress company newspaper, information boards, posters, Communication Zone in the internal system for “ZONE P” employees and during meetings.

Area management structures

There is no uniform policy on social issues in the LUG Group. Individual social issues are subject to management processes carried out by several organisational units according to their competences:

- LUG charity activity: in the LUG Capital Group there is a procedure to be followed in relation to charity activities; the decisions are made by the Proxy of LUG Light Factory Sp. z o.o. and the employees of the Management and Communication Office participate in them;
- relations with local, national and economic media: Management Board and Communications Office (BZiK);
- relations with potential employees, so-called Employer Branding: HR Department;
- cooperation with organisations aimed at improving the broadly understood quality of life, including cooperation within the World Economic Forum: Marketing Division;

LUG cooperates with many institutions representing areas important in the Group’s operations:

- University of Zielona Góra: in 2019, cooperation with the Career Office, the University Department related to technical faculties and the Faculty of Architecture was continued during study days at LUG. As part of the cooperation with the University of Zielona Góra, LUG also took part in the

2019 Job Fair referring to the recruitment of employees and trainees, interns employed on the basis of a graduate internship contract.

- Zielona Góra City Hall: in 2019, cooperation with the Zielona Góra City Hall and the Department of Investments and Road Management of the Office was continued. As part of the demonstration and experimental lighting installations in the fourth quarter of 2019, lighting fixtures on ul. Gorzowska were enriched with the LUG URBAN lighting control system, while in the first quarter of 2020, on a fragment of ul. Zjednoczenia, controllers were installed to test the Smart City system.
- Zielona Góra Marshal's Office: cooperation with the Department of Regional Programmes in the field of conducting and accounting for projects co-financed by the European Union (Lubuskie Regional Operational Programme 2020). LUG has become an important partner in discussions on the shape of research and development projects in the region. By presenting its opinions and experience in the implementation of R&D projects at meetings with project supervisors, LUG is the voice of entrepreneurs in the field of innovative projects in the voivodeship. In October 2019, LUG became a partner of the Lubuskie 2019 Economic Congress organised by the Marshal's Office of the Lubuskie Voivodeship (Department of Entrepreneurship and Brand Strategy). The President of the LUG Management Board acted as an expert and speaker in the Smart City thematic block during the Congress, which introduced the participants to the idea of the city of the future. In the first quarter of 2020, LUG took part in social consultations of the Lubuskie Voivodeship Development Strategy 2030.
- Association of Polish Architects: cooperation with architects, one of the target groups defined in the Strategic Development Directions of the Capital Group. More information on the effects of cooperation in chapter 5.3 *Educating architects and designers in the field of lighting design*.

List of organisations of which LUG is a member:

- Lighting Equipment Employers' Association "Pol-Lighting";
- Polish Association of Listed Companies;
- Western Chamber of Industry and Commerce;
- Lubuskie Region Employers' Organisation
- Chamber of Industry and Commerce Poland – Asia;
- Chamber of Construction of the Lubuskie Voivodeship;
- Polish Chamber of Commerce for Electricity;
- Greater Poland Chamber of Construction;
- Association for Energy Development in the Lubuskie Region;
- Polish Council of Shopping Centres;
- Polish-Brazilian Chamber of Commerce;
- World Economic Forum (By becoming a member of the World Economic Forum in January 2019, LUG has become a member of the global community of companies, international organisations and other institutions that aim to improve the general condition of the world around us. As a company specialising in the design, development and production of comprehensive LED lighting solutions for professional applications such as infrastructure and urban spaces, LUG offers ready-made answers to selected challenges facing the modern world by increasing energy efficiency, reducing emissions of harmful gases into the atmosphere, and improving the safety and comfort of society);
- OVLNL Stichting Openbare Netherlands.

5.1 Consumer safety

When creating luminaires, LUG pays special attention to the comfort and safety of use by the customer and consumer. LUG's customers are entities purchasing lighting solutions, for example, local governments modernising street lighting infrastructure or general contractors of office, commercial, educational or medical buildings. Consumers of LUG products are all persons frequenting spaces illuminated by LUG products, e.g. people moving in public spaces or using buildings.

An area that stands out in the significance test is the issue of lighting standards and regulations, as well as safety, certification and quality standards of products. The process of delivering the highest quality goods to the customer consists of both care for the safety of product installation and its use at each stage of the life of the supplied equipment.

The luminaires produced by LUG meet all European requirements and standards, which is a key condition for admitting products to the market and the basis for placing them on the EU market. The authorisation of products for sale is also regulated by two directives: Directive 2014/35/EU of the European Parliament and of the Council of 26 February 2014 on the harmonisation of the laws of Member States relating to making electrical equipment designed for use within certain voltage limits available on the market (the so-called Low Voltage Directive LVD) and Directive 2006/42/EC of the European Parliament and of the Council of 17 May 2006 on machinery (the so-called Machinery Directive).

LUG luminaires are also manufactured in accordance with the provisions of Directive 2009/125 / EC of the European Parliament and of the Council of 21 October 2009 establishing general principles for setting ecodesign requirements for energy-related products (the so-called Ecodesign Directive), which concerns energy and emission requirements and talks about levels of energy consumption so that products become increasingly environmentally friendly. The safety of LUG products is confirmed by:

- EU Declaration of Conformity (CE);
- MA Declaration of Conformity;
- Compliance with Ukrainian standards;
- HACCP certificate;
- ENEC certificate;
- GOST certificate;
- Compliance with ISO 9001 – Quality Management System and ISO 50001 – Energy Management System.

Selected LUG products also have certificates issued by certifying institutions on individual markets on which the company operates. The comfort and safety of users are such an important aspect of LUG product DNA that safety testing and certification have the highest priority and are extended over the minimum regulatory requirements as standard.

Product labelling

As a manufacturer, LUG is obliged to correctly label products. Luminaires are marked with rating labels which must comply with the PN-EN 60598-1 standard and additionally with the guidelines of European Union directives.

LUG labels include, i.a. the following data:

- name of the luminaire/component;
- index;
- power, voltage;
- manufacturer data;
- production date;

- order number;
- certificates;
- EAN Code;
- quality control confirmation.

Component quality

Standards, which should be met by semi-finished products and components delivered to LUG, should be based on guidelines adopted and approved by the PKN national standardisation body for a given group of components, be compliant with EU directives (CE marking) and meet the declaration of material conformity with the RoHS directive. Components should be based on dimensional standards with an indicated degree of tolerance e.g. PN-EN 22768-1.

Luminaire installation

In most cases the luminaires supplied by LUG are installed by third parties with whom the Group does not maintain a contractual relationship. In such cases, the responsibility for the installation of the luminaires rests with the contracting entity. In some cases, including as a result of public procurement processes, the responsibility for the installation of the luminaires rests with LUG, if the company has been specified in the order as the General Contractor and a party to the contract. The contractor is selected in such a procedure on the basis of the criteria indicated in the Terms of Reference – these are most often the price, the declared warranty period, the order completion date, the installed capacity achieved as a result of the investment, etc. In such cases LUG does not act directly as a sub-contractor-installer, but rather employs installation and assembly companies within the framework of a sub-contractor agreement for the duration of the implementation and entrusts this type of work to be performed. Within the LUG S.A. Capital Group, the function of an installation and assembly company may be entrusted to LUG Services, or this company may act directly as a General Contractor.

The LUG Group is supervised directly by the Ordering Party, which can carry out the supervision on its own, or commission the Investor's Supervision Inspector (such an obligation is specified in the building permit, but there are no obstacles to using such a function at will). The care for OHS standards is regulated by law, and the subcontractor's responsibility for the subcontractor's employees rests with the subcontractor. This obligation is governed by the Contractor-Subcontractor agreement.

Association of Lighting Equipment Manufacturers “Pol-Lighting”

LUG is an active member of the Association of Lighting Equipment Manufacturers “Pol-Lighting”, which brings together leading manufacturers of light sources and professional lighting equipment and works to increase the innovation and competitiveness of the lighting sector, cooperates with government administration bodies, sectoral scientific and research institutes and other industry organisations. It also serves to exchange experience, expertise and solutions that allow all members to develop their own know-how.

One of the activities carried out by Pol-Lighting is the promotion of LED technology and cooperation with market surveillance authorities so that the impact of products from third countries on the Polish market takes place in a controlled manner, i.e. that products allowed to be sold in Poland are compliant with EU standards and Polish legislation. The Association also takes steps to eliminate acts of unfair competition and to support the development of free competition on the basis of European Union regulations and Polish laws. It creates an environment for the development of the lighting industry in the Republic of Poland and is the organiser of the Lighting Product Quality Monitoring Programme as part of the fight against unfair competition. This programme applies to light sources, LED luminaires and luminaires for special purposes, the purpose of which is to carry out unannounced manufacturer tests of products available on the market in order to verify the declared technical and quality parameters. This programme continued in 2019 and was part of the effort to counteract the flooding of the Polish

market by low quality products from China. In addition, members of the Association are involved in raising the level of knowledge about lighting quality among consumers, local authorities and other state organisations, legal entities, subcontractors, architects and installers. Particular attention is paid to ensure that, based on the experience of Pol-Lighting members, the new regulations support investment in the highest quality lighting solutions, eliminating low-quality products that do not meet basic standards and mislead users.

LUG, together with other members of the Association, supports the activities and research that are carried out to improve the quality of available lighting products, eliminate double product standards, erroneous markings and improve electromagnetic compatibility (EMC), meaning the ability of a given device or system to work properly in a specific environment.

In 2019, the Association actively monitored the market and controlled digital platforms, through which lighting products are increasingly reaching unaware consumers.

LUG Light Factory Sp. z o.o. together with Pol-Lighting takes an active part in the works of Lighting Europe, among others in the scope of legislation concerning the safety and quality of lighting products and in the works which are carried out together with the European Commission in order to create legal mechanisms encouraging investment not only in energy-saving lighting, but above all in lighting concentrated around the needs of people and nature, i.e. *Human Centric Lighting* (HCL).

In 2019, Pol-Lighting's activities focused on testing light sources and LED luminaires. The test results showed which LED luminaires did not meet the requirements of the EMC standard and the measurement of the voltage of conducted disturbances, as well as calibration errors (non-compliance with the declarations of the product introducing the product on the market). In addition, the tests showed which light sources did not meet the requirements with regard to the value of the luminous flux, energy efficiency EEI and correct marking of the declared power by the manufacturer/importer.

Pol-Lighting conducts an effective dialogue with institutions and offices such as the Office of Competition and Consumer Protection (UOKiK) and the Office of Electronic Communications (UKE) within the framework of EU projects, which examine and control lighting products. Thanks to the new Act on Conformity Assessment and Market Surveillance, the President of the Office of Competition and Consumer Protection and the President of the Office of Electronic Communications have the right to impose fines on anyone introducing a non-compliant product by way of an administrative decision.

[S.11.1] In 2019, there were no violations of procedures regarding the safety of products and services in the LUG S.A. Group.

[S.11.2] In 2019, no proceedings were initiated, completed, or pending against companies from the LUG S.A. Group conducted by the Office of Competition and Consumer Protection or similar offices in other countries. There are also no penalties for non-compliance with laws and regulations.

[S.12.1] [S.12.2] In 2019, there were no cases of non-compliance with regulations and voluntary codes concerning marketing communication at LUG. There were no administrative cases pending against LUG for non-compliance with the law and regulations on issues related to the reliability and ethics of marketing communication.

[S.14.1] [S.14.2] In 2019, there were no cases of non-compliance with the labelling of LUG products, and no administrative proceedings were conducted against LUG due to incorrect labelling.

5.2 Savings in local government budgets

One of the important groups of stakeholders and main groups of LUG customers are local government units, to which the LUG product offer is also addressed. Among LUG products there are a number of solutions related to public space and infrastructure lighting or Smart City technology, which can significantly translate into budget savings for local governments.

Budget savings for local governments are particularly important due to the current situation in the Polish energy sector related to the obligation resulting from the Energy Efficiency Directive 2012/27/EU, which mobilises EU countries to reduce electricity consumption by its consumers by 1.5% every year between 2014-2020. Moreover, a drastic increase in energy prices in Poland, resulting, among other things, from the rising costs of CO₂ emissions, was observed during the contracting of energy by local governments in 2019, and is expected to increase further in the coming years. Budget savings are of particular importance also in connection with the COVID-19 virus epidemic in Poland and around the world, which appeared at the beginning of 2020 and will reduce revenue to the local government budget, and the investment processes suspended for this period will have to be rebuilt after the epidemic ends.

Both the use of LUG lighting products and innovative smart lighting systems can improve energy efficiency and reduce electricity consumption. This is due to the LED technology applied in all LUG lighting products, which is the most energy-efficient, and innovative smart lighting systems allow for automation of lighting control, e.g. in terms of matching the power of street lighting to traffic and conditions.

Dynamic changes in public spaces that are currently underway and are expected in the future are one of the main areas of LUG's interest. In order to be able to actively co-create strategies of the cities of the future and participate in the process of city lighting modernisation based on the best smart lighting solutions, a subsidiary of the LUG S.A. Capital Group – BIOT Sp. z o.o. is developing proprietary solutions in the Smart City area. The developed system is the neural basis of the smart city of the future. This is a natural first step towards Smart City solutions and the basis for the further development of smart functions that will be made available gradually within a single platform.

In 2019, the LUG AVENIDA luminaire was awarded in the iF Design Award. It is a professional solution for the illumination of public spaces, which enables an increase in safety and comfort in spaces while ensuring high energy efficiency of the urban lighting system. The AVENIDA luminaire cooperates with smart lighting management systems and enables shaping the light body. This is the third prize in this competition for a LUG product, which confirms that the LUG Group maintains the highest level of industrial design. Previously appreciated: POWERLUG LED luminaire in 2016 and CRUISER 2 LED in 2017.

5.3 Educating architects and designers in the field of lighting design

Architects play a special role in the sales processes of the LUG Group. It is they who, at the stage of creating a conceptual design of a building or public space project, make the first decisions enabling the use of LUG luminaires in a given project. It also depends on the skills and competence of the architects whether a lighting system designed in a given building or public space will be effective and adequately meet the future needs of users.

LUG appreciates the direct influence that architects and designers have on the development of the product offer. In order to develop and clearly define the framework of cooperation, the Architect Support Program was created at LUG.

With its own design team, LUG provides support to interested architects and designers in the scope of providing training services and substantive support. In addition, for several years, LUG has been cooperating with reputable companies providing tool palettes for architects, designers and graphic

designers. The result of the joint activity is comprehensive support for the above-mentioned professional groups in the field of all kinds of architectural models.

Cooperation within the Architect Support Program allows us to adjust and optimise solutions to individual needs. The end results of the cooperation are:

- savings in the design phase;
- ROI analysis;
- cost and energy optimisation.

As part of cooperation with architects, LUG also organises training programs. In 2019, approximately 174 training hours were devoted to training architects. The following elements can be distinguished within the Architect Support Programme and activities conducted by LUG to improve the Programme in 2019:

- BIM – support for specific customers and cooperation with digital technology portals for construction visualisation and taking care of placing objects made in this technology on them;
- cooperation with architectural organisations and participation in events organised by them (eg SARP Zielona Góra, Cross-border Architecture Days in France and Germany with the Association of Architects L’Ordre des Architectes and Maison Européenne de L’Architecture);
- webinars – organised in cooperation with external partners;
- competitions (e.g. LUG Best Project Contest for architects and interior designers);
- participation in lighting trade fairs and organisation of own events in order to broaden the network of contacts, consolidate the brand in the awareness of partners from the industry and to gain new customers and build lasting relationships with them.

BIM training, including:

- certified training for architects;
- participation in industry organisations.

5.4 Local communities

The materiality test carried out showed the high significance of relations with local communities. The LUG Group, operating in Zielona Góra, has been influencing the community of the entire region for many years and at the same time is influenced by the phenomena taking place in the community of the Lubuskie Voivodeship. Based on the high standards of management and transparency of the conducted dialogue defined, among others, in the “Tree of Values”, the Capital Group develops a clear framework for cooperation, aiming at achieving mutual benefits. By operating on many levels, LUG has a wide area of influence on the local community. This consists of:

- Conducting multi-directional business activities, LUG offers various job offers and career development paths in an enterprise with an international reach and a high standard of work.
- Thanks to the location of its operations LUG creates a unique environment for cooperation for local governments.
- The unique experience in the field of architecture and lighting, which LUG specialists have, is invaluable capital, which can be used by local scientific institutions, such as the University of Zielona Góra.

The agreement concluded with the government of the Province of Misiones in Argentina and the opening of a factory in Posadas in 2018 meant new jobs for the local community, and therefore the beginning of building relations between LUG and the local community in the region. In 2019 the LUG Group continued the activities started in the preceding year and conducted trainings for the employees of LUG Argentina SA. In order to meet the social demand, an information campaign was also conducted in the field of modern and energy-saving LED lighting technologies.

[S.9.3] There was no uniform policy in the social area in the LUG S.A. Capital Group in the reporting period. Activities in the social area of the companies of the Capital Group are regulated by the adopted LUG Code of Good Practices and the strategic development directions of the Capital Group. Companies of the Capital Group conducting operational activity – LUG Light Factory Sp. z o.o. and LUG Argentina SA conduct monitoring and dialogue with local communities. The principles adopted in the social area of LUG Argentina SA are regulated by the provisions of local Argentinian law.

[S.9.1] [S.9.2] In 2019, LUG showed no negative impact of the company’s operating activities on the local community, and no complaints were received against the activities of the companies of the LUG S.A. Capital Group from the local community.

The activities carried out by LUG, described in chapter 3.7. *Management Systems*, also bring effects within the cooperation with entrepreneurs operating in the local community.

Cooperation with the local community in Zielona Góra also has an educational dimension. In 2018 LUG participated in the project “Modernisation of vocational education in the City of Zielona Góra – projects implemented outside the ITI formula” organised by the Western Chamber of Industry and Commerce. Within the framework of this project, internships were organised in order to acquire skills to practice the profession without establishing an employment relationship. In addition, the effect of the Starter Job 2018 project was that in 2019 students from the Electronic School Complex were accepted for internships. In 2019, the Job Starter programme was not continued, but the relations established in previous years allowed for the start of talks with selected people about starting cooperation in the future.

As part of fulfilling the statutory obligation related to the management of packaging and packaging waste, in 2019 the LUG Group conducted educational activities in the form of recycling classes at a school for children. On behalf of LUG, educational campaigns were conducted by an external company, Biosystem, which carried out the following activities:

- Educational project “Pan Sprzątałski” (“Mr Cleaner”) on the principles of disposal of waste from households, carried out in kindergarten and school grades 1-3, in the Silesian Voivodeship.
- 5th Podhale Recycling Days and Nowy Sącz Days of Clean Air and Recycling, including workshops and scientific demonstrations explaining the rules of dealing with electrical waste and municipal waste.
- Nationwide educational programme for schools COLLECT BATTERIES AND PHONES! on the proper disposal of used batteries and mobile phones in schools all over Poland.

Charity and sponsorship

One of the elements of building relations with the local community is the charity activity conducted by LUG. It takes the form of earmarked donations of funds for purposes implemented by non-governmental organisations and support in kind.

[S.9.4] [S.9.5] In the financial year 2019, the LUG S.A. Capital Group made donations for social purposes in the total amount of PLN 40.6 thousand PLN (compared to PLN 36.4 thousand in 2018). Among the recipient organisations and institutions were:

- The Warto jest Pomagać (It’s Worth Helping) Association;
- Ludzie dla Ludzi (People for People) Association; Mecenat Złotego Serca (Patronage of the Golden Heart);
- Chrześcijańskie Stowarzyszenie Edukacyjne (Christian Educational Association);
- County Orphanage in Żary;
- Care and Educational Institution No. 4 in Zielona Góra;
- Museum of the Lubuskie Region.

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

- sponsorship of cultural and entertainment events;
- individual aid.

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

- renovation of a flat designed for a single mother with children, a charge of the Crisis Intervention Centre in Zielona Góra in 2018;
- annual employee volunteering in the form of preparing Saint Nicolas Day and Christmas presents for children from the Orphanage in Żary;
- material support responding to the needs of the entire orphanage in Żary;
- funding T-shirts for volunteers of the Great Orchestra of Christmas Charity in 2017-2019.

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

[S.9.5] In 2019, the LUG Group participated and got involved in a number of industry and cultural events, investing nearly PLN 850 thousand, in the following:

- the Hale Przemysłowe i Magazyny Łódź (Industrial Halls and Warehouses Łódź) 2019 conference;
- Muniexpo 2019 fair;
- Otwarte Wnętrza (Open Interiors) Festival 2019;
- Smart City Forum 2019;
- BIM WEEK 2019 workshops;
- XIV Konferencja Oświetlenie Dróg i Miejsc Publicznych Wisła 2019 (14th Lighting of Roads and Public Places Wisła 2019 Conference);
- Moldenergy 2019 exhibition;
- Gala Plebiscytu Polska Architektura XXL (Polish Architecture XXL Plebiscite Gala) 2018;
- Europejski Kongres Samorządów Kraków (European Congress of Local Governments Krakow) 2019;
- Middle East Lighting Design Summit 2019;
- Poznań Design Festival 2019;
- Stadt- und Außenbeleuchtung Dresden Symposium 2019;
- Straßen und Außenbeleuchtung Hannover Symposium 2019;
- 20-20 Cities urban innovation meeting, Prague;
- Kongres Regionów Wrocław (Congress of the Regions Wrocław) 2019;
- Multimodal 2019 fair;
- EXPOARCON 2019 fair;
- MEB Elettroforniture 2019 fair;
- EXPO Energia 2019 fair;
- ENERGETAB 2019 fair;
- Architecture Days in France, Austria and Switzerland 2019;
- Diplomatic Opening of the Year 2019;
- World Economic Forum on the Middle East and North Africa 2019;
- India Economic Summit 2019;
- Sustainable Development Impact Summit 2019;
- World Economic Forum on Africa 2019;
- Annual Meeting of the New Champions 2019.

The LUG Group focuses on events that provide space for a substantive debate on the role of professional lighting solutions, IoT technology, Smart Lighting and Smart City in such areas as architecture, design,

infrastructure, urban/ public space development. As an industry leader with 30 years of experience, LUG experts share their know-how and promote good practices among the stakeholders involved in the implementation of projects in the areas mentioned above, offering them professional support in their undertakings.

[S.9.6] As part of employee volunteering in 2019, LUG employees prepared and handed over Saint Nicolas Day and Christmas gifts for children from the Orphanage in Żary, and provided material support to the entire Orphanage.

Support for local hospitals in the fight against the COVID-19 epidemic

At the beginning of 2020, the LUG Group supported medical facilities and services in Lubuskie Voivodeship in the fight against the COVID-19 epidemic by providing equipment necessary to ensure the safety of medical workers.

In March this year LUG Light Factory Sp. z o.o., importing personal protective equipment for its own business, handed over the protective suits for testing free of charge to the employees of the Voivodeship Ambulance Station in Zielona Góra. The medical personnel commented very positively on the tested personal protective equipment.

At the turn of March and April 2020, at the request of the Marshal's Office and Zielona Góra City Hall, LUG was involved in organising the transport of personal protective equipment, including gloves, protective suits and masks necessary for the work of the medical personnel of Lubuskie hospitals. On behalf of LUG Light Factory Sp. z o.o., the operation was coordinated by Mariusz Ejsmont, Vice- resident of the Management Board, with his team.

The company, using its international experience and business relations in the Far East, coordinated the entire process of purchasing and preparing the transport of 50 tons of personal protective equipment to Poland from Asia. All possible contacts were made so that the transport for the Lubuskie Voivodeship could reach the airport, be checked in and after overcoming additional obstacles fly to Poland.

The equipment included:

- 1,000,000 pairs of gloves;
- 150,000 masks;
- 35,000 goggles;
- 25,000 complete protective suits;
- 4,000 visors.

Organising such a large amount of personal protective equipment was not an easy task, as all the countries affected by COVID-19 searched for medical equipment in China and outbid the previously submitted offers. The imported means of protection are gradually being transferred to the health centres in Zielona Góra, and they were also distributed in several locations to the local community. The goal is to be able to react to needs on an ongoing basis in the event of deficiencies.

5.5 Preventing corruption

[S.10.1] As a result of the materiality survey, a low risk of corrupt behaviour towards contractors was identified. Nevertheless, the area of counteracting corruption was considered important for further development. The LUG S.A. Capital Group is guided by the principles of transparency and respect for generally accepted standards in every aspect of its activity. LUG's approach is characterised by zero tolerance for all manifestations of abuse, including corrupt practices.

In the LUG Capital Group companies, in the reported year, there was no formalised Anti-Corruption Policy document. Elements of LUG countermeasures can be found in the following documents:

- LUG Light Factory Work Regulations, which contain provisions regarding the lack of tolerance for abusive or criminal behaviour;
- The LUG Code of Good Practices, which regulates the issue of accepting gifts from contractors. The received gifts are transferred to the HR Department, and are later used to support selected charities;
- Purchase supervision procedure and instructions for the procedure.

The Code of Ethics, which is being developed, as mentioned in chapter 3.6. *Ethics at LUG*, and whose adoption and implementation is planned for 2020, will also comprehensively cover issues related to counteracting corruption.

[S.10.2] [S.10.3] In 2019, no cases of practices bearing the hallmarks of corruption were identified in the LUG S.A. Capital Group.

5.6 Other social issues

In 2019, thanks to the high standards of its activities, LUG was nominated and received the following awards:

Award	Description
Nomination for the Economic Award of the President of the Republic of Poland for LUG S.A.	LUG S.A. was among 21 companies nominated by the Chapter of the Economic Award of the President of the Republic of Poland in the 16th edition of this award in the category "Family Businesses". For the second year in a row, LUG was among the awarded companies.
"Złota Strona Emitenta XII" for LUG S.A.	For the eighth time LUG S.A. won the competition organised by the Association of Stock Exchange Issuers in two competition categories: Best IR service and online communication leader. LUG S.A. was among the winners with prizes in two categories.
Lubuskie Innovation Leader 2019 for LUG Light Factory Sp. z o.o.	On 28 October 2019 the ceremony of awarding the statuettes to the winners of the eleventh edition of the Lubuskie Business Leader competition took place. The chapter awarded the best companies from the Lubuskie Voivodeship. The title of Lubuskie Innovation Leader in the category "Large Companies" went to LUG Light Factory from Zielona Góra. This is the company's second victory in the plebiscite, in this category.
Meritorious for Polish Export for the LUG S.A. Capital Group	On 6 February 2019, the Congress Centre of the University of Life Sciences in Lublin hosted the ceremonial Export Gala 2019, organised by the National Association of Exporters of the Republic of Poland. During the event entrepreneurs, local government officials, representatives of government administration and non-governmental organisations interested in the development of export and the media met. The key moment of the Gala was the presentation of the "Meritorious for Polish Export" medals awarded by the chapter of the National Association of Exporters of the Republic of Poland in three categories: Personalities, Institutions and Companies. The LUG S.A. Capital Group received a medal in the category of companies representing the Lubuskie Voivodeship.
iF Design Award for Avenida LED	LUG won the prestigious international design competition iF DESIGN AWARD 2019 for the AVENIDA luminaire, which won in the lighting product category. This is the third iF Design award for LUG in the history of the competition. This is a clear confirmation of the highest level of industrial design. Previously appreciated: POWERLUG LED luminaire in 2016 and CRUISER 2 LED in 2017.
Lubuskie European Entrepreneur for LUG Light Factory	On 9 May 2019, the Collegium Polonicum awarded communes, schools and entrepreneurs for raising EU funds. The leaders of local governments, schools and entrepreneurs were those who for 15 years showed the greatest activity in obtaining funds and implementing projects. The aim of the "Lubuskie European Entrepreneur" competition is to promote the most European young companies from the Lubuskie Province. The voivodeship government wants to appreciate the companies which were established in 2004 and later and distinguished themselves by their activity in obtaining funds from the European Union.
Best Lighting Investment 2019 for LUG Light Factory	Projects realised by LUG Light Factory were recognised as the Best Lighting Investments of 2019. The jury of the Competition organised by Polski Związek Przemysłu Oświetleniowego (Polish Lighting Industry Association) rewarded projects realised by our company. The awards were given in three categories:

	<p>- The title of “Best Lighting Investment 2019” for the illumination of the Hotel Europejski;</p> <p>- Second place in the category “internal lighting” for HUB HUB Nowogrodzka Square.</p> <p>- Second prize in the category “Lighting of Roads and Public Areas” for national road no. 5, European route E261 (Komorniki section).</p>
Best Lighting Investment 2018 for LUG Light Factory	<p>Winne Wzgórza (Palm House and Wine Hill Park) and the illumination of the ruins of the castle in Zatonie received the 1st prize in the category “Illumination of public, private and religious buildings”.</p> <p>The Bałtyk Office Building was awarded the 2nd prize in the category “Indoor lighting of public facilities, shopping centres and commercial buildings as well as service and hotel facilities”.</p>
The Best Annual Report 2018	<p>LUG S.A. was awarded for the fifth time in the competition “The Best Annual Report” in the category of NewConnect market companies. The award was given to the best activity report. The aim of the competition organised by the Institute of Accounting and Taxes is to promote annual reports with the highest utility value for shareholders.</p>
Człowiek 30-lecia Wolnej Polski	<p>The title of Człowiek 30-lecia Wolnej Polski (Man of the 30th Anniversary of Free Poland) is a tribute to the activity of the Lubuskie Voivodeship, also in the context of the difficult period of Polish transformation in 1989 and the social revival of Poland. Ryszard Wtorkowski, founder and president of the LUG company specialising in the production of energy-saving luminaires, received the award from the Marshal of the Lubuskie Voivodeship on 9 November 2019. The title recognises his 30 years of business activity and contribution to the development of the local market, business environment, science and capital market. The received title is all the more special because in 2019 the LUG company celebrated the 30th anniversary of its activity crowning the years of intensive development from an enterprise of just a few people into an international Capital Group consisting of eleven companies operating on 70 markets worldwide.</p>
Emerging Europe Awards 2019	<p>The aim of the EEA is to recognise the best companies, institutions and local governments from as many as 23 countries in Europe. LUG received the main award in the Global Champion of the Year category in the Emerging Europe Awards 2019 competition for the greatest achievements in the area of internationalisation in 2018.</p>
LUG 30th anniversary distinction	<p>2019 is a special year for LUG, as it is the 30th anniversary of its existence. The LUG S.A. Capital Group was appreciated by independent experts, receiving a distinction on the occasion of the 30th anniversary of its activity on the 30th anniversary of the beginning of Polish transformation. The competition jury awarded companies that started operating in a difficult time of transformation, starting without capital and business knowledge, which proved that within three decades it is possible to build a business capable of competing with global giants, also on international markets.</p>
Polish Company – 2019 International Champion	<p>The Polish Company - International Champion competition is a unique event that promotes not only the activity of Polish companies on international markets, but also emphasises that they effectively compete with foreign companies on a daily basis, while building a positive image of Poland on the international arena. In 2019, LUG received a distinction in the Polish Company - International Champion competition in the category Exporter: Polish Private Company – large enterprise.</p>

[S.1.1] The value of public aid obtained from the state by the LUG Group in 2019 amounted to PLN 3.6 million (in 2018 it was PLN 2.6 million). This is the value resulting from the implementation by the LUG S.A. Capital Group of projects with a time horizon for 2017-2019, which include:

- The project “Innovative set of specialised luminaires to work with a smart management system – from research to prototypes” (1 January 2017 - 28 February 2019).

The project began in 2017 and its value was PLN 6,151,770.49. The value of co-financing under the program “Lubuskie Regional Operational Programme 2020 (Measure 1.1. Research and innovation)” amounted to PLN 2,548,529.19. In 2019 LUG continued its activity in the field of intellectual and industrial property protection as a result of conducted research and development work and implementation. In 2019, 21 RCD industrial designs were submitted to the European Union Intellectual Property Office (EUIPO) and the official search procedure for the European

Patent Office EPO for 4 inventions was completed. Registered designs and submitted inventions were created within the framework of the above mentioned project co-financed from EU funds, entitled “Innovative set of specialised luminaires to work with a smart management system – from research to prototypes”. The project was carried out by LUG Light Factory Sp. z o.o. and ended in March 2019.

- “Smart sensory systems for lighting management in solutions ranging from smart lighting to smart cities. Research and prototyping (1 October 2017 - 30 September 2019).

The project was started in previous accounting periods and was continued in the first quarter of 2020. The value of the project was PLN 3,210,778.76, with the value of co-financing from the Lubuskie Regional Operational Programme 2020 (Measure 1.1. Research and innovation)” amounting to PLN 1,589,407.33. The result of the project was the creation of systems and solutions in the field of (IoT) Internet of Things – a platform for street lighting management with the possibility of switching on various sensor systems. This is not just smart lighting, but also far-reaching solutions for the conscious consumer, aimed at using multiple integrated systems, reducing the costs of investment in lighting and other monitoring systems, operating costs through so-called *predictive maintenance*, as well as reducing CO₂ emissions. The project was complementary to the research and development project already implemented by LUG “Innovative set of specialised luminaires to work with a smart management system – from research to prototypes”. The project was carried out by the technological company from the LUG Capital Group – BIOT Sp. z o.o.

- “Industrial research and experimental development work on the development of a safe lighting point” project.

The project started in June 2019 with a total value of PLN 5,249,832.36 and the co-financing amount of PLN 3,827,141.04. The project is co-financed by the National Centre for Research and Development. The aim of the project is to develop an innovative, safe lighting pole integrated with a luminaire which constitutes a so-called Safe Lighting Point (BPO). It assumes close scientific cooperation, dissemination of research results and 4 patent applications. LUG is carrying out the first stage of the project, related to industrial research on an innovative luminaire, the second stage carried out by the LUG business partner will cover research on the pole, and the research unit will carry out development work – validating the developed solutions in real conditions, i.e. crash tests.

The main challenge of the project is to design the luminaire using the latest solutions in lighting technology, the way it is connected to the pole and a safe lighting pole with improved construction parameters and with improved parameters affecting road safety (passive and active). The project is expected to last until mid-2021. It is being implemented by LUG Light Factory Sp. z o.o. in consortium with another entity.

[S.15.1] The actual liabilities rotation period in the LUG Group in 2019 was 47.64 days (in 2018 it was 59.57 days). The shortened rotation in relation to 2018 is a result of both the reduction of payment terms by suppliers and the financing of current liabilities by the company through reverse factoring.

[S.15.2] The actual receivables rotation period in the LUG Group in 2019 was 62.07 days (in 2018 it was 82.64 days). The shortening of the receivables rotation period results from 60% of the company’s export sales to foreign markets, shorter payment terms and the use of a discount on payments for larger contracts performed over a longer period.

[S.15.3] The LUG Group does not use standardised payment periods in contracts with suppliers, they are negotiated each time between the parties.

[S.15.4] In 2019, 99% of budgetary and financial obligations were paid on the contractual date. Trade and other payables were met on time at a level of 20%.

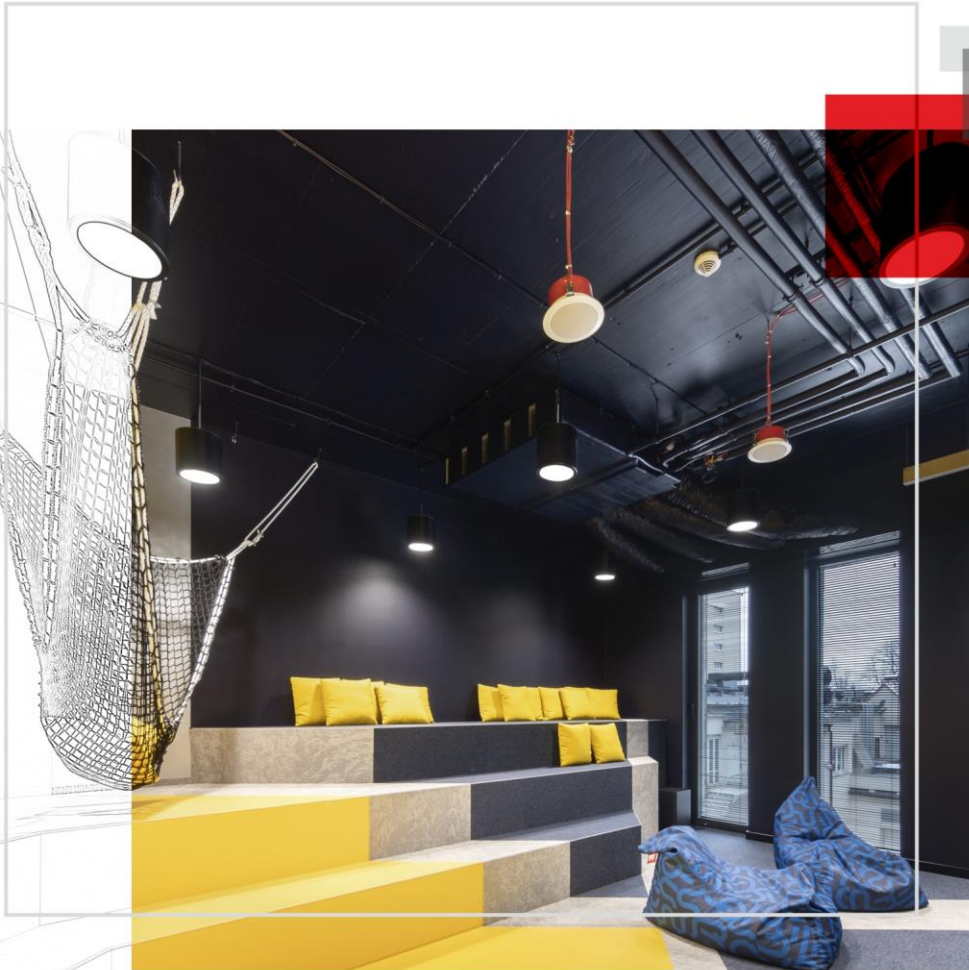
[S.13.1] [S.13.2] With the commencement of the application of the Regulation of the European Parliament and the Council (EU) 2016/679 of 27 April 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (general data protection regulation), the LUG Capital Group has introduced the Global Security Policy for the processing of personal data. Its purpose is to ensure the protection of personal data, the controller of which is LUG S.A., against internal and external threats, as well as conscious and unconscious threats. The policy defines the rules for the processing of personal data and its protection, regulating the method of its management, protection and distribution within the company and in business relations. This Policy, after being adopted by the Management Board of LUG S.A. as the parent company, was recommended to the Management Boards of subsidiaries and affiliates within the LUG Group as a document constituting the basis for the safe processing of personal data. In 2019, there was no leakage or unauthorised use of the personal data processed within the LUG Group. There were also no administrative proceedings related to the protection of personal data.

[S.15.5] In 2019, no proceedings related to anti-competition and anti-market behaviour were pending against LUG.

5.7 Significant risks related to social, human right and anti-corruption issues

As part of the materiality study, no significant risks in the social, anti-corruption and human rights areas were identified. Nevertheless, human rights and countermeasures are fundamentally important issues for the LUG Capital Group. All LUG's activities are carried out with respect for human rights as defined in the UN Universal Declaration of Human Rights. LUG Capital Group companies do not use child labour. LUG does not tolerate forced labour at any stage of its activity. In 2019, no human rights violations were reported in the companies of the LUG Capital Group. Elements of the system of reporting and counteracting, among others, situations having features of human rights violations are described in subsection 3.6 *Ethics at LUG*. In the area of counteracting corruption, despite not identifying any significant risks, the LUG Group undertakes activities aimed at preventing the occurrence of events having the characteristics of corrupt behaviour, which is described in more detail in chapter 5.5 *Preventing Corruption*.

2019



Employee issues

6 Employee issues

HR mega-trends have changed radically in recent years. More and more young people entering the labour market are beginning to perceive the success of a company not only in financial terms. The areas behind the slogans mission, responsibility and transparency are becoming the basis for valuing companies on the market. These values are developed with the participation of employees over the years, therefore LUG recognises the importance of older people in the company as valuable employees with extensive knowledge and many years of experience who contribute to its dynamic development. The trend of internationalisation, which has been developing in recent years, also opens the way for a freer flow of human capital, posing new challenges for employers. In order to meet the expectations of stakeholders, LUG strives to improve its approach to HR management.

Due to the heterogeneous structure of the LUG S.A. Capital Group, there is no uniform personnel policy, common for all entities in the Group. A personnel standardisation policy functions in the biggest company of the Capital Group – LUG Light Factory Sp. z o.o. This is the biggest employer in the LUG Group, which conducts recruitment for the remaining subsidiaries.

The policy at LUG Light Factory Sp. z o.o. consists of the following regulations, procedures and instructions:

- Work Regulations of LUG Light Factory Sp. z o.o.;
- Regulations of Employee Remuneration of LUG Light Factory Sp. z o.o.
- Regulations of the Company Social Benefits Fund (ZFŚS) of LUG Light Factory Sp. z o.o.
- Training procedure;
- Recruitment instructions;
- Occupational Health and Safety Policy;
- Onboarding procedure.

At the turn of 2019 and 2020 LUG Light Factory Sp. z o.o. introduced the Occupational Health and Safety Policy, based on the requirements of OHSAS 18001:2007 standard and the main principles observed in the company, as well as the onboarding procedure, developed and implemented by the LUG Training Section and cooperating units participating in the process of onboarding new employees from the moment of employment.

Moreover, thanks to comprehensive work and internal consultations regarding the Code of Ethics of the LUG S.A Capital Group, the first version of the Code was created in 2019. At the turn of 2019 and 2020, the document that permeates the company's activities on many levels entered the final stage of design work consisting of verification, possible supplementation, approval by the Management Board and publication.

In 2019, all the companies of the Capital Group adhered to the adopted LUG Code of Good Practices, which provides employees with information on internal cooperation standards and ethical principles in force at LUG. Both the LUG Code of Good Practices and the Code of Ethics of the LUG S.A. Capital Group are discussed in more detail in chapter 3.6. *Ethics at LUG*.

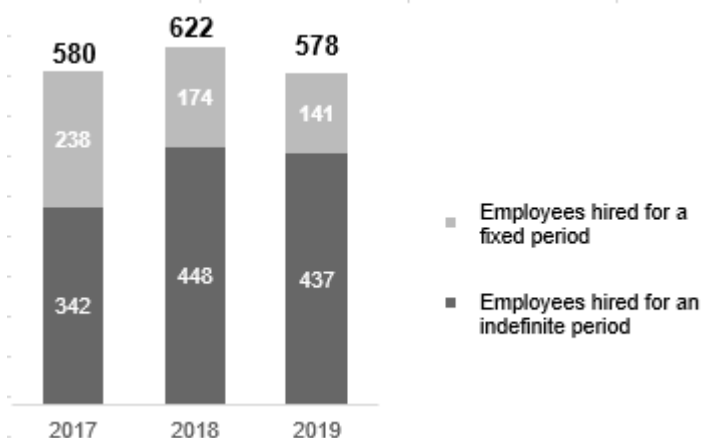
Due to the differences in the legal systems, there are no Work Regulations in force that regulate the issues of employment conditions for employees at LUG Argentina SA.

[S.3.1] [S.3.2] In 2019, there were no trade unions in the companies of the LUG S.A. Capital Group and no employee councils were established. In the case of LUG Argentina SA, local law stipulates that production workers automatically become members of the metalworkers' union when hired for an indefinite period of time. As of 31 December 2019, this situation concerned six production employees.

[S.3.3] [S.3.5] In 2019, the function of the representative of the LUG Light Factory Sp. z o.o. was performed by an employee who has held this position for many years. In 2020, as a result of voting, there was a change in the position of the employee representative. In 2019, there were no strikes in the LUG Group companies.

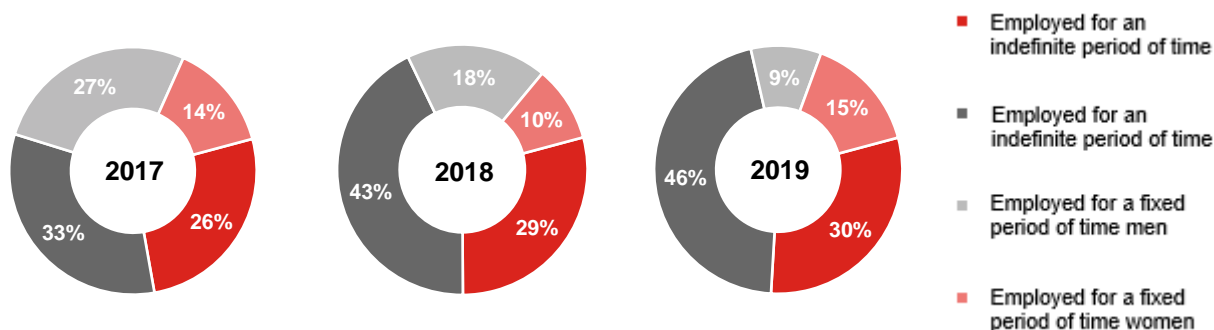
6.1 Employment and wages

[S.2.1] [S.2.2] [S.2.3] As at 31 December 2019, the LUG S.A. Capital Group employed 578 people (full-time equivalent), i.e. 7.1% less than the year before. Of the total number of employees, 437 were employed on employment contracts for an indefinite period of time, and 141 on fixed-term employment contracts. The decrease in the number of employees in 2019 is related to employee rotation. An additional factor was also the achievement of the retirement threshold, and thus the retirement of several LUG employees.



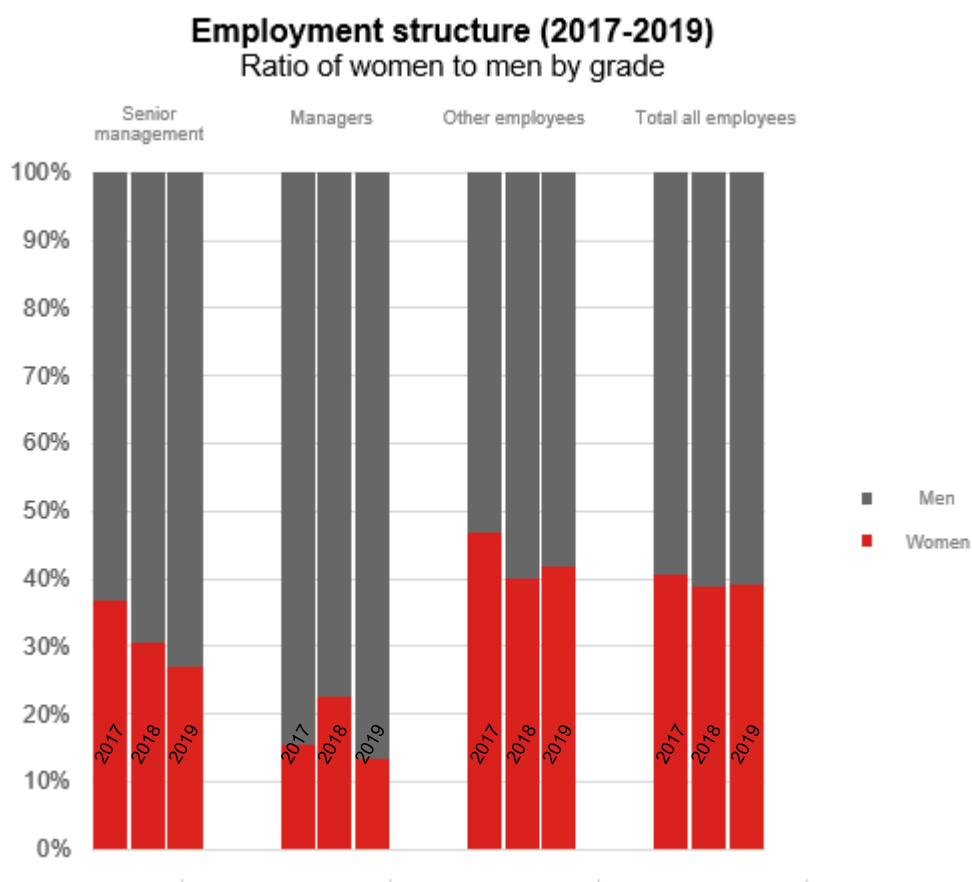
During the year, the percentage of people employed on fixed-term employment contracts decreased by 3.6pp to 24.4%, and on employment contracts for an indefinite period of time increased by 3.6pp to 75.6%.

Employment structure by gender



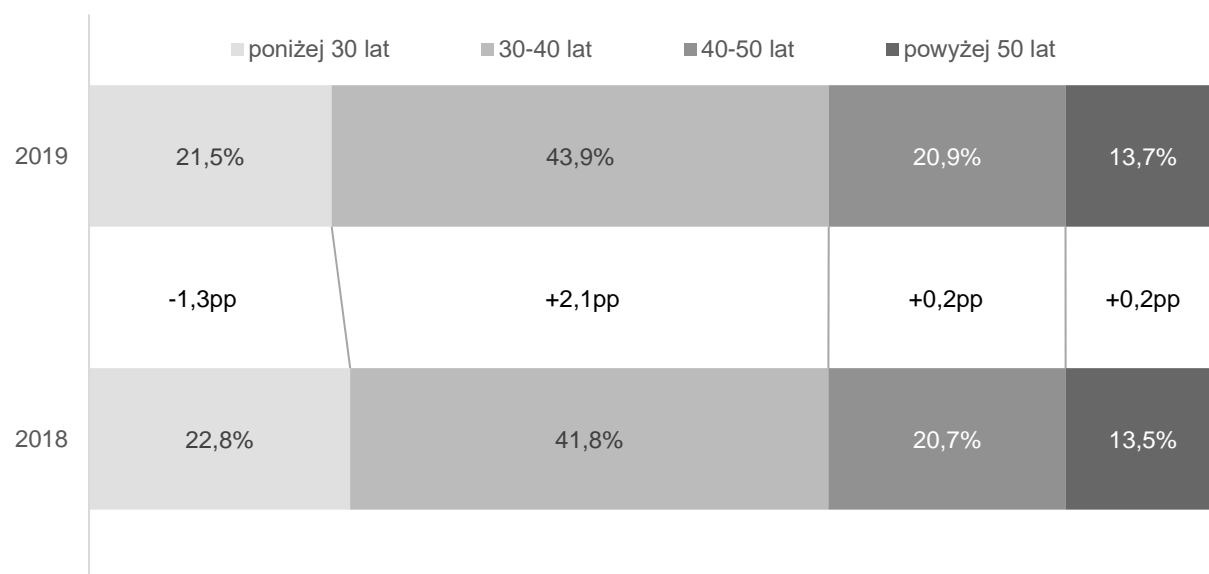
The employment structure of the LUG Group by gender was dominated by men, of whom there were 351 at the end of 2019, which constituted 60.3% of all employees. A year earlier, men constituted 61.1% of the total number of employees.

Ratio of employed women to men by grade



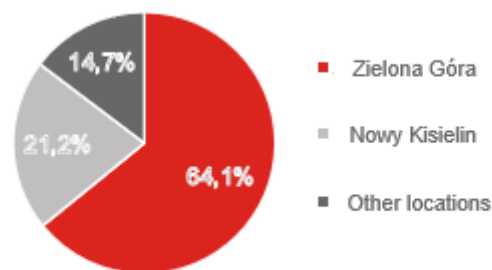
The employment structure of the LUG Group includes three grades: senior management, managers and other employees. At the end of 2019, the percentage of women among senior management was 26.9%, among managers the percentage of women was 13.5%, and among other employees, women constituted 41.7%.

Age structure of employees



The employment structure by age was dominated by people aged 30-40 and constituted 43.9% of all employees. 21.5% of all employees were people under 30, and people aged 40-50 accounted for 20.9% of the total number of employees. The least numerous (13.7%) age group were people over 50.

At the end of 2019, 64.2% of all LUG employees were employed in Zielona Góra, where the company's headquarters and main production plant are located. 21.1% of employees worked in Nowy Kisielin. There is a second, newer production plant there. The rest, i.e. 14.7% of all employees, were employed in other locations.



[S.2.6] Employees with disabilities accounted for 7.3% of the total number of employees and their percentage decreased by 2.3% compared to the previous year (43 people as at 31 December 2018 and 42 as at 31 December 2019). The buildings in which LUG's operations are conducted are adapted to the needs of people with disabilities. Taking care of the needs of the disabled and maintaining a high standard are long-term activities at LUG, which is confirmed by winning the "Zielona Góra without barriers" urban planning competition in 2009, which awarded Zielona Góra facilities that best implemented the idea of removing barriers for people with various types of disabilities.

[S.2.4] As of 31 December 2019, 29 people provided the LUG Group with work under civil law contracts, i.e. 9 people more than the year before.

[S.2.5] During 2019, the number of people who provided work to the LUG Group in the outsourcing formula decreased by 74.5%. At the end of 2019, 13 people were working in the outsourcing formula.

The employee turnover ratio (the number of employees who left their jobs in a given year in relation to the number of employees as at the end of the year) in 2019 was 19.6% in relation to all employees and increased by 4.4 percentage points compared to the previous year. With regard to employees employed for an indefinite period, this indicator amounted to 11.7% and increased by 7.4 pp.

Detailed data on the number of employees in the LUG Group, new hires and those who left the job, on employees with disabilities and on people working under civil law contracts and in the outsourcing formula are included in Appendix 1 to the report.

Recruitment and equal opportunities

Recruitment for the positions offered by LUG takes place on the basis of qualifications possessed by a candidate, and organisational issues of the recruitment process are standardised in the Recruitment Manual.

LUG employs representatives of many nationalities. They receive equal support and opportunities that are enjoyed by domestic employees. Nobody is disqualified based on differences. Everyone is guaranteed respect and access to work, taking into account predispositions, qualifications and desired professional skills according to generally applicable criteria. The stable and permanent development of the company enables the creation of new jobs for the local community, as well as for people from all over Poland in LUG regional offices.

Remuneration system

Striving to ensure fair working conditions, as well as to maintain competitiveness on the market, the LUG Group makes sure that an employee's remuneration is appropriate to their position, scope of tasks and possessed competences and experience.

There is no uniform remuneration policy in the LUG Group. At LUG Light Factory Sp. z o.o. conducting its operational activity, the remuneration policy is conducted on the basis of the Regulations

of Employee Remuneration in force at the company, as well as the Work Regulations. In other companies, the remuneration policy is regulated each time in individually signed employment contracts, in the case of LUG Argentina SA it is based on arrangements in accordance with the arrangement of employees from the industry or directly between the employer and employee.

Average gross monthly remuneration of employees under employment contracts

PLN	2018			2019			change YOY		
	F	M	average	F	M	average	F	M	average
Senior management	21,893	25,674	24,523	21,676	24,333	23,644	-1.0%	-5.2%	-3.6%
Managers	8,985	9,927	9,715	7,743	10,110	9,790	-13.8%	+1.8%	+0.8%
Other employees	4,301	5,404	4,961	4,782	5,662	5,294	+11.2%	+4.8%	+6.7%
All employees	4,946	6,543	5,921	5,368	7,127	6,437	+8.5%	+8.9%	+8.7%

[S.2.7] The average gross monthly remuneration of LUG Group employees in 2019 amounted to PLN 6,437 and was 8.7% higher than in the previous year. The average remuneration of other employees increased the most and reached PLN 5,294, i.e. 6.7% more than a year ago. The average salary of managers increased by 0.8% over the last year to PLN 9,790, while the average salary of senior management fell by 3.6% to PLN 23,644.

Ratio of the average gross salary of women to the average gross salary of men in each grade

%	2018	2019	change YOY
Senior management	85.3%	89.1%	+3.8pp
Managers	90.5%	76.6%	-13.9pp
Other employees	79.6%	84.5%	+4.9pp
All employees	75.6%	75.3%	-0.3pp

[S.2.9] The ratio of the average gross salary of women to the average gross salary of men in 2019 was 75.3% and remained at a similar level to the previous year. This is the effect of an improvement in the ratio of women's salaries to men's salaries in two groups, i.e. in the case of senior management (an increase by 3.8pp YOY to 89.1%) and other employees (an increase by 4.9pp YOY to 84.5%), with the simultaneous deterioration of the ratio by 13.9 pp to 76.6% in the group of managers.

[S.2.10] The ratio of the average remuneration of Management Board members to the average remuneration of employees under employment contracts was 8.1x in 2019, i.e. 0.8x less than in 2018, when it was 8.9x.

As indicated in the report published in 2019 by Small Business Prices, which compares companies from the FTSE100 index from 16 countries, the corresponding index for Poland was 28, for Western European countries such as France – 104, Spain – 127, Germany – 147, Sweden – 89, Norway – 58, Great Britain – 84, and for the United States – 354.1

[S.2.11] The average remuneration of people cooperating with LUG based on civil law contracts in 2019 amounted to PLN 10,239 and was 33.7% lower than in the previous year.

¹ <https://smallbusinessprices.co.uk/ceos-vs-workers/>

6.2 Employee development and education

Training and education

An important aspect of care for the development of the LUG Group is providing employees with appropriate conditions for development. This is implemented, among others, as part of an extensive training programme.

Average number of training hours

number of training hours per person per year, %	2018			2019			change YOY		
	F	M	Average	F	M	average	F	M	average
Senior management	50.3	31.3	37.1	30.7	11.5	16.4	-38.9%	-63.4%	-55.7%
Managers	116.4	64.6	76.3	98.0	43.6	50.9	-15.8%	-32.5%	-33.3%
Other employees	24.1	25.6	25.0	16.8	14.8	15.7	-30.2%	-41.9%	-37.2%
All employees	27.5	28.3	28.0	19.1	17.3	18.0	-30.8%	-38.9%	-35.8%

[S.5.1] In 2019, the average number of training hours per senior manager fell to 16.4 hours in 2019 (a decrease by 55.7% YOY), in the group of managers it fell to 50.9 hours (decrease by 33.3% YOY), and in the group of other employees to 15.7 hours (decrease by 37.2% YOY). Overall, the average number of training hours in 2019 decreased by 35.8% among all employees, which was caused by the completion of the first significant stage of Project Management training for management, the transition to the next stage of training for mid-level management and a general reduction in the demand of LUG employees for training. In 2019, a manager training initiative was launched, which was ultimately to be implemented in 2020 and was suspended indefinitely as a result of the COVID-19 pandemic.

Both in 2019 and 2018, in the group of senior management and managers, women were clearly more trained than men. In the group of other employees, women also had more training hours, which has changed compared to 2018, when men spent more time in training than women.

In 2019, the main training subjects were:

- training within the LUG Speaks English programme;
- onboarding training;
- product training;
- project management training;
- managerial training;
- corporate and legislative training.

Number of employees improving their professional qualifications

number of persons	2018			2019		
	F	M	total	F	M	total
Senior management	0	0	0	0	0	0
Managers	0	1	1	1	1	2
Other employees	1	2	3	2	3	5
All employees	1	3	4	3	4	7

[S.5.2] [G.4.6] The training conducted as part of working time is supplemented by external education of employees acquiring new qualifications. In 2019, 7 employees participated in the external improvement of professional qualifications.

An element of the training and education programme is also an adaptive training cycle of several days of training in lighting technology. In addition, the following topics are covered during the initial training:

- OSH training;

- introduction to the LUG organisation: presentation of strategic development directions, visions, missions, target groups;
- training on the organisational structure, functions and competences of the organisational units and the characteristics of the functionaries;
- familiarisation with internal procedures;
- training in the Code of Good Practices and organisational culture;
- introduction to lighting technology and electrical equipment;
- training in LED technology;
- assortment training.

Training and courses to improve the qualifications of employees or, among others, to renew their qualifications, are organised in response to demand.

As part of internationalisation processes, in 2019 LUG offered its employees a comprehensive programme of improving qualifications in the field of English – LUG Speaks English. As part of the programme, depending on the level of language skills, employees participated in group classes with a teacher, 1 or 2 hours a week. Additionally, employees could participate in regular “LUG (Light) Thinkers” conversations, take up the challenge of all-day communication in English (“I speak English today”) or prepare a presentation or write an article in English, which could later be published in the internal periodical “LUG Press”. An e-learning platform was available for people working outside the office in Zielona Góra. Starting from the second half of 2017, LUG’s internal communication is also bilingual and includes channels such as internal newsletters, ordinances and the internal intranet.

[S.2.15] With the primary aim of the well-being of its employees and acting in accordance with its mission, LUG clearly emphasises and promotes a healthy lifestyle. Employees can take advantage of non-salary benefits, such as a Multisport card or participation in sports groups organised by LUG. Over the years LUG has also financially supported one of its employees, who has achieved numerous sports successes in powerlifting for disabled people. As part of the sports patronage, LUG also supports the activity of employees from the LUG TEAM runners team and LUG MTB TEAM mountain bikers.

In 2019, LUG Light Factory Sp. z o.o. organized self-defence classes for women to increase their physical activity and safety as a gift for Women’s Day. At the turn of 2019 and 2020, the “Healthy Full-Time Workday” campaign took place, during which representatives of Benefit Systems S.A. conducted workshops and lectures for LUG employees aimed at raising the awareness of employees and deepening their knowledge of a healthy lifestyle. The meetings included consultations with a dietician, instructions on correct posture at the workplace, and organised lectures on conscious activity and correct verification of product labels. The organised campaign was very popular and met with a very favourable response from LUG employees.

6.3 Occupational Health and Safety

At LUG, occupational health and safety issues are given the highest priority. The importance of this area has also been confirmed by the materiality survey, which indicated a high level of relevance of OSH issues.

There was no uniform health and safety policy in the LUG Group in the reporting period. Due to the characteristic structure of the Capital Group, in which the operational (production) activity is carried out mainly at LUG Light Factory Sp. z o.o. and at LUG Argentina SA, most of the data in the area of health and safety concerns these two companies. In the Argentine company, health and safety issues are dealt with by a dedicated employee. In the case of the other companies and representative offices, compliance with health and safety rules is supervised by the management of local structures. The offices operate in accordance with the guidelines and laws of the country in question.

At LUG Light Factory, a unit reporting directly to the Management Board is responsible for health and safety. In 2019, there were changes in the position of the Health and Safety and Fire Protection Specialist. As at the date of publication of this report, the OHS unit consisted of a newly appointed Fire Protection Specialist and an employee who is an OHS Specialist. In connection with the above changes, the composition of the following was updated by the orders of the President of the Management Board:

- LUG Light Factory Sp. z o.o. Health and Safety Committee;
- LUG Light Factory Sp. z o.o. Post-Accident Team;
- A team to develop occupational risk for newly created jobs at LUG Light Factory Sp. z o.o.

In connection with the personnel changes, the person appointed to perform the activities of the fire protection and evacuation of LUG Light Factory Sp. z o.o. employees was also updated.

Occupational health and safety processes in the company are covered by the Integrated Management System and comply with the requirements of ISO 9001:2015. The ISO 9001:2015 (Quality Management System), ISO 50001:2011 (Energy Management System) and ISO 14001:2015 (Environmental Management System) certificates were renewed during audits in 2019 and early 2020. In 2019, work was started on the preparation of the implementation of the BS OHSAS 18001 standard (Occupational Health and Safety) which was successfully implemented at the beginning of 2020.

Provisions concerning the area of Occupational Health and Safety and Fire Protection are included in a dedicated chapter in the Work Regulations of LUG Light Factory Sp. z o.o. At the turn of 2019 and 2020, the Company introduced the Occupational Health and Safety Policy based on the requirements of the OHSAS 18001:2007 standard and the main principles observed in the Company.

Moreover, the topic of occupational health and safety is a very important module within the onboarding training for new employees in the whole LUG Group.

Understanding the complexity of health and safety issues, LUG makes every effort to provide its employees with appropriate conditions for performing tasks, which has a direct impact on safety standards. As part of the LUG Light Factory Work Regulations and the related annexes, the issue of equipping employees with protective work clothes tailored to the workplace was regulated.

Health and safety activities related to the COVID-19 epidemic

With the outbreak of the COVID-19 epidemic at the beginning of 2020, the LUG Group has taken a number of measures to ensure the highest level of safety for its employees and those working in the organisation's environment. These included:

- introducing a number of preventive measures, such as distributing more than 60 dispensers with hand disinfectant in production plants and regional offices, introducing a special schedule of breaks for regular hand washing, the obligation to use protective masks, helmets and gloves, limiting

internal meetings, providing employees with numerous guidelines and recommendations and instructions explaining how to behave in the event of a threat of contracting the COVID-19 virus, introducing special rules of cooperation with courier companies and internal transport rules, as well as internal restrictions in accordance with the guidelines of the Chief Sanitary Inspectorate and the Ministry of Health in this regard;

- body temperature measurement with thermal imaging cameras at the entrance to the plants in Zielona Góra and Nowy Kisielin and periodic temperature measurement throughout the working day;
- introducing additional security measures both for all members of the LUG team and for persons cooperating from outside in order to ensure the continuity of supplies;
- implementing procedures to preserve the supply chain;
- optimising the work of production staff and reducing staff density in order to maintain production continuity and employee safety;
- Implementing work in a remote mode and in the home office system in order to increase safety and reduce the exposure of employees working in plants;
- limiting business trips and direct meetings with business partners and encouraging employees to use online tools;
- starting work on a series of webinars to keep stakeholders and customers of the Group up to date with current company events.

[S.4.10] [S.4.11] In 2019, LUG did not conduct health and safety audits at its suppliers and subcontractors. Agreements with suppliers and subcontractors did not include health and safety clauses, although this issue is considered in the category of potential for improvement. Currently, a document is being developed that will regulate the multidimensional terms of cooperation with LUG's suppliers and contractors. The first step for the company was to introduce questions to the supplier's assessment sheet whether the supplier has implemented the ISO 50001/ISO 9001/ISO 14001/OHSAS 18001 systems and whether it employs a health and safety inspector.

In the process of selecting suppliers and subcontractors, LUG is guided by an impeccable opinion in the industry environment, paying particular attention to meeting the ISO standards and management systems mentioned, which is the criterion for meeting the relevant standards of activity.

Indicators on health and safety issues

	2018	2019	change YOY
Employee accidents			
Number of accidents, including:	9	6	-33.3%
- minor accidents		6	-
- serious accidents		0	-
- fatal accidents	0	0	-
Accidents among employees of subcontractors working on site			
Number of accidents, including:	2	0	-100.0%
- minor accidents		0	-
- serious accidents		0	-
- fatal accidents	0	0	-
Accident rates			
Accident frequency rate (accidents at work per 1,000 employees)	14	10	-28.4%
Number of days of incapacity for work due to accidents	432	92	-78.7%
Accident severity rate (number of days of incapacity for work per accident)	48.00	15.33	-68.1%
Occupational diseases			
Number of occupational diseases diagnosed in a given year	0	0	-
Working in excess of standards			
Number of workers working in a given year under conditions exceeding the threshold limit value (TLV) or permissible exposure limit (PEL)	8	4	-50.0%

[S.4.1] [S.4.2] [S.4.3] [S.4.4] [S.4.5] [S.4.6] [S.4.8] In 2019, 6 accidents at work were recorded in the LUG Group. Both in 2019 and 2018, all accidents fell into the category of light accidents and mainly concerned cuts and wounds to the hands. In 2019 the accident rate decreased by 28.4% compared to the previous year and the number of days of incapacity caused by accidents fell by 78.7%. In 2019, there were no fatal accidents and no occupational diseases in the LUG Group.

[S.4.7.] The results of the measurements of the working environment made in 2019 in the LUG Group showed that the hygienic noise norm was exceeded three times at the grinder-welder stand, where 4 people worked. This means a 50% decrease in the number of employees working under conditions exceeding the permissible exposure limit (PEL) compared to the previous year. This has been achieved thanks to the organisational and technical measures introduced at the workstations of the KIMLA gantry plotter operator and single-headed saw operator.

Due to the positive effect of the implemented measures, the provisions of the action programme aimed at reducing the exposure of employees to noise will be continued by:

- indicating the appropriate type of personal protective equipment to be used when working in exceeded hygiene standards;
- marking the noise exposure zone with pictographs and the absolute use of hearing protectors;
- introducing rotation at workstations through appropriate work organisation so as to reduce exposure time.

During the standard LUG inspection carried out by the National Labour Inspectorate, the compliance with the regulations and rules of occupational health and safety was audited. This inspection did not reveal any irregularities.

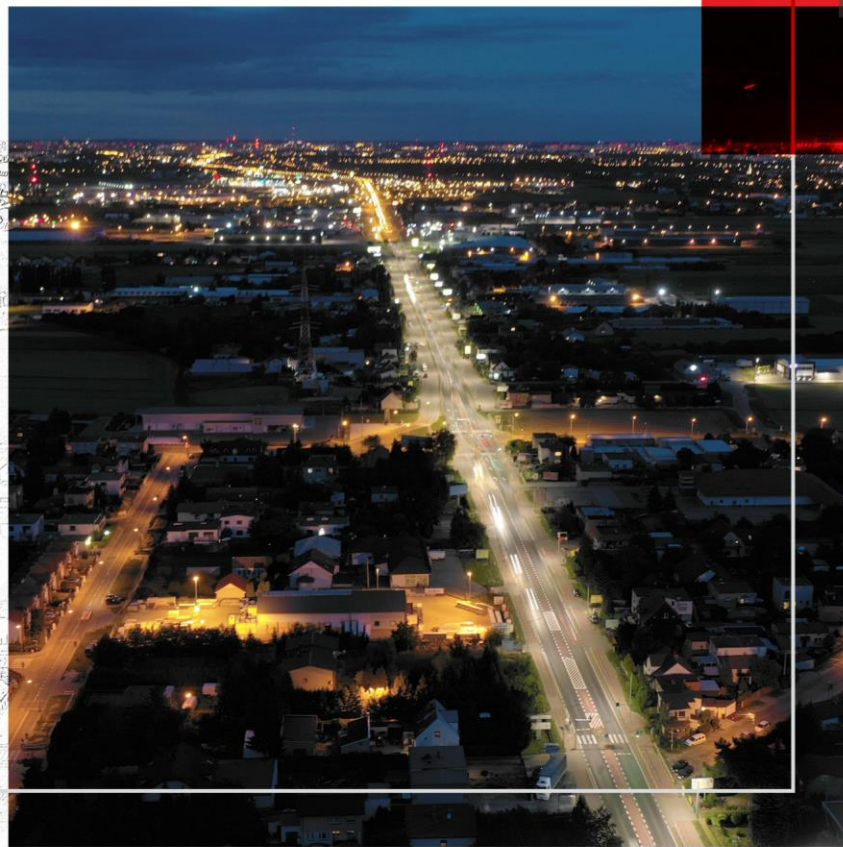
[S.4.9] Due to the lack of trade unions operating in LUG, unions were not involved in the area of occupational health and safety. A Social Labour Inspector has also not been appointed.

6.4 Significant risks related to employee issues

Risk and its description	Risk management method
<p>Risk of a shortage of employees Difficulties related to the possibilities of recruiting appropriately qualified employees on the labour market could lead to obstacles in the dynamic development of the LUG Group.</p>	<p>LUG closely monitors the labour market. Risk management measures taken:</p> <ul style="list-style-type: none"> - implementation of planned recruitment processes in advance; - activities in the field of employer branding, presenting the advantages of LUG as an attractive employer; - use of outsourcing companies; - internationalisation of the LUG Group and opening a production plant in Argentina; - internal education and training system enabling internal recruitment in selected cases.
<p>Risk of loss of key personnel The implementation of the development strategy of the LUG Group depends to a large extent on the competence of the key management and expert staff. The possible departure of key personnel could jeopardise the achievement of planned strategic objectives.</p>	<p>The risk is constantly monitored at the level of the LUG Management Board. Risk management measures taken:</p> <ul style="list-style-type: none"> - development of organisational culture; - ensuring the possibility of continuous development of the Group's employees; - employee satisfaction surveys and implementation of activities based on the conclusions of the conducted surveys.
<p>Risk of insufficient competence of sales teams The financial results and development of the LUG Group depend, among others, on sales. Possible insufficient competences of the sales teams, resulting from the insufficient number of qualified employees in this area or the misalignment of the sales employees' competences to the changing market requirements could hinder the achievement of the main strategic objectives of the LUG Group.</p>	<p>The risk is monitored by establishing and analysing the status of achieving sales targets. Risk management measures taken:</p> <ul style="list-style-type: none"> - training to raise the qualifications and competences of sales team employees; - salaries of sales teams containing an appropriately attractive variable element, depending on the achieved sales results.
<p>Risk of wage pressure The competitive situation on the labour market, especially in Poland, may result in the occurrence and persistence of salary pressure, which, in the absence of an appropriate response, could lead to the dismissal of employees or to the deterioration of the financial results of the LUG Group.</p>	<p>LUG closely monitors the labour market, including wage trends. Risk management measures taken:</p> <ul style="list-style-type: none"> - ensuring the competitiveness of salaries in the LUG Group compared to the market; - clear and open employee development opportunities as part of internal recruitment.
<p>Risk of staff shortages due to COVID-19 infection The global pandemic of the 2019-n-CoV virus that causes the COVID-19 disease, the high infection rate and the rapid spread of the virus have led to the emergence of risks associated with the possibility of loss of employees as a result of infection, which could potentially paralyse the company's operations.</p>	<p>In order to minimise the risk of COVID-19 virus transmission among LUG employees, a number of preventive measures have been introduced:</p> <ul style="list-style-type: none"> - administrative and office employees have been allowed to work remotely in the <i>home office</i> mode; - personal protective equipment and disinfectants have been provided for employees who perform their official duties on a stationary basis in LUG plants; - over 60 dispensers with hand disinfectant have been placed in LUG plants and regional offices; - protective masks and / or visors; - protective gloves; - an information campaign was carried out communicating the principles of using protective and disinfecting agents; - a special schedule of breaks for production workers in connection with the recommendation of regular hand disinfection; - body temperature measurement; - internal meetings have been reduced and ultimately abolished; - employees have been provided with internal recommendations, guidelines and instructions corresponding to the possible scenarios of the course of the infection; - special rules of cooperation with courier companies and suppliers were established, after which they were limited to the necessary minimum and the rules of internal transport;

	<p>- internal restrictions have been introduced in accordance with the guidelines of the Chief Sanitary Inspectorate and the Ministry of Health in this area.</p> <p>In addition, a specially appointed crisis team constantly monitors the development of the epidemiological situation in the world, throughout Poland, and in the immediate local environment of LUG.</p>
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2019



Environmental issues

7 Environmental issues

A responsible approach to the environmental impact is one of the key elements of the LUG Group's organisational culture. By using the extensive knowledge and project tools at its disposal, LUG, through the optimisation of its projects and innovations introduced in them, has a real influence on the reduction of the negative impact on the environment, resulting both from its own operational and production activity, as well as from the use of LUG products.

Luminaires based on LED technology, i.e. the basic product of LUG, contribute to reducing the negative impact on the environment by all their users. This is primarily due to the high energy efficiency of LEDs compared to traditional light sources, which in turn reduces indirect greenhouse gas emissions to the atmosphere. The installation of LED luminaires is the most cost-effective way to reduce the negative environmental impact of virtually any company or institution that uses different forms of lighting in its operations.

In the conducted materiality survey, 6 important environmental issues were distinguished:

1. indirect climate impact;
2. consumption of resources and materials;
3. waste;
4. energy consumption, including:
 - energy consumption for the production of luminaires;
 - energy consumption resulting from the use of luminaires;
5. emissions to the atmosphere;
6. limiting light pollution.

[G.2.2] The LUG Group does not have a uniform policy in the environmental area, which results from the characteristics of the Group's structure and the location of operating activities related to the production of luminaires at LUG Light Factory Sp. z o.o. and LUG Argentina SA. In order to mitigate potential threats, which may appear in the area of environmental issues, an Environmental Policy was adopted at LUG Light Factory Sp. z o.o., which is an element of the Integrated Management System described in chapter 3.7. *Management systems*. The Policy expresses a continuous pursuit of improvement of processes taking place within the environmental area in accordance with the PN EN ISO 14001:2015 standard.

LUG Light Factory Environmental Policy

Objectives of the LUG Light Factory Environmental Policy:

1. Provision of services in accordance with the requirements of new technologies, applicable standards, legal regulations, including environmental law, and other requirements that the organisation undertakes to meet and which relate to its environmental aspects.
2. Satisfying and anticipating the needs and expectations of customers and other interested parties as to the quality of services and deadlines for their implementation in order to achieve the goal of "zero complaints".
3. Ensuring that all employees understand and implement the Environmental Policy by performing their duties in accordance with the Process Charters, Action Charters and Procedures.
4. Setting high requirements in terms of quality and environmental protection for our subcontractors.
5. Undertaking activities aimed at limiting the negative impact on the environment and preventing pollution.

6. Accounting for Life Cycle Assessment (LCA) by looking at the overall environmental impact of a product, from start to finish.

The Environmental Policy lists 9 actions leading to the implementation of the above-mentioned objectives:

1. Building environmental awareness of LUG employees.

In 2019 audits and recertification were carried out in the scope of ISO 50001:2011, 14001:2015, 9001:2015. In addition, the work of the Energy Management Team is being continued, whose task it is to prepare the annual Energy Review Report. Measures were also taken to implement the BS OHSAS 18001:2007 standard, which was finally implemented at the beginning of 2020. In order to achieve the 2019 objectives, leading to increased employee awareness of work ergonomics and healthy lifestyles, the Healthy Workplace Programme was implemented and additional training was provided in the production and office areas in 5S and waste management.

2. Planning, documenting and supervising processes taking place at LUG.

The implementation of the action was the investment and renovation plan for 2019 and the programme of environmental measures resulting from environmental aspects for 2019. Objectives of activities:

- reducing water consumption from the network;
- minimising the amount of waste generated during the production of luminaires through orderly, market-conscious waste management and optimising the waste collection process in relation to the amount of waste generated;
- reducing the negative impact on the environment of the produced industrial wastewater by settling the obligations arising from the agreement with ZWiK;
- supervision over the management of new waste and attention to the substantive correctness of documents;
- obtaining a water permit – permit obtained;
- reducing the amount of waste in the form of paint powder – reducing the amount of powder escaping outside the cabin and reducing chemical waste;
- settlement of obligations arising from the agreement with the recovery organisation – increasing the amount of waste to be recycled;
- reduction of electricity and heat consumption – resulting in a more rational use of heat and electricity;
- increase in cooling efficiency and increase in the efficiency of equipment – there has been an increase in the efficiency of equipment.

The implementation of activities included in the investment and renovation plan and in the environmental action programme is one of the key elements of maintaining the quality of manufactured products and improving the quality of work. All activities included in the plans have been successfully implemented thanks to continuous modernisation and optimisation of technological processes. One of the main goals of the modernisation of the painting line carried out in 2019 was reducing the amount of raw materials (water) used, or reducing the amount of waste generated in the process, including powder paint. A significant reduction in electricity consumption was achieved thanks to the commencement of the lighting replacement process in the production areas – the assembly hall, the mechanical department, and then the warehouse. The return on this investment is estimated at one and a half years. In addition, a number of activities were implemented leading to the conclusion of specific agreements with organisations dealing, for example, with waste recovery, to increase the amount of waste recycled, and changes were made to the treatment of industrial waste. The action was aimed at eliminating, as far as possible, substances which may have harmful effects on the environment and, to confirm these processes, regular tests are carried out in accredited laboratories to prove the quality of the treated water.

3. Continuous development of the technical and machinery base and upgrading of inspection, measurement and testing equipment.

In order to improve production processes and meet the latest world standards, LUG Light Factory has implemented modern machines allowing for significant simplification and improvement of the luminaire assembly process. This, in turns, fits into the current project of production process optimisation. The new machines and processes are part of the comprehensive Lean Manufacturing project, the scope of which covers the entire Production area. Project teams analyse individual processes and implement solutions aimed at optimal and most efficient production. Based on the results of the work of these teams, the production hall was redesigned, and the new stations gained an optimal layout and were equipped with modern tools. Production lines dedicated to specific products and working in a flow system have also been created. This is a new approach to production processes, which allows for further cost optimisation and improvement of work ergonomics.

The priority task planned for 2019 was the modernisation of the paint shop at LUG Light Factory Sp. z o. o., aimed at improving the implementation of production tasks and optimising the use of resources and materials. The modernisation was carried out at the turn of May and June 2019. Following the guidelines of the Integrated Management System, technological changes were introduced, which allowed to significantly reduce the amount of chemicals used in the surface preparation line before painting, as well as optimising the painting process in terms of the use and recovery of powder paint.

As part of the modernisation, the spray booth was replaced with a modern device with automatic and manual application, a paint kitchen, powder paint recovery and a system of filters and extractors. In addition, the paint line lift was replaced and extended, and automatic air knives were installed to allow additional drying of components after chemical surface preparation in spray washers.

Thanks to the modernisation and installation of a modern cabin with a cyclone and a filter system for powder paint recovery, the amount of powder paint used was limited and the amount of paint waste was reduced by approx. 80%. In addition, thanks to the new possibilities of the spray booth, the suspension systems have been modernised, the number of painted components per unit of time has been increased, which means that the production processes are faster, and the throughput and work efficiency of the department have increased.

An equally important goal of the modernisation of the paint shop was to improve the ergonomics and working conditions of the employees of the department. In the area of the paint shop, a cooling tunnel and additional fans were built to lower the temperature of the painted elements after the polymerisation process in the furnace. Thanks to the appropriately used air vents and exhaust systems, the temperature in the paint shop rooms has been lowered, much less dust is present and lower temperatures of the components removed from the line have been obtained. Thus, the comfort of work and its efficiency have significantly improved. The process of changes in the area of the paint shop was implemented in accordance with the principles of sustainable development, understood as optimising the interaction of environmental (reduction of the environmental footprint), economic (efficient use of materials) and social factors (improvement of ergonomics and working conditions).

Production process optimisation activities for 2020, some of which were implemented as at the report publication date, include:

- implementation of the ultrasonic wire welding process – elimination of the tinning process, meeting customer requirements regarding the method of wire finishing.
- launching the Kanban method at the Assembly Department – improvement of the order preparation process, elimination of unnecessary operations in the Warehouse and during the handling of shortages in orders.

- implementation of the 5S philosophy in the LUG plant in Nowy Kisielin – improvement of the working environment, implementation of a single ordered standard throughout the plant.
 - increasing the productivity of production lines of the Electronics Production Department by optimising the changeover process and optimising product unit times.
 - improvement of assembly processes according to the PDCA principle – a continuous process consisting in time optimisation, determining bottlenecks in the process after time changes and re-verification.
 - process organisation of the semi-finished products production department:
 - time optimisation;
 - process changes that increase productivity.
 - implementation of optimal production batches at the Mechanical Department – elimination of unnecessary changeovers, increasing the productivity of the entire department, reducing inter-operational buffers.
 - optimisation of the painting process:
 - elimination of unnecessary activities during the preparation of components for painting – combining individual processes into a whole performed ‘on-line’ – elimination of inter-operational stocks, shortening the order fulfilment process, quality improvement;
 - elimination of unnecessary transport between stations – elimination of unnecessary activities (MUDA);
 - increasing the productivity of the varnishing process through organisational changes in the varnishing process itself – making organisational and technical improvements allowing to increase the capacity of the varnishing line for a production shift.
 - organizational changes in the process of implementing new products – elimination of problems occurring when launching new projects, thanks to which the implementation time is shorter and implementation costs are lower.
4. Direct involvement of the company’s Management Board, supervising the Integrated Management System and supporting the activities of persons responsible for individual tasks:

Management level	Position	Number of persons per position	Responsibilities
Management level:	President of the Management Board of LUG Light Factory Sp. z o.o.	1	The ISO Quality Management System Representative is responsible for the proper implementation and operation of the ISO IMS. The work of the Representative is supervised by the Director of Supply Chain and Production from the level of the director and finally by the President of the Management Board of LUG Light Factory Sp. z o.o.
Director level:	Director of Supply Chain and Production	1	
Employee level:	Representative for ISO Quality Management Systems	1	

5. Appropriate reviews and monitoring of improvement processes and activities are conducted in accordance with the procedures adopted in the Integrated Management System and those resulting from the implemented S5 (Lean Management) system.
6. Performing services in a manner that ensures respect for the principles of environmental protection and appropriate management of materials and waste.

LUG conducts its activities in accordance with the applicable environmental protection regulations. On an ongoing basis, in accordance with applicable regulations, administrative decisions and permits related to the production and storage of waste, the emission of industrial wastewater, dust, and the use of hazardous materials are obtained. Depending on the type of waste, the entities collecting waste from LUG further mediate in the supply of waste to the entities carrying out recovery or recycling or they themselves subject this waste to recovery, recycling or neutralisation. After handing over the waste to the recipient, LUG does not monitor the further management of the waste.

7. Striving to reduce costs by preventing and eliminating non-conformities. The fulfilment of this aspiration is constantly being realised through:
 - implementation and supervision of processes with implemented measures that prevent errors;
 - implementing effective remedial measures in the event of non-compliance;
 - continuous improvement of the company based on the analysis of current processes (PDCA).
8. Developing friendly, partnership-based principles of cooperation with both investors and all employees of the company. LUG uses a value-based management system. Activities developing relationships with stakeholders include:
 - mailing and poster campaigns for LUG employees;
 - competitions for employees' children and Christmas campaigns;
 - meetings with employees;
 - the LUGpress internal company newspaper.

Cooperation with external stakeholders in the implementation of the Environmental Policy takes place mainly through the corporate website of LUG, which contains information on the environment and periodic information provided in LUG's financial reports.

9. Continuous improvement and meeting the requirements of PN EN ISO 14001:2015 Environmental management systems.

In 2019 and 2020, audits renewing ISO certificates were carried out at LUG Light Factory Sp. z o.o. As part of the ISO Integrated Management System, the factory in Posadas is in the process of introducing the PN EN ISO 9001:2015 standard.

Detailed indicator data on the achievement of the objectives of the Environmental Policy can be found in further parts of this chapter.

7.1 Climate Change

[E.4.4.] The activities of the LUG Group are of public interest due to the challenges related to climate change and the need to quickly reduce greenhouse gas emissions to the atmosphere throughout the world and with the necessary adaptation to climate change. LUG luminaires, which are designed with care to minimise energy consumption during their use, as well as smart lighting management systems developed by the research and development team, support the efforts of local governments, industry, real estate and construction industries to increase energy efficiency and reduce greenhouse gas emissions associated with the operation of public buildings and spaces.

The LUG Group is aware of its impact on climate change, the impact of climate change on the Group's operations and the resulting number of threats and opportunities. In the materiality study conducted at the beginning of 2019, the indirect impact of the LUG Group on climate change was identified as significant, while the direct impact of climate change on the current operations of LUG was not considered to be significant. In 2019, however, phenomena and processes occurred in the public space that contribute to the dynamic increase in the impact of climate change on the Group's operations. The most important of these are:

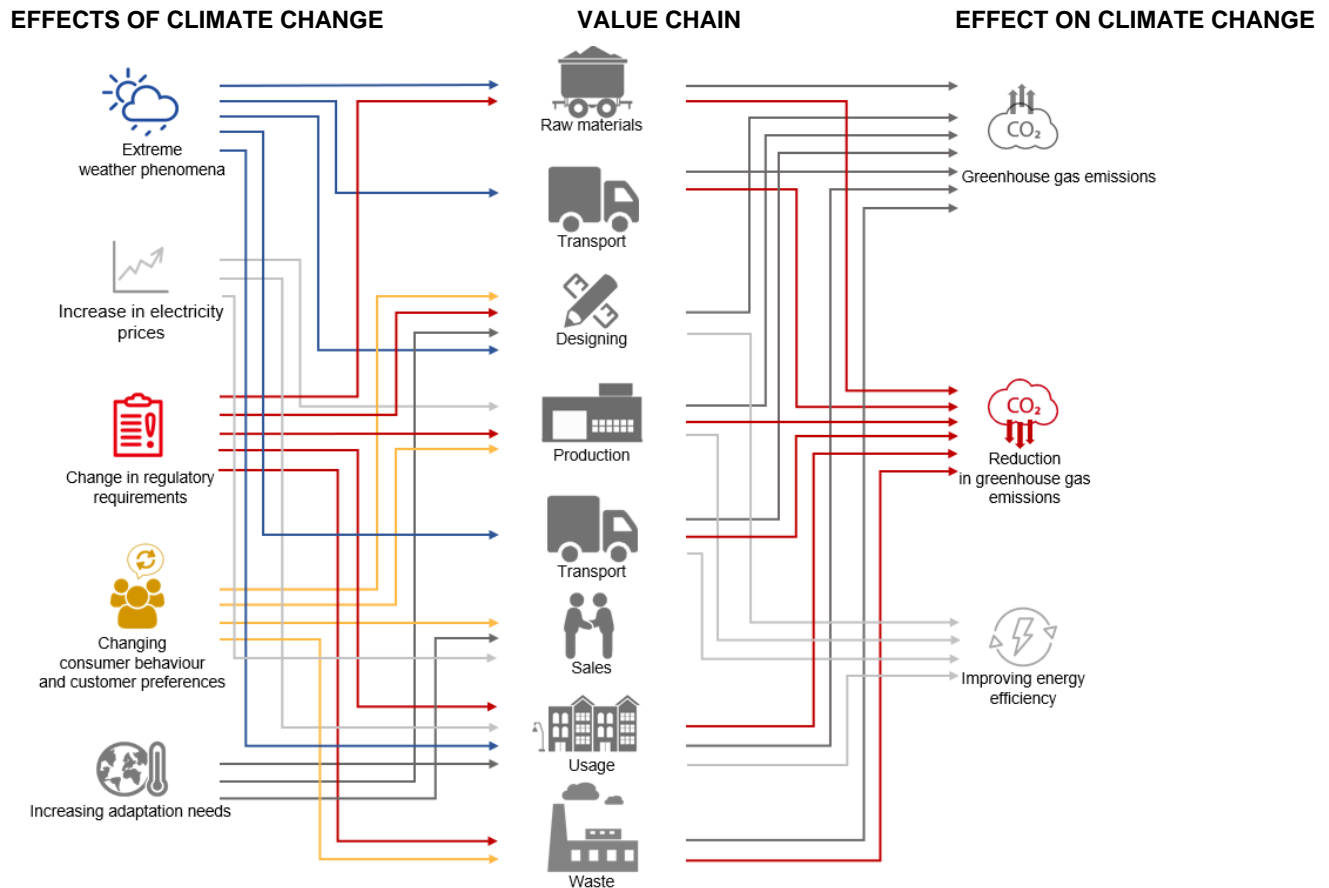
- the announcement on 11 December 2019 of the European Green Deal, a new development strategy of the European Union that will be based on accelerated decarbonisation to mitigate climate change and bring the European Union to climate neutrality;
- final report of the Technical Expert Group on Sustainable Finance (*Taxonomy: Final report of the Technical Expert Group on Sustainable Finance*), which will shape the financial system of the European Union, significantly increasing the importance of sustainable investments;
- announcement of a revision of the regulations accelerating the implementation of circular economy principles in the European Union;

- intensification of public discussion around the concept of introducing a carbon tax and carbon border tax;
- resuming and intensifying the work of the European Commission on developing a coherent methodology for calculating the carbon footprint of products throughout their life cycle (*Life Cycle Assessment*) which, once introduced, may become a required standard also in the construction and engineering industries.

Although the impact of climate change on the functioning of the LUG Group is currently still relatively limited in intensity, it is expected to increase in the future. The LUG Group has started and is conducting a number of activities in 2020 related to the analysis, planning and implementation of activities related to the Group's mutual relations and climate change:

- identification of short, medium and long-term risks, threats and opportunities related to climate change;
- scenario analysis of the resilience of the Group's business model and strategy to climate change assuming an increase in average global temperatures by less than 2°C and more than 2°C compared to the pre-industrial period;
- continuing to report greenhouse gas emissions in line with the *GHG Protocol Corporate Accounting and Reporting Standard* within scope 1 and scope 2;
- preparation for the collection of source data and the calculation of greenhouse gas emissions in accordance with the *GHG Protocol Corporate Accounting and Reporting Standard* within scope 3;
- commencement of work on the development of the LUG Group's climate policy;
- starting reporting in line with the TCFD Recommendations (*Task Force on Climate-related Financial Disclosures*).

Impact of climate change on the functioning of the LUG Group and impact of the LUG Group on climate change



The current impact of climate change on the functioning of the LUG Group takes place mainly in the following areas:

- Extreme weather phenomena (storms, strong winds, hailstorms, thunderstorms, floods) may limit the availability of resources, materials and components, and cause disturbances in the supply chain and in logistics processes.
- Rising electricity prices in Poland, where the main part of the LUG Group’s production activities are carried out, caused by a very high share of non-renewable energy sources in electricity generation, contribute to an increase in production costs. As a result of the expected increase in prices of CO₂ emission allowances this impact may be even stronger in the future.
- The change of regulatory requirements and legal provisions related to mitigation and adaptation to climate change affects many areas of the LUG Group’s operations, from running operational processes, through reporting, supply chain management, waste management and access to financing. Changes in regulations also affect the suppliers and contractors of the LUG Group and customers, which largely determines the shape of the portfolio of products and services offered.
- Changing consumer behaviour and preferences of customers who strive to increase energy efficiency, reduce their impact on climate change and reduce greenhouse gas emissions affect the process of designing and developing new products and services, as well as the production of luminaires and their sale. The processes of changes in consumer behaviour and customer preferences influence the increase in demand for effective light sources, i.e. the category dominating in the LUG Group offer. In many cases, the criterion of energy efficiency is increasingly important for potential customers when choosing lighting solutions.

- Adaptation to climate change manifests itself in the development processes of Smart Cities, i.e. intelligently managed cities. In their case, lighting management is not just about selecting energy-efficient light sources, but about introducing lighting management systems related to other public space functions. This increases the demand for smart light management systems developed by the LUG Group, which are comprehensive projects, often developed in cooperation with leading IT partners.

Currently, the influence of the LUG Group on climate change takes place mainly in the following areas:

- The extraction of raw materials and the manufacture of materials and components necessary for the production of luminaires involves the emission of greenhouse gases. The LUG Group strives to reduce the carbon footprint of its products, for which it is necessary to select such resources, materials and components that have the lowest possible built-in greenhouse gas emissions. For some materials such as aluminium, steel and glass, these processes are energy-intensive and require the combustion of fossil fuels or the use of electricity, most of which is produced in high-carbon processes. The production of plastics is also related to the inevitable use of fossil fuels in today's technologies. For some raw materials, extraction may be related to deforestation of the land where the extraction takes place.
- The transport of raw materials, materials and components from suppliers to the LUG Group and finished products to customers is carried out by various means of transport. Depending on the mode of transport, it may contribute to higher or lower greenhouse gas emissions. Reduction of emissions in this area will be possible as the operational activity of logistics partners of the LUG Group decarbonises.
- The consumption of fuels and energy in production processes and the consumption of heat and electricity in real estate used in the operating activities of the LUG Group results in greenhouse gas emissions. The influence of the LUG Group in this respect will be gradually limited as the energy efficiency increases and the share of energy from low- and zero-emission sources increases.
- The methods of waste management generated by LUG's operational activities determine the amount of greenhouse gases produced in these processes. Emissions will be reduced over time as we move towards a circular economy model. It should be noted, however, that the pace of these changes depends not only on the LUG Group, but on the degree of adjustment of the entire economy. Climate change is also influenced by the management of waste generated after the life cycle of luminaires. Reducing this impact is made possible by designing luminaires in such a way that they are as repairable and upgradable as possible and by using recyclable or reusable materials.
- Designing, manufacturing and selling luminaires based on LED light sources contributes to increasing energy efficiency and reducing indirect greenhouse gas emissions by LUG Group customers. The reduction of emissions results both from the higher efficiency of LED light sources (which is described in more detail in chapter 7.2 *Fuel and energy consumption*), and the use of smart lighting systems, which allow you to adjust the light intensity to the current environmental conditions and the needs of users of the illuminated space.

7.2 Fuel and energy consumption

Energy consumption is one of the important areas identified in the materiality survey. In its activities, LUG has a direct impact on the consumption of fuels and energy through their use in production processes, transport and the operation of office, commercial and production facilities. However, the specificity of LUG products operating thanks to the use of electricity means that LUG has a huge indirect impact on energy consumption as a result of using its luminaires.

Indirect impact

[E.8.2] 100% of LUG sales revenue comes from products or services, developed taking into account environmental criteria. Through consistent implementation and final production, LUG takes into account environmental criteria as early as at the design level. All LUG products are characterised by parameters referring to reduced energy consumption. LUG specialists independently work on the optimisation of LUG products, cooperating with trusted suppliers who offer the highest quality components.

The solutions used in the luminaires produced by LUG contribute to the reduction of energy consumption. Since 2014, LUG has been conducting research and development works and implementation of new products based on LED technology, which has an increased energy efficiency of 50-70% compared to conventional technology. However, new LED products always have an increased energy efficiency of 7-20% compared to the previous generation of LED solutions. When switched on, the LED luminaire does not need time to warm up, as is the case with traditional fluorescent lamps, which consume more energy during this time. The LED luminaire, which is in frequent use, consumes less energy than these older generation sources, making it ideal for both interior lighting and buildings and road infrastructure.

Daylight control technology has been introduced in LUG products, which enables the adjustment of the intensity of internal lighting to the prevailing external conditions, which allows for energy consumption only in the amount necessary for proper lighting of rooms. This technology is compatible with LUG luminaires and can be used in all LUG products, depending on the customer's needs.

Direct impact

The direct energy consumption consists of fuel and energy consumption in production processes, acquisition and consumption of heat and electricity in facilities belonging to LUG, and consumption of liquid fuels for business activities.

Electricity is used for heat treatment, plastic working and subtractive processes. LUG puts a lot of emphasis on reducing electricity consumption, therefore periodic monitoring of meter readings and the creation of an energy bank have been introduced. Furthermore, at the planning stage, processes are optimised to minimise energy demand.

Heat is generated for the purposes of production processes, which is used to heat rooms and assembly halls. Through continuous monitoring of the consumption of raw materials (e.g. technical gas), the amount of heat generated is monitored, with the intention of implementing systems for its reuse, thus minimising its loss. At each stage of production, attention is paid to optimal thermal management, with an emphasis on minimising its use at a level that does not adversely affect the process and, most importantly, does not adversely affect those directly involved in working in production areas. At LUG Light Factory Sp. z o.o. thermal energy is obtained from gas boilers (natural gas).

The company's liquid fuels are used by the company car fleet.

One of the components of the Improvement Plan of the Integrated Management System in 2019 were aspects related to the significant use of energy. In 2019, LUG replaced lighting in the production areas, i.e. the assembly hall and the mechanical department hall, which allowed to reduce the energy consumed by approx. 50%. In addition, sub-meters have been installed, which enable more precise control of energy consumption on individual resources, and a number of inspections and additional periodic services have been introduced, allowing for faster identification of inconsistencies and reacting to failures. As in the previous year, at the end of 2019, the Integrated Management System Improvement Plan was created, which also includes pro-energy measures for 2020. The objectives for the next year are, among others, continuation of work on lighting replacement (in the warehouse hall), reconstruction

of compressed air installation in Nowy Kisielin and the purchase of new energy-saving forklifts for the warehouse.

Total energy consumption by main energy sources

	Unit	2018	2019	change YOY
<i>Data reliability indicator</i>	%	97.6%	100.0%	
Fuels consumed in buildings and installations				
Natural gas	m ³	299,202.0	311,541.5	+4.1%
	MWh	3,043.5	3,169.1	+4.1%
Fuels used in transport with own vehicles				
Petrol	Mg	18.3	9.8	-46.3%
	MWh	225.3	121.1	-46.3%
Diesel	Mg	192.8	138.3	-28.3%
	MWh	2,303.3	1,652.3	-28.3%
Total fuel used for transport with own vehicles	MWh	2,528.7	1,773.4	-29.9%
Purchased energy				
Electricity	MWh	1,481.7	1,544.0	+4.2%
Total energy from all sources	MWh	7,053.9	6,486.5	-8.0%
Energy from all sources per unit of product	MWh/1 thousand units	13.7	15.0	+9.9%
Energy from all sources per PLN 1 million in revenue	MWh/PLN 1 million	41.3	38.0	-8.0%

[E.2.1] Most of the energy used in the activities of the LUG Group is thermal energy used for the functioning of buildings and installations. The main source of thermal energy is natural gas, of which 311,541.5 m³ were consumed in 2019, representing 48.9% of the Group's total energy consumption. A further 27.3% of the total energy consumption is energy for transport by vehicles of the fleet, which used a total of 1,773.4 MWh in 2019, of which 6.6% came from petrol and the remaining 93.4% from diesel. In 2019, the consumption of liquid fuels in own vehicle transport in the LUG Group decreased by 29.9%. For the purposes of the Group's operations in 2019, 1,544 MWh of electricity was purchased, which accounted for 23.8% of the total energy consumption.

The total energy consumption in the LUG Group in 2019 decreased by 8% compared to the previous year. This decrease is the result of a reduction in fuel consumption in transport with a simultaneous slight increase in the consumption of natural gas and electricity.

[E.2.3.] The basic energy efficiency ratio in 2019 was 15.0 MWh / 1 thousand units of product (luminaires produced) and was 9.9% higher than the year before due to a reduction in the number of luminaires produced while reducing total energy consumption.

[E.2.2.] The energy used by the LUG Group came from non-renewable sources in 2019.

7.3 Emissions to the atmosphere

[E.5.1] [E.5.3] Greenhouse gas emissions as a result of the company's operating activities are monitored in the companies of the LUG Group. To assess the emission intensity level, the greenhouse gas emission index per product unit (luminaire produced) at the Capital Group level is used.

Reported greenhouse gas emissions have been calculated according to *The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard* in the revised version.

Reported emission limits (*organizational boundaries*) include the parent company and all units of the LUG Capital Group according to operational and financial inspection (100% of the emissions of each unit). Consolidation covers all levels of the LUG Group.

Scope of reported emissions (*operational boundaries*):

- Reported emissions cover scope 1 (direct emissions) and scope 2 (indirect emissions resulting from the generation of energy purchased by the LUG Group units).
- Regarding scope 1, the sources of greenhouse gas emissions were the combustion of natural gas in the company's buildings and installations and the use of fuels (petrol and diesel) in vehicles.

Base year and emission trends over time:

- 2018 was considered the base year for emission reporting in the case of the LUG Group.
- In this report, emissions are reported for the second time in accordance with the *GHG Protocol Corporate Accounting and Reporting Standard*.
- The base year was recalculated by applying a modified method of calculating emissions resulting from the consumption of natural gas in the company's buildings and installations in 2018 (base year). As a result of recalculation, these emissions in 2018 amounted to 564.5 Mg CO₂e (the originally reported value was 621.6 Mg CO₂e), which translated into a change in the value of emissions in scope 1 in 2018 at a level of 1,260.5 Mg CO₂e (the originally reported value was 1,317.6 Mg CO₂e) and emissions in total in ranges 1 and 2 at a level of 2,395.3 Mg CO₂e (the originally reported value was 2,452.4 Mg CO₂e).
- A detailed analysis of changes in emissions over time is presented later in this chapter.

In 2019, no biogenic emissions were recorded.

The emissions were calculated using the tools provided by the GHG Protocol (<https://ghgprotocol.org/calculation-tools>). Scope 2 emissions were calculated according to the location-based method. The calculations were made on the basis of emission intensity indicators published by the National Centre for Emissions Management and the European Environment Agency. The GWP (*Global Warming Potential*) factors used in the calculations are in line with the Fifth IPCC Report (AR5, *The Fifth Assessment Report of the IPCC*).

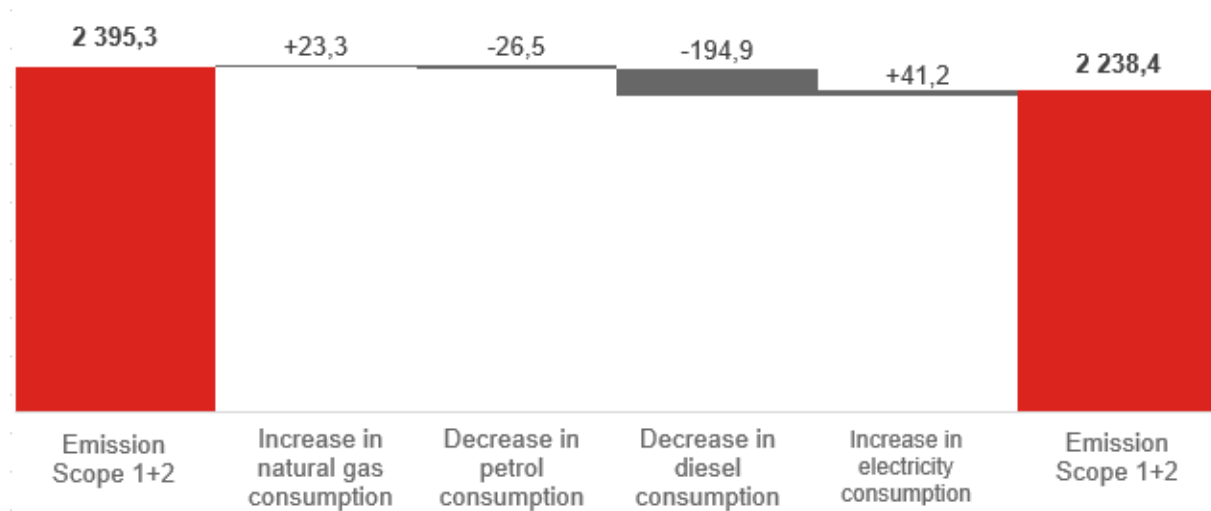
Greenhouse gas emissions to the atmosphere

	Unit	2018	2019	change YOY
<i>Data reliability indicator</i>	%	97.6%	100.0%	
Scope 1				
Emissions from fuel consumption in buildings and installations	Mg CO ₂ e	564.5	587.8	+4.1%
Emissions from fuel consumption in transport	Mg CO ₂ e	696.0	474.6	-31.8%
Total emissions under Scope 1	Mg CO ₂ e	1,260.5	1,062.4	-15.7%
Scope 1 emissions per product unit	kg CO ₂ e/unit	2.4	2.5	+0.7%
Scope 1 emissions per PLN 1 million in revenue	Mg CO ₂ e/PLN 1 million	7.4	6.2	-15.6%
Scope 2				
Emissions resulting from the purchase of electricity	Mg CO ₂ e	1,134.8	1,176.0	3.6%
Scope 2 emissions per product unit	kg CO ₂ e/unit	2.2	2.7	23.9%
Scope 2 emissions per PLN 1 million in revenue	Mg CO ₂ e/PLN 1 million	6.6	6.9	3.7%
Scope 1+2				
Total emissions under Scope 1+2	Mg CO ₂ e	2,395.3	2,238.4	-6.5%
Scope 1+2 emissions per product unit	kg CO ₂ e/unit	4.6	5.2	+11.7%
Scope 1+2 emissions per PLN 1 million in revenue	Mg CO ₂ e/PLN 1 million	14.0	13.1	-6.5%

As a result of the operating activity in the LUG Group in 2019, 2.2 thousand Mg CO₂e (carbon dioxide equivalent) was emitted to the atmosphere within the direct (scope 1) and indirect (scope 2) emissions, which corresponds to 5.2 kg CO₂e per product unit (luminaire produced).

47.5% of the total greenhouse gas emissions generated in the LUG Group's operating activities fall within scope 1, i.e. direct emissions resulting from fuel consumption in buildings (55.3% of emissions within scope 1; 26.3% of total emissions) and use of fuels in transport (44.7% of emissions within scope 1; 21.2% of total emissions). Total emissions in scope 1 in 2019 were 2.5 kg of CO₂e per unit of product. The remaining 52.5% of total greenhouse gas emissions fall within scope 2, i.e. indirect emissions, which were entirely the result of purchased electricity (100% of emissions in scope 2). The benchmark in scope 2 was 2.7 kg CO₂e per unit of product.

Factors for changes in greenhouse gas emissions 2019/2018



In total, the emissions within scope 1+2 of the LUG Group in 2019 decreased by 6.5%, while the emissions within scope 1 decreased by 15.7% and the emissions in scope 2 increased by 3.6%. The reduction of diesel fuel consumption by 28.3% had the greatest impact on reducing emissions in 2019, which reduced greenhouse gas emissions by almost 195 Mg CO₂e. To a lesser extent, the reduction of gasoline consumption in transport contributed to the reduction of emissions (a decrease in consumption by almost a half, which led to a reduction of emissions by over 26 Mg CO₂e). The counteracting factors were the 4.1% increase in natural gas consumption in the company's buildings and installations, which resulted in emissions higher in 2019 by 23 Mg CO₂e and the consumption of electricity increased by 4.2%, which contributed to the increase in emissions by 41 Mg CO₂e.

The basic emission index in 2019 was 5.2 kg of CO₂e per product unit (luminaire produced) and was 11.7% higher than the year before, when it amounted to 4.6 kg of CO₂e per unit of product. The increase in the indicator is due to the lower number of luminaires produced than in the previous year.

[E.5.2] [E.5.4] Information on the emission of other substances to the atmosphere can be found in *Appendix 2*.

7.4 Consumption of resources and materials

For the production of lighting fittings, LUG uses raw materials and semi-finished products supplied by verified suppliers. Information on suppliers of individual key raw materials and components:

- deliveries of the main components come mainly from Europe, the minority are suppliers from Asian countries;
- steel and aluminium are purchased in Europe (including Poland);
- PCBs are imported from Asia;
- semiconductor elements are purchased in Europe and the United States;
- glass is supplied by several local (Polish) manufacturers;
- plastics – plastic details are supplied by European manufacturers of this type of material;
- light sources, lenses, power supplies – supplied by European manufacturers. These are large companies operating all over the world. Some of these components are also produced by LUG itself;
- paints and varnishes are imported from Europe, a significant part of which comes from Poland.

Most raw materials and semi-finished products have at least two alternative suppliers.

Suppliers are selected on the basis of a tender where one of the selection criteria is the location of the potential supplier's facilities. Whenever possible, cooperation with local entrepreneurs is preferable. In most cases, before starting cooperation with a given company, an audit is carried out at the supplier.

Pre-cooperation audits are conducted by the Quality Department and Supplier Supervisors. All purchased components are verified in terms of the required documentation and certification (CE, RoHS). In addition, each delivery of critical raw materials and semi-finished products is verified in terms of quality.

Main categories of resources and materials [E.1.1] [E.1.2]

	Unit	2018	2019	change YOY
Steel	Mg	585	733	25.3%
Aluminium and aluminium housing	Mg	700	626	-10.6%
Plastics	Mg	120	139	+15.5%
LED light sources	thousand units	50	47	-6.0%
PCBs	thousand units	1,287	1,147	-10.9%
Semiconductors	thousand units	42,000	40,962	-2.5%
Glass	Mg	72	68	-5.7%
Paints, varnishes	Mg	43	43	0.0%
Power Supplies	thousand units	420	217	-48.4%
Connectors	thousand units	3,350	3,720	+11.0%
Lenses	thousand units	1,000	535	-46.5%

The changes in the use of resources and raw materials visible in the above list are the result of the reduced total number of luminaires produced in 2019, as well as the measures implemented as part of the implementation of the Environmental Policy. The increase in the use of plastics and connectors is the result of the increase in sales of indoor and decorative luminaires compared to outdoor luminaires.

7.5 Waste

In the LUG S.A. Group, municipal waste is collected selectively, according to local regulations. The generated waste is transferred to authorised recipients for recovery or disposal.

On the premises of the company, waste generated as a result of the production of luminaires and LED modules and the operation of auxiliary installations necessary for business operations, before being transferred to the recipient, is stored in separate places. Waste storage sites are located on the premises of the enterprise, and the storage of waste is secured in a way that prevents its negative impact on the environment and human health.

The organisational unit responsible for the waste management area regularly inspects the waste disposal sites.

On behalf of LUG, the luminaires are disposed of by the Electrical Equipment Recovery Organisation, which provides LUG with the following services: collection of waste electrical and electronic equipment, processing, recovery – including recycling and disposal of waste equipment, reporting to the Chief Inspector of Environmental Protection.

Hazardous and non-hazardous waste according to the management method and waste emission per product or revenue unit

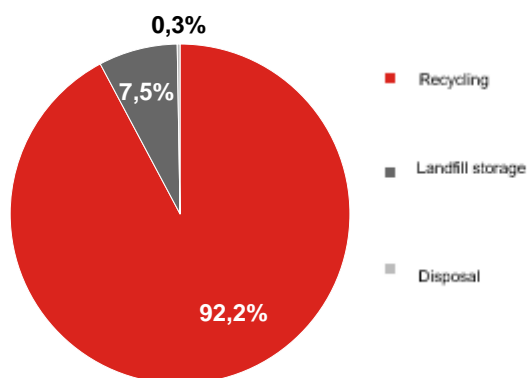
	Unit	2018	2019	change YOY
<i>Data reliability indicator</i>	%	96.8%	100.0%	
Hazardous waste				
Recycling	Mg	0.0	0.0	-
Landfill storage	m3	0.0	0.0	-
Disposal	Mg	10.0	12.0	+20.5%
Reuse	Mg	0.0	0.0	-
Permanent storage on site	Mg	0.0	0.0	-
Total hazardous waste	Mg	10.0	12.0	+20.5%

Hazardous waste per product unit	g/unit	19.3	27.8	+44.0%
Hazardous waste per PLN 1 million in revenue	kg/1 mln PLN	58.3	70.3	+20.6%
Non-hazardous waste				
Recycling	Mg	346.1	347.8	+0.5%
Landfill storage	m3	28.2	0.0	-
Disposal	Mg	0.9	36.6	+3998.3%
Reuse	Mg	0.0	0.0	-
Permanent storage on site	Mg	0.0	0.0	-
Total non-hazardous waste	Mg	375.2	384.3	+2.4%
Non-hazardous waste per product unit	kg/pc.	0.73	0.89	+22.4%
Waste other than hazardous per PLN 1 million in revenue	kg/1 mln PLN	2,197.0	2,252.3	+2.5%
Total all waste	Mg	385.2	396.3	+2.9%
Total all waste per product unit	kg/pc.	0.75	0.92	+22.9%
Total all waste per PLN 1 million in revenue	kg/1 mln PLN	2,255.2	2,322.5	+2.9%

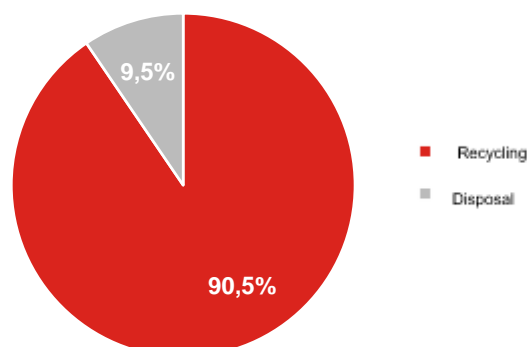
[E.6.1] [E.6.2] [E.6.3] [E.6.4] In 2019, 90.5% of non-hazardous waste was recycled in the LUG Group, while hazardous waste was not recycled.

100% of hazardous waste and 9.5% of non-hazardous waste was sent for disposal. In 2019, no waste was deposited in landfills.

Waste destination in 2018
(non-hazardous)



Waste destination in 2019
(non-hazardous)



In total, in 2019, the LUG Group emitted 0.028 kg of hazardous waste and 0.89 kg of non-hazardous waste per 1 product unit, and 70.3 kg of hazardous waste and 2,252.3 kg of non-hazardous waste per PLN 1 million in revenue. The total amount of all waste in the LUG Group increased by 2.9% compared to 2018.

In 2019, the LUG Group conducted a number of educational activities on recycling and waste management. These are described in more detail in chapter 5.4. *Local communities*.

7.6 Limiting light pollution

One of the important issues highlighted in the materiality survey is the reduction of light pollution. With the development of urbanised areas, the brightness of the sky increases from year to year, the urban glow is visible from a distance of many kilometres, the light “spills out” of urbanised areas, which is not

without its impact on the environment. Excessive lighting has a negative impact not only on human functioning, but also on the living conditions of plants and animals.

Light pollution can be classified into two categories:

- urban glow – a large-scale form of pollution present in an urbanised area, causing e.g. excessive illumination of the night sky, disturbances in the daily cycle of flora and fauna;
- unwanted light – this is light pollution that excessively illuminates surfaces not intended for this purpose. It is most often the result of a faulty design of a lighting device or errors and omissions in the spatial development plan.

When designing lighting for interiors as well as infrastructure and architectural objects, LUG has a wide impact on reducing light pollution. With its own design team, the company places particular emphasis on creating precise lighting systems and limiting uncontrolled light distribution.

By engaging in the development of Smart City technology, LUG offers solutions reducing excessive lighting in urban areas, including, for example, LMS (*Lighting Management System*). Thanks to these solutions, light is supplied and illuminates urban spaces only when it is needed, while at times when it is unnecessary and compliant with standards (e.g. in the middle of the night), the light intensity is reduced to a minimum. As a result, light pollution is reduced while also reducing the negative impact on the environment.

7.7 Other environmental issues

[E.7.2] [E.7.3] [E.7.4] During the reporting period there were no breakdowns resulting in contamination or other environmental damage. In 2019, no administrative proceedings were pending against LUG for violations of environmental regulations. In 2020, LUG received a verdict on the appeal filed against the decision of the President of the Energy Regulatory Office to impose a fine of 1,000 PLN on the Issuer's subsidiary – LUG Light Factory sp. z o.o. With its registered office in Zielona Góra for not complying with the restrictions in the supply and consumption of electricity introduced on 10-31 August 2015. The court dismissed the complaint of LUG Light Factory sp. z o.o. against the decision of the President of the Energy Regulatory Office imposing a fine on the subsidiary and ordered the company to pay the costs of proceedings in the amount of 720 PLN.

In its activities, LUG attaches great importance to respecting the natural environment and limiting its possible negative impact on it. Issues of how to deal with an accident that has an environmental impact are described in the procedure: *Preparedness and response to environmental accidents*. The purpose of the procedure is to ensure proper management of and response to environmental accidents, unforeseen situations and unusual events.

Water and sewage

	Unit	2018	2019	change YOY
<i>Data reliability indicator</i>	%	96.5%	100.0%	
Water consumption				
Purchased water	m3	4,645	4,996	7.6%
Water from own intakes	m3	0	93	-
Total water used	m3	4,645	5,089	9.6%
Water consumption per product unit	l/unit	9.0	11.8	31.0%
Water consumption per PLN 1 million in revenue	m3/PLN 1 million	27.2	29.8	9.7%
Sewage				
Sewage discharged into the municipal network	m3	4,715	5,066	7.5%
Waste water discharged per product unit	l/unit	9.1	11.8	28.4%
Waste water discharged per PLN 1 million in revenue	m3/PLN 1 million	27.6	29.7	7.5%

[E.3.1] [E.3.2] [E.3.3] [E.6.3] [E.6.5] The consumption of water and sewage is not a significant environmental issue in the operations of the LUG Group, therefore no solutions reducing water consumption and sewage production have been implemented. In 2019, the Group used 4,996 m³ of water, which is on average 9.9 l of water per product unit and 29.8 m³ per PLN 1 million in revenue. The LUG Group used purchased water as well as its own intakes. The LUG Group does not recycle and reuse water. The total water consumption in 2019 increased by 9.6% compared to 2018. 5,066 m³ of sewage was produced during the same period, which is 11.8 l per product unit and 29.7 m³ per PLN 1 million in revenue. The amount of discharged sewage increased by 7.5% compared to the previous year.

Pollution reduction

One of the important aspects for LUG is acting in accordance with the sustainable development principle and using such technologies to have the least negative impact on the environment. For this purpose, appropriate procedures have been implemented in the production process, the purpose of which is to minimise the generation of waste and emissions during production, and to eliminate factors hazardous to the environment.

The LUG Group applies a number of measures to reduce pollution resulting from the production of LUG luminaires, such as:

- ecological bath – replaces the harmful process of solvent spraying on the surface of luminaires intended for varnishing. This reduces the dispersion of pollutants, as the luminaire is immersed in biodegradable solutions, and the residues from the degreasing process and pollutants from the luminaire housing and the preparations used for the bath are disposed of in a production waste water treatment plant installed on the premises of the paint shop;
- automatic wiring of luminaires – reduces the emission of chemical substances evaporated during soldering, and also reduces the exposure of employees to air pollution with these substances;
- LED component production line – reduces the production of emissions and waste, and enables the minimisation of the amount of chemicals (glue) used in the production of electronic components.

In addition, LUG is involved in the development of a smart lighting management system and Smart Cities technology, thanks to which it contributes to the reduction of light pollution (more in chapter 7.6 *Limiting light pollution*).

Impact of the LUG Group on the environment



[E.4.1] [E.4.2] [E.4.4] LUG does not constantly monitor the impact of production facilities on the immediate environment. An analysis of collisions with protected areas has been carried out. As a result of the analysis, LUG Light Factory Sp. z o.o. in Zielona Góra and the LUG Research and Production Centre in Nowy Kisielin, reserves, protected landscape areas and special protection areas of the NATURA 2000 programme were distinguished. It is worth mentioning that the operational activity of LUG has no negative impact on the areas identified in the analysis.

[E.4.3] In 2019, there were no environmental losses as a result of LUG's activities.

7.8 Significant environmental risks


Risk and its description	Risk management method
<p>Risk of tightening the regulations regarding the circular economy. Introducing more restrictive regulations concerning circular economy may cause the necessity of design and construction changes in luminaires produced by LUG in the scope of materials used and the possibility of their reuse or recovery.</p>	<p>LUG monitors the risk of e.g. by observing and analysing legislative processes related to the provisions on the circular economy. Risk management measures taken:</p> <ul style="list-style-type: none"> - acting as an expert in legislative processes; - close cooperation with industry organisations such as Pol-Lighting; - rational design of products, taking into account the concept of processing residues from the production process and how best to reuse them; - extending the life cycle of LUG luminaires, the design of which enables their possible repair and replacement of parts, instead of disposal.

Significant risks, threats and opportunities related to climate change

 <p>Risk of sudden weather events</p> <p>Sudden weather events such as storms, thunderstorms, hailstorms, floods or droughts will increase in frequency as climate change progresses.</p> <p>Time horizon: short, medium, long; the probability of the risk will increase over time.</p>	
RISKS	OPPORTUNITIES
<p>1. Sudden weather phenomena may disrupt logistics processes and prevent timely delivery of resources, materials and components as well as LUG Group products to customers to the LUG Group. This may cause production delays and the fulfilment of contractual obligations towards customers. Disruption of logistic processes can also lead to reduced availability, shortages or an increase in the prices of resources, materials and components used in the production of luminaires.</p> <p>2. The greater frequency and intensity of sudden weather phenomena may necessitate the design and manufacture of outdoor luminaires with greater durability and resistance to external factors. This may necessitate structural changes or the use of other, more durable materials.</p>	<p>1. Increased frequency and intensity of sudden weather events can cause faster wear and tear and damage to unsustainable outdoor luminaires. This, in turn, may increase the demand for new, more durable and robust luminaires. If the LUG Group has such luminaires in its portfolio and is able to distinguish its products by their durability and resistance to adverse weather conditions, it may contribute to increasing sales in the future.</p>
 <p>Risks associated with changes in climate change regulations</p> <p>Regulations on counteracting climate change are becoming more stringent and further changes are expected in the future. These changes may take place both in the regulations of the European Union and Poland, as well as in the regulations of the countries that are the target markets of the LUG Group. The risk mainly concerns regulations related to the reduction of greenhouse gas emissions, energy efficiency, carbon footprint reporting, introduction of a carbon tax or carbon border tax.</p> <p>Time horizon: short and medium</p>	
RISKS	OPPORTUNITIES
<p>1. The introduction and tightening of regulations mandating the reduction of greenhouse gas emissions or establishing carbon taxes or carbon border taxes may result in the need to accelerate the reduction of</p>	<p>1. The introduction and tightening of regulations imposing the limitation of greenhouse gas emissions or establishing carbon taxes or carbon border taxes will motivate customers and potential customers of the</p>

<p>greenhouse gas emissions by the LUG Group in scopes 1 and 2 or the necessity to obtain resources, materials and components with a lower carbon footprint.</p> <p>2. Tightening the regulations on energy efficiency may result in some of the current LUG Group products not meeting these requirements. This would result in the need to incur additional expenditure on research and development activities in order to develop new products that meet the requirements.</p>	<p>LUG Group to replace lighting with new, more energy-efficient lighting, which will contribute to reducing greenhouse gas emissions in scope 2. In addition, an opportunity for the LUG Group is the development and implementation of luminaires with a lower carbon footprint than competitors' products in a situation where the carbon footprint of a product, in particular calculated throughout its life cycle (LCA), will be one of the important criteria for product selection.</p> <p>2. Tightening the regulations on energy efficiency will motivate clients and potential clients of the LUG Group to choose products with a high energy efficiency. This opportunity can be used by the LUG Group thanks to the concentration of research and development activities on the development of luminaires and lighting management systems, which will contribute to an even greater extent to electricity savings for users.</p>
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Risk related to changes in customer preferences




Growing customer awareness of climate change, as well as changing their behaviour and preferences, may lead to a tendency to choose products with increased energy efficiency and a lower carbon footprint. This may result in the necessity to conduct research and development work, thanks to which the LUG Group will be able to offer its customers products meeting their changed preferences.

Time horizon: short to medium.

RISKS	OPPORTUNITIES
<p>1. Changing customer preferences may result in the LUG Group's product offer not being adjusted to market needs. In the event that the R&D work is carried out too late or does not enable the development of products tailored to new customer preferences, the result could be a decrease in revenue and a loss of market share.</p>	<p>1. For years, the LUG Group has been striving to offer its customers products with an ever higher energy efficiency. Intensification of research and development work in this area and conducting activities enabling the reduction of the carbon footprint of luminaires may contribute to the LUG Group gaining competitive advantages, which will be used for dynamic revenue growth and increasing market share.</p> <p>2. Changing customer behaviour in terms of increasing the demand for energy-saving and low-emission products, replacing traditional energy-consuming luminaires with LED luminaires may result in an increased demand for LUG luminaires and lighting management systems.</p>


Risk related to the introduction of new technologies



Striving to mitigate climate change by reducing greenhouse gas emissions and increasing energy efficiency has the effect of continuous research into new technologies, also in the lighting industry. It is possible that these works will result in breakthrough solutions that will make solutions based on LED light sources obsolete and uncompetitive.

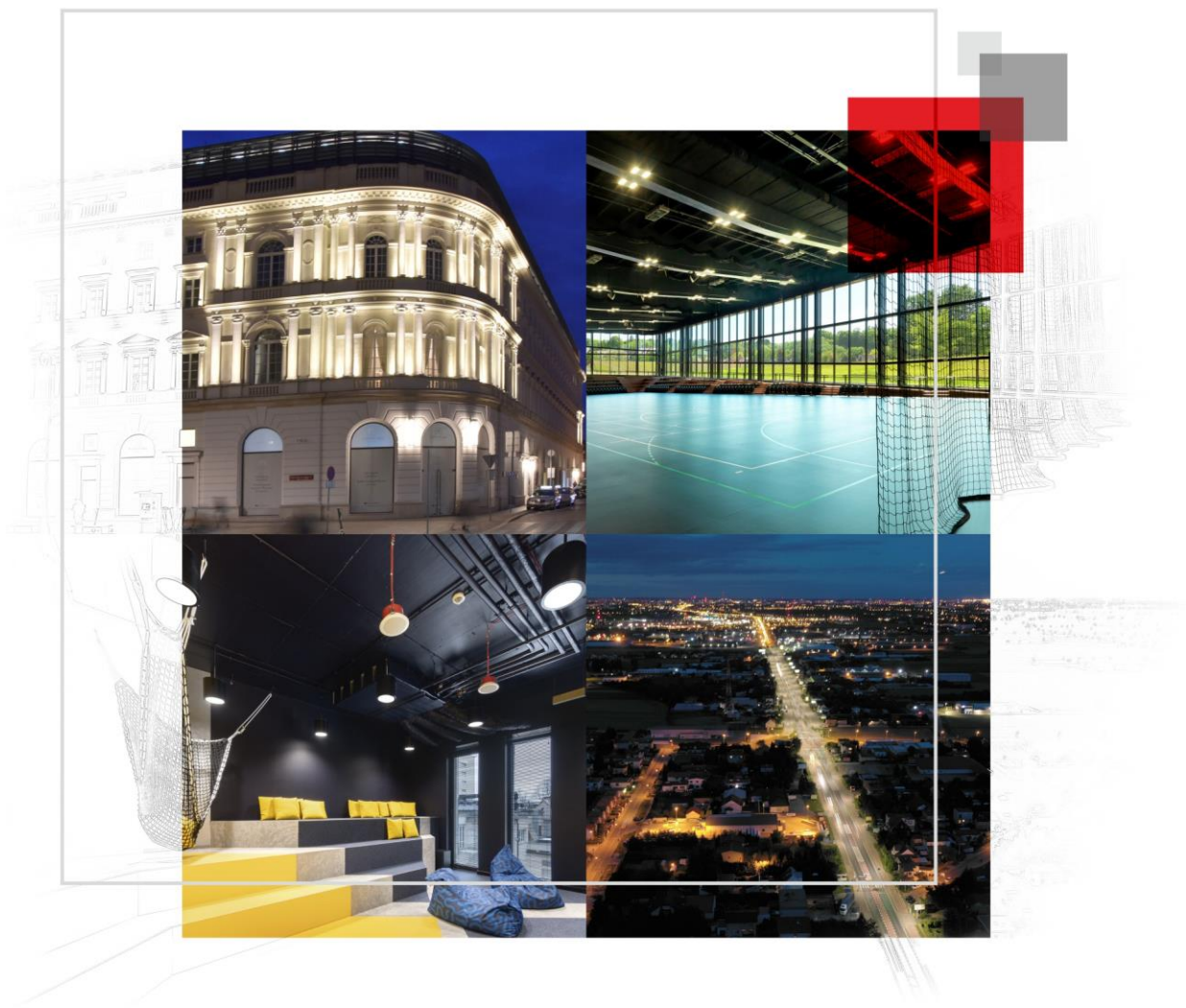
Time horizon: medium to long.

RISKS	OPPORTUNITIES
<p>1. The appearance of solutions based on new technologies, different from the LED technology dominating the products offered by the LUG Group, may cause a decrease in the competitiveness of the Group's products. New technology may be difficult to implement, require significant R&D expenditure or license fees. The threat may also be related to the need to adapt the production plants of the LUG Group to the use of the new technology.</p>	<p>2. Intensification of research and development in the field of new technologies or further development of LED technologies may contribute to the production by the LUG Group of new, more energy-efficient products with a smaller carbon footprint, and thus contribute to gaining competitive advantages on the market and increasing the company's financial revenue. In addition, the use of new technologies (e.g. innovative production machines, technology based on renewable energy) in the production process may increase production efficiency, significantly reduce greenhouse</p>

	gas emissions and pollutants to the atmosphere, reduce waste production, which may translate into building the position of an industry leader and lowering the company's costs.
 <p data-bbox="411 331 853 353">Risk related to changes in social behaviour</p> <p data-bbox="411 387 1390 521">The intensification of measures to mitigate climate change may lead to a change in social behaviour. For example, such changes may include increasing the demand for energy-saving and low-emission products, replacing traditional luminaires with LED luminaires, reducing the use of private transport, as well as reducing or abandoning lighting at night in public spaces in order to reduce electricity consumption and reduce greenhouse gas emissions.</p> <p data-bbox="411 573 715 595">Time horizon: medium to long.</p>	
RISKS	OPPORTUNITIES
1. Changes in social behavior resulting in the limitation of the use of external lighting may lead to a reduction in the demand for luminaires of the LUG Group.	-

The above list of risks, threats and opportunities related to climate change is the first comprehensive approach to this issue developed by the LUG Group. The list is monitored and will be revised as part of the climate risk identification and analysis project conducted in 2020. In the course of this project, the list may be enriched or shortened, and particular risks will also be subject to the analysis of their impact on the financial results of the LUG Group.

2019



About the report

8 About the report

This report covers non-financial information concerning the LUG S.A. Capital Group for the period from 1 January 2019 to 31 December 2019. The report is a report on non-financial information prepared in accordance with Article 55(2b-2c) of the Accounting Act of 29 September 1994.

This report has been prepared in accordance with the Non-Financial Information Standard (SIN). In Chapter 9 *SIN compliance table* there is a detailed list of SIN indicators with reference to the content of this report.

The report has not been subject to external verification.

All information, data and statements in this report concern the LUG S.A. Capital Group and the parent company LUG SA, unless it is clearly indicated otherwise.

In the report, the words “LUG”, “LUG Group”, “Capital Group”, “LUG Capital Group”, “LUG S.A. Capital Group” refer to the LUG S.A. Capital Group.

The non-financial report of the LUG Capital Group is prepared on an annual basis.

Due to the dynamics of development of the LUG Capital Group, its diversification into many subsidiaries and geographical dispersion, it was not possible to collect all non-financial data within the LUG Group. In selected cases where data was not available, an estimation method was used. The missing data was estimated, and the weighting criterion used was the share of the number of employees of a given subsidiary in the revenue of all Group companies. Information on estimated data is presented in all tables in the report that contain this type of data, using the data certainty index:

- A data certainty index of 100% or lack of information about the index means that the presented data comes entirely from source information.
- The data certainty index equal to X% (specified percentage, lower than 100%) means that the presented data in X% comes from source information, and was estimated in the remaining part in accordance with the above-mentioned criterion.

The above refers to data for 2018; the data for 2019 was derived entirely from the information obtained and there was no need to use estimates.

8.1 Relevance of information in the report

[G.3.1] As a part of the process of preparing the report, a materiality survey was carried out, the aim of which was to determine: significant stakeholder groups for LUG S.A. and the LUG S.A. Capital Group (uniform survey concerning the parent company and the capital group), significant non-financial issues and risks related to significant non-financial areas.

The materiality survey was carried out in the period from December 2018 to March 2019 by an independent MATERIALITY expert company in accordance with the MAX® methodology – MATERIALITY ASSESSMENT MATRIX in the basic + version.

The following research tools were used in the study:

- source data analysis;
- workshops with the company’s management board and senior management of the company and capital group;
- a comprehensive survey conducted on a group of 27 representatives of the management board and senior management of the company and capital group, as well as 4 MATERIALITY experts;
- interviews with representatives of 6 external stakeholders from the company’s social environment (Zielona Góra City Hall, University of Zielona Góra, Zielona Góra Branch of the Association

of Polish Architects, Lubuskie Region Union of Employers, Western Chamber of Industry and Commerce, Association of Lighting Equipment Manufacturers “Pol-Lighting”);

- matrix analysis of the obtained results.

As a result of the study, 10 important groups of stakeholders were selected, as well as 18 significant non-financial issues, divided into 3 areas. Nine significant non-financial risks were also identified. This data will be discussed in detail later in the report.

The conducted materiality survey is valid until 6 March 2022 and will constitute the basis for determining the content of the non-financial reports of LUG S.A. and the LUG S.A. Group in the comyears.

8.2 Relevant stakeholders

As a result of the materiality survey, 10 stakeholder groups were identified. These are the groups which are significantly affected by the Group and which have a significant impact on the Group:

1. All LUG employees (in particular the employees of the Commercial Division and the R&D Division);
2. Potential employees;
3. Decision-makers in sales processes (architects and interior designers, stewards);
4. Customers (general contractors, electrical wholesalers);
5. Suppliers;
6. Subcontractors;
7. Local communities (in Zielona Góra and Posadas);
8. Strategic shareholder;
9. Banks;
10. Regulators (legislator, creators of norms and standards).

8.3 Significant non-financial issues

The materiality study revealed 18 significant non-financial issues (areas in which the Group influences the environment and which areas of the environment affect the Group):

1. Environmental issues:
2. Indirect climate impact;
3. Consumption of resources and materials;
4. Waste;
5. Energy consumption;
6. Emissions to the atmosphere;
7. Limiting light pollution;

Issues in the employee area:

1. Influence of employees on LUG’s ability to function;
2. Occupational Health and Safety;
3. Providing people working for LUG with the same working conditions and pay;
4. Providing employees in Posadas with the same conditions as in Poland.

Social issues:

1. Laws, norms and standards regarding lighting;
2. Product safety, production certification, quality standards;
3. Relations with local communities;
4. Savings in local government budgets;
5. Safety of people in public spaces;
6. Educating architects and designers in the field of lighting design;

7. Proper use of LUG products by consumers;
8. Preventing corruption;

The above-mentioned significant non-financial issues are described in more detail in individual chapters of the report.

8.4 Significant non-financial risks

[G.3.2] The audit showed the existence of 9 significant risks from non-financial areas of the Group's operations:

1. Risk of LUG intellectual property theft;
2. Risk of adverse changes in lighting regulations;
3. Risk of adverse changes to other regulations;
4. Risk of tightening the regulations regarding the circular economy;
5. Risk of losing key personnel (e.g. R&D);
6. Risk of insufficient competence of sales teams;
7. Risk of an accident at the production plant;
8. Risk of a shortage of employees;
9. Risk of wage pressure;

The above-mentioned significant non-financial risks have been described along with their management in individual chapters of the report.

9 Compliance tables

9.1 Table of compliance with the requirements of the Accounting Act

Requirement of the Accounting Act	Chapter number
Business model (Article 49b(2)(1))	3.2
Key non-financial performance indicators (Article 49b(2)(2))	4
Policies in non-financial areas and their results (Article 49b(2)(3)):	
- Policy in the environmental area	7
- Policy in the social area	5
- Policy in the field of human rights	3.6
- Policy in the area of counteracting corruption	5.5
- Employee policy	6; 6.1; 6.3
Due diligence procedures (Article 49b(2)(4))	3.8, 3.7
Significant non-financial risks and how to manage them (Article 49b(2)(5))	3.8, 5.7 6.4, 7.8

9.2 Table of compliance with the TCFD Recommendations

TCFD recommendations	Chapter number
Corporate governance	
Description of the management board and supervisory board supervision over the risks and opportunities related to climate change	3.5
Description of the role of the management board and supervisory board in identifying, assessing and managing risks and opportunities related to climate change	3.5
Strategy	
Description of the risks and opportunities related to climate change that the organisation has identified in the short, medium and long term	7.8
Description of the impact of risks and opportunities related to climate change on the business activity, strategy and finances of the organisation	7.8
Describe the resilience of the organisation's strategy to climate change under different scenarios, including a scenario involving an increase in average temperatures of 2 degrees Celsius or less	-
Risk management	
Description of the processes of identification and assessment of risks related to climate change	7.1
Description of the processes of managing risks related to climate change	7.1
Description of how to integrate the processes of identification, assessment and management of risks related to climate change in the overall risk management processes of the organisation	3.8/7.1
Indicators and objectives	
Description of indicators used by the organisation to assess the risks and opportunities related to climate change in line with the risk management strategy and processes	3.8/7.1
Disclosure of GHG emissions for Scopes 1, 2 and, if relevant, 3 and the associated risks	7.3

9.3 SIN compliance table

Indicator	Description	Chapter number	Notes
G: Management area			
G.1.	Description of the business model and strategic development directions		
G.1.1.	Description of the adopted development strategy, taking into account social and environmental aspects	3.2	
G.1.2.	Characteristics of the adopted business model, including the description of the supply chain, with particular emphasis on the description of social and environmental impact	3	
G.2.	Governance		
G.2.1.	Description of the management structure, including information on whether and how the approach to managing non-financial (social, environmental) aspects has been taken into account, what the risk management and internal audit system looks like,	3.5, 3.7	
G.2.2.	List of certified management systems (e.g. ISO 9001, ISO 14001, OHSAS 18001, etc.)	3.7	
G.2.3.	Description of the internal control system, indicating the monitoring of social and environmental aspects of the activities.	3.7	
G.3.	Social and environmental risk management		
G.3.1.	Description of the approach to risk management and its inclusion in social and environmental aspects	8.1	
G.3.2.	List of identified social or environmental risks with their brief description	8.4	
G.4.	Ethics management		
G.4.1.	Indication whether the organisation has a formal Code of Ethics or an equivalent document corresponding to the needs of the organisation.	3.6	
G.4.2.	Number of ethical audits performed at suppliers, number of audits completed with the identification of irregularities.	3.6	
G.4.3.	Number of ethical audits carried out in the organisation at the request of its recipients, number of audits completed with the identification of irregularities.	3.6	
G.4.4.	Number of suppliers that have signed a Charter of Ethics / a commitment to comply with the organisation's ethical standards.	3.6	
G.4.5.	Number of reported complaints of potential breaches of ethical standards (if possible broken down into reports from inside / outside the organisation).	3.6	
G.4.6.	Number of training courses in the ethical area, number of people participating in them.	6.2	
G.4.7.	Percentage (%) of contracts with contractors that include an ethics clause (in terms of value).	3.6	
G.4.8.	Integrating ethics into bank lending policy [applies to the financial sector].		- not applicable
E: Environmental area			
E.1.	Direct and indirect impact: resources and materials		
E.1.1.	Type and quantity (e.g. by weight, volume) of the resource/material used (possibly including those from renewable sources / recycled / certified for sustainable development).	7.4	
E.1.2.	Consumption of a key resource/material per unit of product or revenue (for individual categories of resources/materials)	7.4	
E.2.	Direct and indirect impact: fuels and energy		
E.2.1.	Total energy consumption in GJ by main energy sources	7.2	
E.2.2.	% of energy from renewable energy sources (RES) (hydro, biomass, wind, photovoltaic, geothermal)	7.2	
E.2.3.	Energy consumption per unit of product or revenue.	7.2	
E.3.	Direct and indirect impact: water		

E.3.1.	Total water consumption in m ³ (where appropriate, by source).	7.7	
E.3.2.	Recovered and reused water volume.	7.7	
E.3.3.	Water consumption per unit of product or revenue.	7.7	
E.4.	Direct and indirect impact: biodiversity		
E.4.1.	List and short description of valuable natural areas in the vicinity / sphere of influence of the enterprise (indicating the nature of the enterprise's influence on these areas and habitats of valuable flora and fauna)	7.7	
E.4.2.	Indication of the type and frequency of environmental monitoring conducted.	7.7	
E.4.3.	Description of any confirmed environmental losses resulting from the company's operations.	7.7	
E.4.4.	Description of possible measures to monitor the state of the environment and prevent/limit/compensate the natural environment for the negative effects of the company's impact	7.7	
E.5.	Direct and indirect impact: emissions to the atmosphere		
E.5.1.	Mass of greenhouse gases emitted to the atmosphere	7.3	
E.5.2.	Mass of other substances emitted to the atmosphere, by type (e.g. SO _x , NO _x , PM ₁₀ , PM _{2.5})	-	
E.5.3.	Greenhouse gas emissions per unit of product or revenue.	7.3	
E.5.4.	Emissions of other substances per unit of product or revenue	7.3	
E.6.	Direct and indirect impact: waste and sewage		
E.6.1.	Total mass of waste broken down by hazardous and non-hazardous, specifying the relevant categories thereof.	7.5	
E.6.2.	Total weight of waste, broken down by management method.	7.5	
E.6.3.	Total volume of discharged sewage with an indication of the breakdown by treatment method.	7.5	
E.6.4.	Emission of waste per unit of product or revenue.	7.5	
E.6.5.	Emission of waste water per unit of product or revenue	7.7	
E.7.	Other aspects of direct and indirect environmental impact		
E.7.1.	Description of other significant types of environmental pollutants emitted by the company's operations (including measurable measures, if possible).	-	do not occur
E.7.2.	List of accidents with environmental effects and possible contamination that occurred during the reporting period (with a description of their nature).	7.7	
E.7.3.	List of potential violations of environmental protection regulations in relation to which administrative proceedings have been initiated.	7.7	
E.7.4.	Total amount of final and binding penalties imposed for breach of environmental protection regulations.	7.7	
E.7.5.	Percentage (%) of contracts with contractors in which a clause relating to respect for the natural environment (in terms of value) was included.	-	do not occur
E.7.6.	Number of audits of subcontractors in terms of compliance with environmental protection regulations.	-	do not occur
E.8.	Extended environmental responsibility: products and services		
E.8.1.	Including environmental protection in the credit/loan and investment policy [applies to the financial sector].	-	not applicable
E.8.2.	Revenue from products or services developed with respect to environmental criteria as % of total revenue. [applies to sectors: industry; services].	7.2	
E.8.3.	Value of loans granted with earlier environmental risk assessment / value of insurance portfolio with earlier environmental risk assessment [applies to sector: finance].	-	not applicable
S: Social and employee area			
S.1.	Use of public aid and public procurement		
S.1.1.	Value of public aid obtained from the state (financial support and grant equivalents).	5.6	
S.1.2.	Value of revenue from public procurement and % share in total revenue.	-	unreported indicator due to the dynamic internationalisation of the

			LUG Group associated with an increase in the share of foreign revenue, which causes a decrease in the share of domestic revenue and, as a result, a relative reduction in the importance of revenue from public procurement
S.2.	Employment and wages		
S.2.1.	Number of full-time employees by type of employment contract (by age and gender) at the end of the reporting period.	6.1	
S.2.2.	Number of newly hired employees by type of employment contract (by age and gender).	6.1	
S.2.3.	Number of full-time employees who left their jobs in the reporting period (by age and gender).	6.1	
S.2.4.	Number of people employed under civil law contracts by type of employment contract (by age and gender) at the end of the reporting period, number of civil law contracts concluded with natural persons in the reporting period, number of completed civil law contracts with natural persons in the reporting period.	6.1	
S.2.5.	Number of employees employed in outsourcing.	6.1	
S.2.6.	Number of disabled workers and their % share in total employment.	6.1	
S.2.7.	Average salary of employees working under employment contracts.	6.1	
S.2.8.	Number and average remuneration of foreigners working for the enterprise and under its supervision (regardless of whether they are own employees or third parties to whom work is commissioned), coming from countries in a worse economic situation than Poland or countries where human rights violations are likely to occur by the country of origin.	-	do not occur
S.2.9.	Ratio of the average gross salary of women to the average gross salary of men by grade / group (e.g. directors, managers, other employees).	6.1	
S.2.10.	Ratio of the average remuneration of management board members to the lowest salary in the enterprise (full-time equivalent).	6.1	
S.2.11.	Average remuneration of persons cooperating on the basis of civil-law contracts and providing services on the premises of the company.	6.1	
S.2.12.	Average remuneration of employees working in outsourcing and working on the company's premises.	-	indicator unreported due to differences in remuneration conditions depending on economic conditions in different locations
S.2.13.	The total amount of annual contributions to the State Fund for Rehabilitation of People with Disabilities.	-	did not occur
S.2.14.	Percentage of women who, after giving birth to a child and returning to work, resigned from work within 12 months of returning to work.	-	
S.2.15.	Information on additional non-wage benefits available to employees (e.g. additional insurance, medical packages, employee pension programme, employee shareholding, cards authorising the use of sports facilities, housing loans).	6.2	
S.3.	Relationship with employees and freedom of association		
S.3.1.	Total number of trade unions operating in the company (representative and other)	6	
S.3.2.	Percentage (%) of employees belonging to trade unions (so-called unionisation rate).	6	
S.3.3.	The number of strikes in the last year and the estimated impact on the company's results associated with it (if there have been strikes, please describe their cause, form, duration and arrangements made).	6	

S.3.4.	Information on whether the facility has a hot-line procedure for reporting complaints and irregularities and on what basis (e.g. an appropriate policy). If so, what is the number of complaints related to the area of employment practices that have been reported, investigated and resolved (how many complaints were reported and how many were resolved during this period).	3.6	
S.3.5.	Information on whether a workers' council has been established in the workplace – and in the case of representatives other than a workers' council and trade unions, whether such workers' representatives have been appointed by means of elections in which all workers could participate.	6	
S.3.6.	Information on whether, and if so, how and with what results, the company conducts a documented dialogue in the form of regular, formalised meetings to discuss mutual expectations, the nature of the most frequently raised issues and how the company's authorities respond to them	3.6	
S.4.	Occupational health and safety (OHS)		
S.4.1.	Number of accidents at work among employees / among employees of subcontractors working on site.	6.3	
S.4.2.	Accident frequency rate (accidents at work per 1,000 employees).	6.3	
S.4.3.	Number of fatalities among employees / employees of subcontractors working on site.	6.3	
S.4.4.	Total number of days of incapacity for work among employees due to accidents.	6.3	
S.4.5.	Accident severity rate (number of days of incapacity/1 accident).	6.3	
S.4.6.	Number of confirmed cases of occupational diseases.	6.3	
S.4.7.	Number of workers working under conditions exceeding the threshold limit value (TLV) or permissible exposure limit (PEL)	6.3	
S.4.8.	List of the most common causes of accidents at work, categories of work / activities performed by the injured person at the time of the accident, types of injuries.	6.3	
S.4.9.	Description of the degree of involvement of trade unions (if they exist) in the OHS area (e.g. whether a Social Labour Inspector has been appointed, how they control compliance with OHS regulations).	6.3	
S.4.10.	Percentage (%) of contracts with contractors that include an OHS clause (in terms of value).	6.3	
S.4.11.	Number of audits of subcontractors for compliance with health and safety rules.	6.3	
S.5.	Development and education		
S.5.1.	Average number of training hours (or training days) per employee (by gender and employee category) – refers to training organised by the employer.	6.2	
S.5.2.	Number of employees improving their professional qualifications, who are entitled to specific rights in this respect in relation to the employer (e.g. training leaves), with an indication of the number of employees co-financed or financed by the employer to improve professional qualifications	6.2	
S.6.	Diversity management		
S.6.1.	Information whether the employer has implemented an anti-mobbing and anti-discrimination policy.	3.6	
S.6.2.	Number of reported cases of discrimination, mobbing, sexual harassment, etc.	3.6	
S.6.3.	Number of confirmed cases of discrimination, mobbing, sexual harassment, etc.	3.6	
S.6.4.	Number of anti-discrimination audits of subcontractors.	-	do not occur
S.7.	Human rights		
S.7.1.	Number of reported human rights violations, including at subcontractors.	3.6	

S.7.2.	Number of confirmed human rights violations, including at subcontractors.	3.6	
S.7.3.	Percentage (%) of contracts with contractors that include a human rights clause (in terms of value).	3.6	
S.7.4.	Number of human rights audits of subcontractors.	3.6	
S.7.5.	Integrating human rights into bank lending policy [applies to the financial sector].		- not applicable
S.7.6.	Description of threats to human rights and human rights violations outside the supply chain (e.g. use of products or services provided by a company by persons or entities in a way that threatens to violate the human rights of others).		- not applicable
S.8.	Child labour and forced labour		
S.8.1.	Number of reported cases of child labour or forced labour (including at subcontractors).	3.6	
S.8.2.	Number of confirmed cases of child labour or forced labour (including at subcontractors).	3.6	
S.8.3.	Percentage (%) of contracts with contractors that include a clause relating to human rights, including the prohibition of child labour or forced labour (in terms of value).	3.6	
S.8.4.	Number of human rights audits of subcontractors on the prevention of child labour and forced labour.	3.6	
S.9.	Local communities and social engagement		
S.9.1.	Description of any nuisances that may be experienced by the local community in connection with the company's operating activities	5.4	
S.9.2.	Number of complaints submitted by the local community, their subject matter and the actions of the company in response to them.	5.4	
S.9.3.	Description of the company's policy and directions of social involvement and implemented pro-social activities, including those for the local community in which the activity is conducted.	5.4	
S.9.4.	Total amount of donations for social causes in the reporting period (with the largest recipients indicated).	5.4	
S.9.5.	Total amount spent on sponsorship (indicating the largest sponsored partners).	5.4	
S.9.6.	Total number of hours worked by volunteer workers and number of volunteers under a volunteering programme (if any)	5.4	
S.10.	Preventing corruption		
S.10.1.	Business areas potentially exposed to corrupt behaviour.	5.5	
S.10.2.	Number of reported cases of corrupt behaviour.	5.5	
S.10.3.	Number of confirmed cases of corruption.	5.5	
S.11.	Product and consumer safety		
S.11.1.	Number of cases of violations of procedures regarding the safety of products and services.	5.1	
S.11.2.	Administrative proceedings against the company (e.g. by the Office of Competition and Consumer Protection) and the financial value of penalties for non-compliance with law and regulations in matters related to customer safety.	5.1	
S.12.	Marketing communication		
S.12.1.	Number of cases of non-compliance with regulations and voluntary codes concerning marketing communication (including advertising, promotion, sponsorship).	5.1	
S.12.2.	Administrative proceedings conducted against the company by the Office of Competition and Consumer Protection and the financial value of penalties for non-compliance with the law and regulations in relation to the integrity and ethics of marketing communication.	5.1	
S.13.	Privacy protection		
S.13.1.	Number of events related to leakage or unauthorised use of personal data (customers, employees).	5.6	
S.13.2.	Administrative proceedings against the company (e.g. by the Inspector General for the Protection of Personal Data) and the financial value of penalties for non-compliance	5.6	

	with the law and regulations in matters related to the protection of personal data.		
S.14.	Product labelling		
S.14.1.	Number of incidents of non-compliance related to improper product labelling.	5.1	
S.14.2.	Administrative proceedings against the company, e.g. by the Office of Competition and Consumer Protection, and the financial value of penalties related to improper product labelling.	5.1	
S.15.	Other social and market issues		
S.15.1.	Actual liability rotation period.	5.6	
S.15.2.	Actual receivable rotation period.	5.6	
S.15.3.	The period of payment of liabilities is normally recorded in contracts with suppliers.	5.6	
S.15.4.	Percentage (%) of liabilities paid on the contractual date (in terms of value).	5.6	
S.15.5.	Administrative proceedings conducted against the company by the Office for Competition and Consumer Protection and the financial value of penalties related to anti-competitive and anti-market behaviour.	5.6	

10 Approval for publication

This report on the non-financial information of the LUG S.A. Capital Group for 2019 was approved by the LUG S.A. Management Board.

.....
Ryszard Wtorkowski
President of the Management Board

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Mariusz Ejsmont
Vice President of the Management Board

.....
Małgorzata Konys
Member of the Management Board

Zielona Góra, 25 June 2020.

Appendix 1: Data on employees

Employees working under employment contracts (jointly for an indefinite and definite period of time) [S.2.1]

full-time equivalent	2018			2019			change YOY		
	F	M	F+M	F	M	F+M	F	M	F+M
Senior management, including:	7	16	23	7	19	26	0.0%	18.8%	13.0%
over 50 years of age	0	4	4	0	4	4	-	0.0%	0.0%
40-50 years of age	3	1	4	4	4	8	33.3%	300.0%	100.0%
30-40 years of age	4	4	8	3	10	13	-25.0%	150.0%	62.5%
below 30 years of age	0	7	7	0	1	1	-	-85.7%	-85.7%
Managers, including:	7	24	31	5	32	37	-28.6%	33.3%	19.4%
over 50 years of age	0	3	3	0	3	3	-	0.0%	0.0%
40-50 years of age	1	7	8	1	7	8	0.0%	0.0%	0.0%
30-40 years of age	6	13	19	4	19	23	-33.3%	46.2%	21.1%
below 30 years of age	0	1	1	0	3	3	-	200.0%	200.0%
Other employees, including:	228	340	568	215	300	515	-5.7%	-11.8%	-9.3%
over 50 years of age	42	38	80	37	35	72	-11.9%	-7.9%	-10.0%
40-50 years of age	63	54	117	60	45	105	-4.8%	-16.7%	-10.3%
30-40 years of age	85	152	237	79	139	218	-7.1%	-8.6%	-8.0%
below 30 years of age	38	96	134	39	81	120	2.6%	-15.6%	-10.4%
Employees at all levels of the structure									
over 50 years of age	42	42	84	37	42	79	-11.9%	0.0%	-6.0%
40-50 years of age	67	62	129	65	56	121	-3.0%	-9.7%	-6.2%
30-40 years of age	93	167	260	86	168	254	-7.5%	0.6%	-2.3%
below 30 years of age	38	104	142	39	85	124	2.6%	-18.3%	-12.7%
Total for all levels of the structure	242	380	622	227	351	578	-6.2%	-7.6%	-7.1%

Employees working under employment contracts for an indefinite period of time [S.2.1]

full-time equivalent	2018			2019			change YOY		
	F	M	F+M	F	M	F+M	F	M	F+M
Senior management, including:	7	15	22	6	18	24	-14.3%	20.0%	9.1%
over 50 years of age	0	4	4	0	3	3	-	-25.0%	-25.0%
40-50 years of age	3	1	4	3	4	7	0.0%	300.0%	75.0%
30-40 years of age	4	4	8	3	10	13	-25.0%	150.0%	62.5%
below 30 years of age	0	6	6	0	1	1	-	-83.3%	-83.3%
Managers, including:	7	24	31	5	31	36	-28.6%	29.2%	16.1%
over 50 years of age	0	3	3	0	2	2	-	-33.3%	-33.3%
40-50 years of age	1	7	8	1	7	8	0.0%	0.0%	0.0%
30-40 years of age	6	13	19	4	19	23	-33.3%	46.2%	21.1%
below 30 years of age	0	1	1	0	3	3	-	200.0%	200.0%
Other employees, including:	167	228	395	163	214	377	-2.4%	-6.1%	-4.6%
over 50 years of age	37	24	61	32	28	60	-13.5%	16.7%	-1.6%
40-50 years of age	46	37	83	51	34	85	10.9%	-8.1%	2.4%
30-40 years of age	55	100	155	62	106	168	12.7%	6.0%	8.4%
below 30 years of age	29	67	96	18	46	64	-37.9%	-31.3%	-33.3%
Employees at all levels of the structure									
over 50 years of age	37	28	65	32	33	65	-13.5%	17.9%	0.0%
40-50 years of age	50	45	95	55	45	100	10.0%	0.0%	5.3%
30-40 years of age	63	115	178	69	135	204	9.5%	17.4%	14.6%
below 30 years of age	29	74	103	18	50	68	-37.9%	-32.4%	-34.0%
Total for all levels of the structure	181	267	448	174	263	437	-3.9%	-1.5%	-2.5%

Employees working under employment contracts for a fixed period of time [S.2.1]

full-time equivalent	2018			2019			change YOY		
	F	M	F+M	F	M	F+M	F	M	F+M
Senior management, including:	0	1	1	1	1	2	-	0.0%	100.0%
over 50 years of age	0	0	0	0	1	1	-	-	-
40-50 years of age	0	0	0	1	0	1	-	-	-
30-40 years of age	0	0	0	0	0	0	-	-	-
below 30 years of age	0	1	1	0	0	0	-	-100.0%	-100.0%
Managers, including:	0	0	0	0	1	1	-	-	-
over 50 years of age	0	0	0	0	1	1	-	-	-
40-50 years of age	0	0	0	0	0	0	-	-	-
30-40 years of age	0	0	0	0	0	0	-	-	-
below 30 years of age	0	0	0	0	0	0	-	-	-
Other employees, including:	61	112	173	52	86	138	-14.8%	-23.2%	-20.2%
over 50 years of age	5	14	19	5	7	12	0.0%	-50.0%	-36.8%
40-50 years of age	17	17	34	9	11	20	-47.1%	-35.3%	-41.2%
30-40 years of age	30	52	82	17	33	50	-43.3%	-36.5%	-39.0%
below 30 years of age	9	29	38	21	35	56	133.3%	20.7%	47.4%
Employees at all levels of the structure									
over 50 years of age	5	14	19	5	9	14	0.0%	-35.7%	-26.3%
40-50 years of age	17	17	34	10	11	21	-41.2%	-35.3%	-38.2%
30-40 years of age	30	52	82	17	33	50	-43.3%	-36.5%	-39.0%
below 30 years of age	9	30	39	21	35	56	133.3%	16.7%	43.6%
Total for all levels of the structure	61	113	174	53	88	141	-13.1%	-22.1%	-19.0%

Employees employed in particular locations

full-time equivalent	for an indefinite period of time			for a fixed period of time			total		
	F	M	F+M	F	M	F+M	F	M	F+M
Senior management, including:	6	19	25	1	0	1	7	19	26
ul. Gorzowska 11	4	9	13	1	0	1	5	9	14
Nowy Kisielin	1	2	3	0	0	0	1	2	3
other locations	1	8	9	0	0	0	1	8	9
Managers, including:	5	31	36	0	1	1	5	32	37
ul. Gorzowska 11	3	20	23	0	1	1	3	21	24
Nowy Kisielin	0	7	7	0	0	0	0	7	7
other locations	2	4	6	0	0	0	2	4	6
Other employees, including:	163	214	377	52	86	138	215	300	515
ul. Gorzowska 11	136	117	253	40	40	80	176	157	333
Nowy Kisielin	22	54	76	8	28	36	30	82	112
other locations	5	43	48	4	18	22	9	61	70
Employees at all levels of the structure									
ul. Gorzowska 11	143	146	289	41	41	82	184	187	371
Nowy Kisielin	23	63	86	8	28	36	31	91	122
other locations	8	55	63	4	18	22	12	73	85
Total for all levels of the structure	174	264	438	53	87	140	227	351	578

Newly employed employees on employment contracts in 2019 [S.2.2]

full-time equivalent	for an indefinite period of time			for a fixed period of time			total		
	F	M	F+M	F	M	F+M	F	M	F+M
Senior management, including:	0	1	1	0	0	0	0	1	1
over 50 years of age	0	1	1	0	0	0	0	1	1
40-50 years of age	0	0	0	0	0	0	0	0	0
30-40 years of age	0	0	0	0	0	0	0	0	0
below 30 years of age	0	0	0	0	0	0	0	0	0
Managers, including:	1	0	1	0	0	0	1	0	1
over 50 years of age	0	0	0	0	0	0	0	0	0
40-50 years of age	0	0	0	0	0	0	0	0	0
30-40 years of age	1	0	1	0	0	0	1	0	1
below 30 years of age	0	0	0	0	0	0	0	0	0
Other employees, including:	3	17	20	16	20	36	19	37	56
over 50 years of age	0	2	2	2	2	4	2	4	6
40-50 years of age	0	2	2	3	3	6	3	5	8
30-40 years of age	3	9	12	4	6	10	7	15	22
below 30 years of age	0	4	4	7	9	16	7	13	20
Employees at all levels of the structure									
over 50 years of age	0	3	3	2	2	4	2	5	7
40-50 years of age	0	2	2	3	3	6	3	5	8
30-40 years of age	4	9	13	4	6	10	8	15	23
below 30 years of age	0	4	4	7	9	16	7	13	20
Total for all levels of the structure	4	18	22	16	20	36	20	38	58

Employees who left their jobs in 2019 [S.2.3]

full-time equivalent	for an indefinite period of time			for a fixed period of time			total		
	F	M	F+M	F	M	F+M	F	M	F+M
Senior management, including:	1	2	3	0	0	0	1	2	3
over 50 years of age	0	0	0	0	0	0	0	0	0
40-50 years of age	1	2	3	0	0	0	1	2	3
30-40 years of age	0	0	0	0	0	0	0	0	0
below 30 years of age	0	0	0	0	0	0	0	0	0
Managers, including:	1	0	1	0	0	0	1	0	1
over 50 years of age	0	0	0	0	0	0	0	0	0
40-50 years of age	0	0	0	0	0	0	0	0	0
30-40 years of age	1	0	1	0	0	0	1	0	1
below 30 years of age	0	0	0	0	0	0	0	0	0
Other employees, including:	11	36	47	25	37	62	36	73	109
over 50 years of age	5	4	9	0	2	2	5	6	11
40-50 years of age	0	4	4	6	4	10	6	8	14
30-40 years of age	6	15	21	11	8	19	17	23	40
below 30 years of age	0	13	13	8	23	31	8	36	44
Employees at all levels of the structure									
over 50 years of age	5	4	9	0	2	2	5	6	11
40-50 years of age	1	6	7	6	4	10	7	10	17
30-40 years of age	7	15	22	11	8	19	18	23	41
below 30 years of age	0	13	13	8	23	31	8	36	44
Total for all levels of the structure	13	38	51	25	37	62	38	75	113

Persons employed under civil law contracts [S.2.4]

	2018			2019			change YOY		
	F	M	F+M	F	M	F+M	F	M	F+M
Number of people employed under civil law contracts	2	18	20	5	24	29	150.0%	33.3%	45.0%

People employed in outsourcing (annual average) [S.2.5]

	2018			2019			change YOY		
	F	M	F+M	F	M	F+M	F	M	F+M
Number of people employed in outsourcing	15	23	38	13	19	32	-13.3%	-17.4%	-15.8%

Employees with disabilities [S.2.6]

	2018			2019			change YOY		
	F	M	F+M	F	M	F+M	F	M	F+M
Number of employees with disabilities	22	21	43	20	22	42	-9.1%	4.8%	-2.3%

Women who, after giving birth to a child and returning to work, resigned from work within 12 months of returning to work

	2018	2019	change YOY
Percentage of women who, after giving birth to a child and returning to work, resigned from work within 12 months of returning to work	40.0%	20.0%	- 20pp

Appendix 2: Environmental data

Emissions of other substances to the atmosphere by type [E.5.2] [E.5.4]

	Unit	2018	2019	change YOY
Data reliability indicator	%	100.0%	100.0%	
SOx	Mg	0.02	0.02	8.1%
<i>SOx per product unit</i>	<i>g/unit</i>	<i>0.04</i>	<i>0.06</i>	<i>29.2%</i>
<i>SOx per PLN 1 million in revenue</i>	<i>kg/1 mln PLN</i>	<i>0.13</i>	<i>0.15</i>	<i>8.2%</i>
NOx	Mg	0.50	0.54	8.0%
<i>NOx per product unit</i>	<i>g/unit</i>	<i>0.97</i>	<i>1.26</i>	<i>29.1%</i>
<i>NOx per PLN 1 million in revenue</i>	<i>kg/1 mln PLN</i>	<i>2.94</i>	<i>3.17</i>	<i>8.1%</i>



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