



Consolidated and separate
Annual report
of the LUG S.A. Capital Group



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Attachment 1 - Consolidated financial statements of the LUG S.A. Capital Group for 2022

Attachment 2 - Separate financial statements of LUG S.A. for 2022

Attachment 3 - Report of the independent auditor on the audit of the consolidated financial statements

Attachment 4 - Report of the independent auditor on the audit of the separate financial statements

LUG[®]
2022

Letter from the President of the Management Board



*Dear Sir or Madam,
Dear Shareholders,*

I would hereby like to present you with the Annual Report of the LUG S.A. Capital Group for 2022.

The last twelve months have been another period of considerable challenges for the global economy, but also for domestic companies. They are the result of an even more challenging macroeconomic and political environment than during the pandemic period. With the outbreak of war in Ukraine and rising commodity and energy prices, we have entered a reality that requires a new approach to doing business. The global macro-environment is subject to processes of high volatility, which translates into uncertainty and unpredictability, and high inflation in Poland has pushed up interest rates and reduced industrial and construction activity. All these factors have put pressure on the lighting industry, which – in the case of our company – was countered by high demand for energy-efficient solutions, stimulated by high electricity prices.

In the day-to-day operations of the LUG S.A. Capital Group, we have focused on responsible risk management and reducing operating costs. Hence, against the odds, we have developed satisfactory financial and operating results. The revenue of the LUG S.A. Capital Group amounted to PLN 239.97 million. This is nearly 17.7% year-on-year growth. The Group's EBITDA amounted to over PLN 19 million (+31% YOY). At the same time, sales of luminaires amounted to 481,000 units, and LUG's R&D team achieved a world record level of street luminaire efficiency of over 190 lm/W. Gross margin on sales on a year-to-date basis for the twelve months of last year, stood at 36.7%.

Good financial results and dynamic development in the area of innovation, among other things, are the result of the fulfilment of the 2017-2022 strategy, in which the main focus was on average annual growth of 10% CAGR, development of a 40% margin and expansion into foreign markets. Despite the difficult political and economic conditions, LUG met the selected targets. We achieved revenue growth of nearly 17% CAGR. We developed a gross sales margin that reached or even exceeded 40% during the strategic period, eventually reaching 36.7% by the end of 2022. In line with its strategic aspirations, LUG also significantly increased the share of large projects in its sales structure.

A positive signal coming from the market for our industry is the search for energy-saving solutions, and thus an increase in investment activity related to the modernization of lighting systems that reduce electricity consumption. Even today, our company LUG Light Factory can boast of winning another tender announced by the City of Warsaw for the replacement of 35.3 thousand street lighting fixtures with a total value of PLN 39.44 million. I hope that this project will be our ticket to more Polish and European cities. The success pleases us all the more because in this project we beat the world leaders in street lighting in terms of quality and technical parameters.

The environment around us is changing at an above-average pace, characteristic of the VUCA reality. Therefore, we have redefined the needs of our customers, setting paths for the company's development. We have created a strategy for 2023-2026, which shows that we understand the needs of the changing world and are able to respond to them. Its goal is to strengthen LUG's position through innovation, comprehensive offerings in a service model and energy efficiency of our lighting solutions. The LUG Group's new strategy maintains the elements that are the pillars of its development, such as innovation and a continued strong presence in international markets, but there are also new goals and initiatives for transformation from a supplier model to a service model. An absolute pillar of LUG's strategy will be development based on SMART technologies in the product, technology and manufacturing areas.

On behalf of the entire Management Board, I would like to thank the LUG Team for its contribution to the development of our capital group and its readiness to meet the challenges posed to us by the market environment in recent months. To our Partners and Shareholders, I thank you for your trust and unwavering support.

I invite you to read the 2022 Annual Report and learn more about our business in detail.

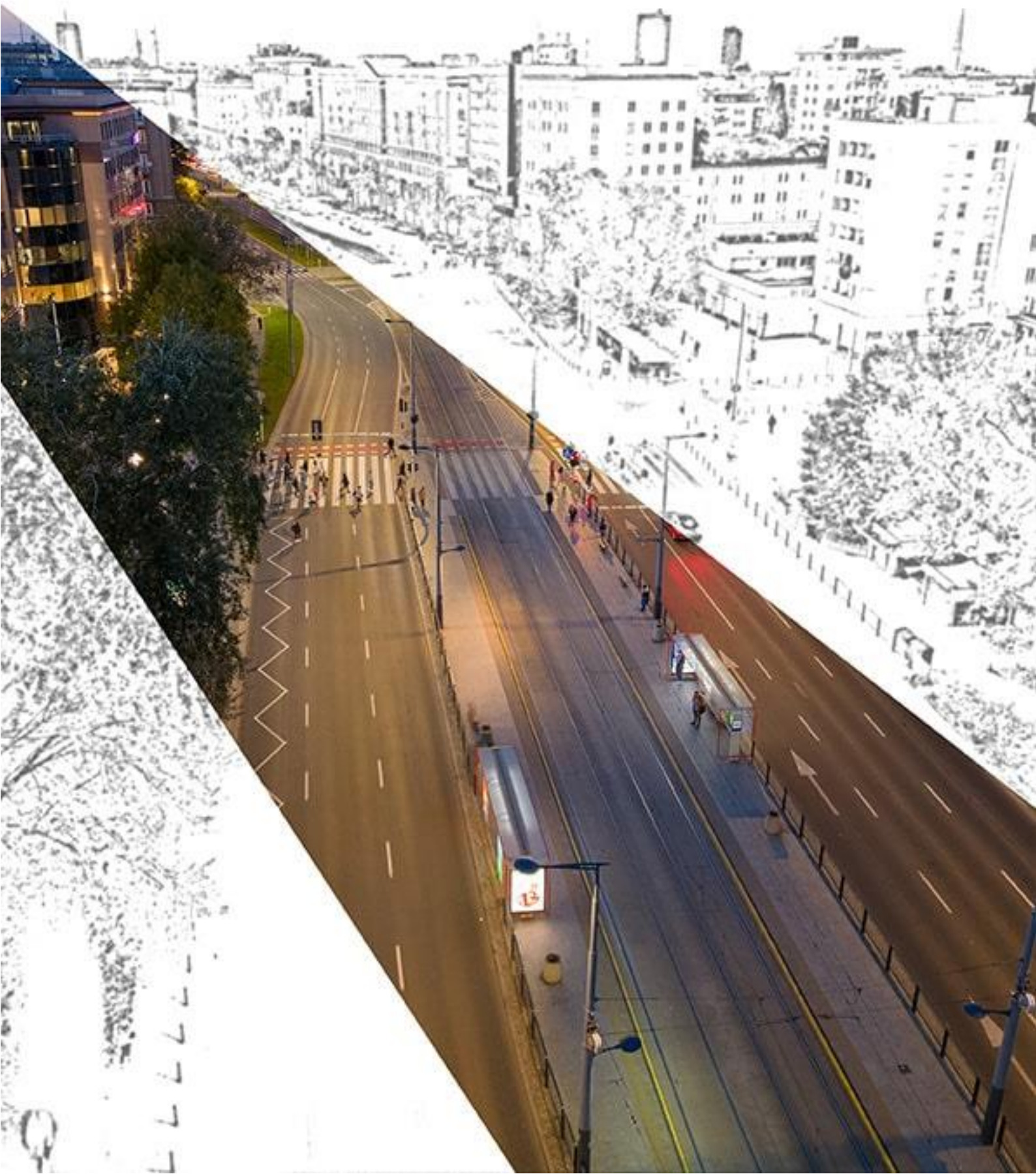
Yours sincerely,

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



LUG S.A. Capital Group's Financial information

for the period 01/01/2022 – 31/12/2022



1. Introduction

Selected financial information containing key figures (in PLN and converted to EUR) summarizing the financial position of the LUG S.A. Capital Group for the period 01/01/2022 - 31/12/2022 are presented in Table 2, Table 3, Table 4 and Table 5.

Balance sheet items were translated at the average euro exchange rate announced by the National Bank of Poland, effective as of the balance sheet date.

The income statement items were translated at the average euro exchange rate, which is the arithmetic mean of the average EUR exchange rates announced by the National Bank of Poland and in effect on the last day of each completed month of the four quarters of the year.

Table 1. EUR/PLN exchange rates used

	EUR exchange rate as of the balance sheet date (31/12)	Average EUR exchange rate in the period from 01/01 to 31/12.
2021	4.5994	4.5775
2022	4.6899	4.6883

Source: National Bank of Poland

Presentation changes have been made to the Consolidated Financial Statements of the LUG S.A. Capital Group for 2022. Explanations of the aforementioned changes can be found in the statement of comprehensive income and the statement of financial position starting on page 4 of the Consolidated Financial Statements of the LUG S.A. Capital Group for 2022.

2. Selected data from the balance sheet and income statement

Table 2. Selected consolidated financial data of the LUG S.A. Capital Group for 2022 and comparable data for 2021 [PLN million].

	2022 PLN million	2021 PLN million	2022 EUR million	2021 EUR million	Growth YOY [%]
Sales revenues	239.97	203.92	51.18	44.55	117.68
Depreciation	11.33	10.25	2.42	2.24	110.62
Gross profit (loss) from sales	87.96	77.57	18.76	16.95	113.39
Net profit (loss) from sales	5.24	2.21	1.12	0.48	237.10
Profit (loss) from operations	8.45	4.35	1.80	0.95	194.25
Profit from business activities	3.46	1.50	0.74	0.33	230.67
EBITDA	19.78	14.60	4.22	3.19	135.48
Gross profit (loss)	3.46	1.50	0.74	0.33	230.67
Net profit (loss) due to shareholders of the parent company	3.09	4.41	0.66	0.96	70.07
	31/12/2022 PLN million	31/12/2021 PLN million	31/12/2022 EUR million	31/12/2021 EUR million	Growth YOY [%]
Total assets, including:	201.40	205.31	42.94	44.64	98.10
Fixed assets	83.46	80.74	17.80	17.55	103.37
Current assets	117.94	124.57	25.15	27.08	94.68
Provisions	59.27	64.53	12.64	14.03	91.85
Cash and cash equivalents	6.52	8.11	1.39	1.76	80.39
Total receivables, including:	50.15	49.34	10.69	10.73	101.62
Short-term receivables	50.11	49.31	10.68	10.72	101.62
Long-term receivables	0.04	0.03	0.01	0.01	133.33
Liabilities and provisions for liabilities, including:	138.78	145.53	29.59	31.64	95.36
Long-term liabilities and provisions	14.57	12.84	3.11	2.79	113.47
Short-term liabilities and provisions	124.21	132.69	26.48	28.85	93.61
Equity, including:	62.62	59.78	13.35	13.00	104.75
Share capital	1.80	1.80	0.38	0.39	100.00

Source: Issuer

3. Cash flow

Table 3. Consolidated cash flows of the LUG S.A. Capital Group in IAS/IFRS for 2022 and comparable data for 2021 [PLN million].

	2022 PLN million	2021 PLN million
Net cash flows from operating activities	19.81	5.30
Net cash flow from investment activities	-13.66	-17.44
Net cash flow from financial activities	-7.66	14.24
Net cash flow	-1.53	2.10

Source: Issuer

4. Ratio analysis

Table 4. Selected consolidated financial ratios of the LUG S.A. Capital Group for 2022 and comparable ratios for 2021 [% , pp].

	2022	2021	change YOY
Gross profitability on sales	36.7%	38.0%	-1.3 pp
EBITDA profitability	8.2%	7.2%	+1.0 pp
Operating profitability	3.5%	2.1%	+1.4 pp
Net profitability	1.3%	2.2%	-0.9 pp
Return on equity (ROE)	4.9%	7.4%	-2.5 pp
Return on assets (ROA)	1.5%	2.1%	-0.6 pp
Total liquidity ratio	95.0%	93.9%	+1.1 pp
Total debt ratio	68.9%	70.9%	-2.0 pp
Net debt/EBITDA	3.42	4.59	-1.17
EV/EBITDA (end of period)	5.57	7.98	-2.41

Source: Issuer

Explanation of the ratios:

Gross profitability on sales

Formula: gross result on sales/sales revenues

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

EBITDA profitability

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

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

Operating profitability

Formula: result on operating activity/sales revenues

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

Net profitability

Formula: net result/sales revenues

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

Return on equity (ROE)

Formula: Net result / Equity, where: Shareholders' equity = Total assets - Liabilities (short and long-term)

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

Return on assets (ROA)

Formula: Net income / total assets

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

Total liquidity ratio

Formula: current assets/short-term liabilities

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

Total debt ratio

Formula: total liabilities/total assets

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

Net debt/EBITDA

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

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

EV/EBITDA

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

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

5. Characteristics of the structure of assets and liabilities

Table 5. Structure of assets and liabilities of the LUG S.A. Capital Group in 2022 and comparable data for 2021

Balance sheet	Balance sheet as at 31/12/2022 [PLN million]	Structure [%]	Balance sheet as at 31/12/2021 [PLN million]	Structure [%]	YOY growth
ASSETS					
Fixed assets	83.46	41.44%	80.74	39.33%	103.37
Tangible fixed assets	51.48	25.56%	51.06	24.87%	100.82
Intangible assets	25.38	12.60%	23.15	11.28%	109.63
Long-term investments	1.26	0.63%	0.71	0.35%	177.46
Investments in associates and joint ventures	0.00	0.00%	0.00	0.00%	-
Deferred tax assets	5.30	2.63%	5.79	2.82%	91.54
Long-term receivables	0.04	0.02%	0.03	0.01%	133.33
Current assets	117.94	58.56%	124.57	60.67%	94.68
Provisions	59.27	29.43%	64.53	31.43%	91.85
Trade receivables	47.57	23.62%	45.70	22.26%	104.09
Receivables from taxes, duties, insurance and other benefits	0.31	0.15%	0.71	0.34%	43.66
Other receivables	2.23	1.11%	3.06	1.41%	72.88
Other financial assets	1.02	0.51%	0.21	0.10%	485.71
Accruals and prepayments	1.01	0.50%	2.25	1.10%	44.89
Cash and cash equivalents	6.53	3.24%	8.11	3.95%	80.52
TOTAL ASSETS	201.40	100.00%	205.32	100.00%	98.10
LIABILITIES					
Equity	62.62	31.09%	59.78	29.13%	104.71
Share capital	1.80	0.89%	1.80	0.88%	100.00
Share premium reserve	23.82	11.83%	23.82	11.60%	100.00
Other capital	24.80	12.31%	20.57	10.02%	120.56

Exchange rate differences on consolidation	-1.59	-0.79%	-0.40	-0.19%	397.50
Retained earnings from previous years	11.44	5.68%	10.49	5.11%	109.06
Capital of non-controlling shareholders	-0.73	-0.36%	-0.91	-0.44%	80.22
Financial result for the current period	3.09	1.53%	4.44	2.16%	69.59
Long-term liabilities	14.57	7.23%	12.84	6.25%	113.48
Liabilities on account of credits, loans	6.27	3.11%	5.98	2.91%	104.85
Other financial liabilities	2.34	1.16%	1.70	0.83%	137.65
Provisions for deferred income tax	0.15	0.07%	0.09	0.04%	166.67
Provisions for employee benefits	0.37	0.18%	0.39	0.19%	94.87
Accruals and deferred income	2.73	1.36%	2.68	1.31%	101.87
Other provisions	2.70	1.34%	1.99	0.97%	135.68
Short-term liabilities	124.23	61.68%	132.68	64.62%	93.63
Liabilities on account of credits, loans	51.05	25.35%	52.62	25.63%	97.02
Accruals and deferred income	0.59	0.29%	0.43	0.21%	137.21
Current income tax liabilities	0.01	0.00%	0.10	0.05%	10.00
Other liabilities (including financial liabilities)	64.92	32.23%	70.05	34.12%	92.68
Provisions for employee benefits	3.65	1.81%	4.43	2.16%	82.39
Other provisions	4.01	1.99%	5.05	2.46%	79.41
TOTAL LIABILITIES	201.40	100.00%	205.32	100.00%	98.10

Source: Issuer

The balance sheet of the LUG S.A. Capital Group in 2022 closed at PLN 201.40 million, which is 1.9% higher compared to last year. Current assets accounted for the majority of the Group's assets (58.56% year-on-year), while fixed assets accounted for the remaining 41.44% of total assets. Comparing the figures year-on-year, fixed assets increased 3.37% year-on-year, while current assets decreased 5.32%. As of the balance sheet date of December 31, 2022, inventories accounted for about 50.25% of current assets. Within the structure of current assets, other receivables showed the highest growth (485.71% year-on-year). Tangible fixed assets have the largest value share in the structure of fixed assets showing a growth rate of 100.82%.

In 2022, equity in the structure of liabilities accounted for 31.09%, long-term liabilities accounted for 7.23%, while current liabilities accounted for 61.68% of liabilities. The largest growth in the structure of liabilities, within long-term liabilities, was shown by deferred tax liabilities (166.67% year-on-year).

6. Description of the structure of major equity investments or major equity investments

In 2022, the LUG S.A. Group did not use overnight capital deposits,

the Companies did not make any deposits or capital investments.

7. Description of significant off-balance sheet items by subject, object and value

A description of significant off-balance sheet items, including a description of contingent liabilities due to guarantees and sureties granted, is provided in Note 37 of the 2022 consolidated financial statements of the LUG S.A. Group.

In the opinion of the Management Board, there is a negligible probability of outflow of funds shown in off-balance sheet/contingent liabilities in 2022.

8. Description of significant transactions with related parties

The parent company and its subsidiaries did not enter into transactions with related parties on other than arm's length terms. Detailed information on transactions with related parties is provided in Note 38 of the consolidated financial statements of the LUG S.A. Group for 2022.

9. Information on loans granted in the fiscal year

In 2022, the balance of loans increased by PLN 2.826 million compared to 2021. Loans granted in 2022 in the LUG S.A. Capital Group are the loans granted by LUG S.A. to its subsidiary Escolight Sp. z o.o. in the amount of PLN 0.626 million and BIOT Sp. z o.o., as indicated in the LUG S.A. Financial Information section. PLN 0.6 million In addition, the subsidiary LUG Light Factory sp. z o.o. granted loans to BIOT Sp. z o.o. for a total of PLN 1.6 million in 2022.

10. Information on agreements concerning loans and credits

The LUG S.A. Capital Group has long-term investment loan agreements, short-term loan agreements and overdraft agreements, concluded in PLN and EUR with variable interest rates. Detailed information on loan agreements is provided in Note 26 of the 2022 consolidated financial statements of the LUG S.A. Group.

11. Information on sureties and guarantees granted and received in the fiscal year

At the end of 2022, the balance of granted guarantees in the LUG S.A. Capital Group amounted to PLN 5.97 million and included guarantees issued by the Issuer's subsidiaries, LUG Light Factory Sp. z o.o. and LUG Services Sp. z o. o. On 30/12/2020, a multiline agreement No. K02121/20 (as amended) was signed, in which LUG Light Factory Sp. z o. o. and LUG Services Sp. z o. o. were granted a limit for guarantees in the amount of PLN 5.5 million for both companies, of which PLN 3 million is for LUG Light Factory Sp. z o. o. The amount used by LUG Services Sp. z o. o. as of the balance sheet date is PLN 2.48 million. As of 31/12/2021, LUG S.A. granted sureties for investment and working capital loans to LUG Light Factory Sp. z o. o.

12. Information on changes in accounting principles

There were no changes in the accounting principles of the LUG S.A. Capital Group in 2022. The subsidiary LUG Light Factory Sp. z o. o. adopted a resolution to prepare separate financial statements in accordance with the International Financial Reporting Standards starting from the fiscal year 2022.



LUG S.A.'s financial information
for the period 01/01/2022 – 31/12/2022



13. Introduction

Selected financial information containing basic figures (in PLN and converted to Euro) summarizing the financial position of LUG S.A. in the period 01/01/2022 - 31/12/2022 are presented in Table 7, Table 8 and Table 9.

Balance sheet items were translated at the average euro exchange rate announced by the National Bank of Poland, effective as of the balance sheet date.

The income statement items were translated at the average euro exchange rate, which is the arithmetic mean of the average EUR exchange rates announced by the National Bank of Poland and in effect on the last day of each completed month of the four quarters of the year.

Table 6 Applied EUR/PLN exchange rates

	EUR exchange rate as of the balance sheet date (31/12)	Average EUR exchange rate in the period from 01/01 to 31/12.
2021	4.5994	4.5775
2022	4.6899	4.6883

Source: National Bank of Poland

Presentation changes have been made in the Separate Financial Statements of LUG S.A. for 2022. Explanations of the aforementioned changes can be found in the statement of comprehensive income and the statement of financial position starting on page 7 of the LUG S.A. Separate Financial Statements for 2022.

14. Selected data from the balance sheet and income statement

Table 7 Selected separate financial data of LUG S.A. for 2022 and comparable data for 2021 [PLN million]

	2022 PLN million	2021 PLN million	2022 EUR million	2021 EUR million	Growth (PLN)
Sales revenues	1.90	1.90	0.41	0.42	100.00
Depreciation	0.00	0.00	0.00	0.00	0.00
Gross profit (loss) from sales	1.90	1.90	0.41	0.42	100.00
Net profit (loss) from sales	-1.21	0.53	-0.26	0.12	-
Profit (loss) from operations	-1.25	0.52	-0.27	0.11	-
Profit from business activities	-0.53	0.55	-0.11	0.12	-
EBITDA	-1.25	0.52	-0.27	0.11	-
Gross profit (loss)	-0.53	0.55	-0.11	0.12	-
Net profit (loss)	-0.62	0.39	-0.13	0.09	-
	31/12/2022 PLN million	31/12/2021 PLN million	31/12/2022 EUR million	31/12/2021 EUR million	Growth (PLN)
Total assets, including:	35.16	35.96	7.50	7.82	97.78
Fixed assets	32.84	32.97	7.00	7.17	99.59
Current assets	2.32	2.98	0.49	0.65	77.82
Provisions	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	0.06	0.02	0.01	0.00	600.00
Total receivables, including:	0.53	2.92	0.11	0.63	18.15
Short-term receivables	0.53	2.92	0.11	0.63	18.15
Long-term receivables	0.00	0.00	0.00	0.00	0.00
Liabilities and provisions for liabilities, including:	0.42	0.60	0.09	0.13	0.70
Long-term liabilities and provisions	0.00	0.02	0.00	0.00	0.00
Short-term liabilities and provisions	0.42	0.59	0.09	0.12	71.18
Equity, including:	34.74	35.37	7.41	7.69	99.31
Share capital	1.8	1.80	0.38	0.39	100.00

Source: Issuer

15. Cash flows

Table 8 Separate cash flows of LUG S.A. for 2022 and comparable data for 2021

	2022 PLN million	2021 PLN million
Net cash flows from operating activities	1.08	0.21
Net cash flow from investment activities	-1.04	-0.19
Net cash flow from financial activities	0.00	0.00
Net cash flow	0.04	0.02

Source: Issuer

16. Ratio analysis

The LUG S.A. Capital Group's operating activities are carried out almost exclusively at its subsidiaries, particularly LUG Light Factory Sp. z o.o. Consequently, the separate financial results of LUG S.A. do not reflect the picture of the Issuer's condition, development and prospects, and do not allow for a rational ratio analysis.

17. Characteristics of the structure of assets and liabilities

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

Balance sheet	Balance sheet as at 31/12/2022 [PLN million]	Structure [%]	Balance sheet as at 31/12/2021 [PLN million]	Structure [%]	Growth YOY [%]
ASSETS					
Fixed assets	32.84	93.40%	32.97	91.73	99.58
Investments in subordinated entities	32.2	91.58%	31.92	88.77	100.88
Intangible assets	0	0.00%	0.00	0.00	0.00
Other financial assets	0.60	1.71%	1.01	2.82	59.23
Deferred tax assets	0.04	0.11%	0.05	0.14	80.00
Long-term receivables	0	0.00%	0.00	0.00	0.00
Current assets	2.32	6.60%	2.98	8.28	77.85
Provisions	0	0.00%	0.00	0.00	0.00
Trade receivables	0.22	0.63%	0.87	2.42	25.29
Other receivables	0.35	1.00%	2.05	5.70	17.07
Other financial assets	1.62	4.61%	0.00	0.00	100.00
Accruals and prepayments	0.07	0.20%	0.04	0.11	175.00
Cash and cash equivalents	0.06	0.17%	0.02	0.06	300.00
TOTAL ASSETS	35.16	100.00%	35.96	100.00	97.78
LIABILITIES					
Equity	34.74	98.81%	35.37	98.36	98.25
Share capital	1.8	5.12%	1.80	5.01	100.00
Share premium reserve	23.82	67.75%	23.82	66.24	100.00
Other capital	9.32	26.51%	8.94	24.86	104.37
Retained earnings	0.42	1.19%	0.42	1.17	100.00
Financial result for the current period	-0.62	-1.76%	0.39	1.08	-
Long-term liabilities	0.00	0.00%	0.02	0.06	0.00
Liabilities from loans, borrowings and other debt instruments	0.00	0.00%	0.00	0.00	0.00
Other financial liabilities	0.00	0.00%	0.00	0.00	0.00
Provisions for deferred income tax	0.00	0.00%	0.02	0.06	0.00
Other long-term liabilities	0.00	0.00%	0.00	0.00	0.00
Accruals and deferred income	0.00	0.00%	0.00	0.00	0.00
Other provisions	0.00	0.00%	0.00	0.00	0.00
Short-term liabilities	0.42	1.19%	0.57	1.59	72.41
Liabilities from loans, borrowings and other debt instruments	0.00	0.00%	0.00	0.00	0.00
Other financial liabilities	0.00	0.00%	0.00	0.00	0.00
Accruals and deferred income	0.00	0.00%	0.00	0.00	0.00

Trade liabilities	0.31	0.88%	0.11	0.31	281.82
Current income tax liabilities	0.00	0.00%	0.09	0.25	0.00
Other liabilities	0.08	0.23%	0.33	0.92	23.53
Other provisions	0.03	0.09%	0.04	0.11	75.00
TOTAL LIABILITIES	35.16	100.00%	35.96	100.00	97.78

Source: Issuer

The balance sheet of LUG S.A. in 2022 closed with a total of PLN 35.16 million, which is a slightly lower result compared to the previous year (-2.2% year-on-year). Non-current assets were the dominant asset item in the 2022 balance year, accounting for 93.40% of the company's assets, consisting primarily of investments in subordinated entities by structure reaching 91.58%.

On the liabilities side, a significant share is accounted for by equity, which decreased slightly YoY and reached a share of 98.81% in the structure of liabilities.

18. Description of the structure of major equity investments or major equity investments

In 2022, as in 2021, LUG S.A. did not use IRS transactions and overnight equity deposits, as well as term deposits of no more than two weeks' duration.

19. Description of significant off-balance sheet items by subject, object and value

A description of significant off-balance sheet items, including a description of contingent liabilities on account of guarantees and sureties granted, is provided in Note 36 of the separate financial statements of LUG S.A. for 2022.

In the opinion of the Management Board, there is a negligible probability of outflow of funds shown in off-balance sheet/contingent liabilities in 2022.

20. Description of significant transactions with related parties

The parent company and its subsidiaries did not enter into transactions with related parties on other than arm's length terms. Detailed information on transactions with related parties is provided in Note 37 of the separate financial statements of LUG S.A. for 2022.

21. Information on loans granted in the fiscal year

In 2022, the balance of loans increased by PLN 1.03 million compared to 2021, and this is the value of loans granted by LUG S.A. to its subsidiary Escolight Sp. z o.o. and BIOT Sp. z o.o.

22. Information on sureties and guarantees granted and received in the fiscal year

As of 31/12/2022, LUG S.A. has guaranteed investment and working capital loans to LUG Light Factory Sp. z o.o.

23. Information on changes in accounting principles

There were no changes in accounting principles in 2022.



Management board report
on the operations of LUG S.A.
and the LUG S.A. Capital Group
for the period 01/01/2022 – 31/12/2022



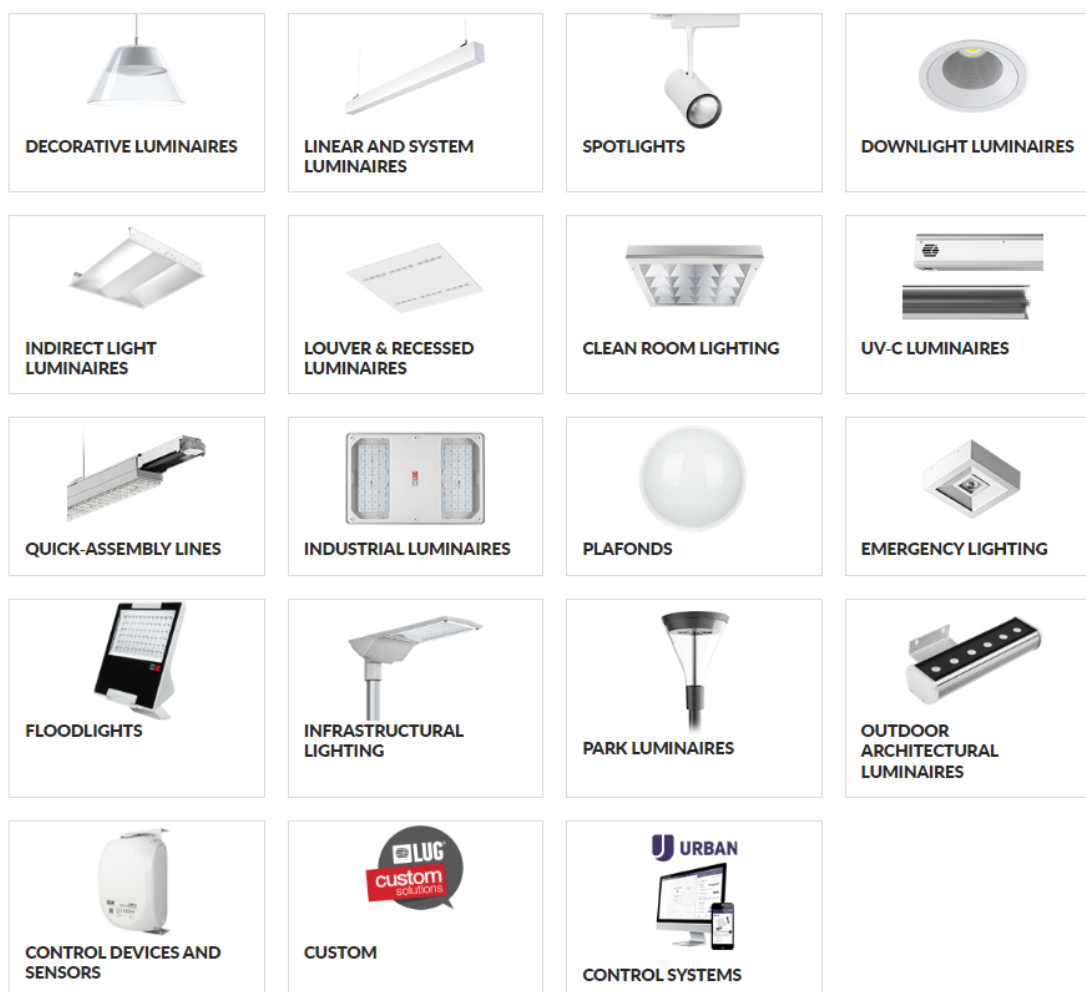
1. BASIC DATA

1.1. Organization

1.1.1. Object of activity

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

LUG's product offering includes luminaire families such as:



The subject of the LUG S.A. Capital Group's main activity according to the Polish Classification of Economic Activities (PKD) is:

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

Issuer's sector of activity according to the WSE classification:

- construction.

LUG S.A. (hereinafter: *Company, Issuer*) is the parent company of the LUG S.A. Capital Group with over 34 years of experience in the lighting industry. Since 2008, it has been operating as a Capital Group with headquarters in Zielona Góra. In November 2007, LUG S.A. made its debut on the New Connect market managed by the Warsaw Stock Exchange.

According to the Polish Classification of Economic Activities (PKD), the main activity of LUG S.A. is:

- head office and management consulting (according to PKD 2007 – 70)

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

LUG S.A. is the parent company of the LUG Capital Group:

Country of residence	Poland
Registered office of the company	Zielona Góra
Legal form	Joint-stock company (spółka akcyjna, S.A.)
Law	Polish law, in accordance with the Code of Commercial Companies
Registered office address:	ul. Gorzowska 11, 65-127 Zielona Góra
Telecommunications numbers	tel. (068) 45 33 200, fax. (068) 45 33 201 E-mail: lug@lug.com.pl
Website	www.lug.com.pl
Basic business activity	head office and management consulting (according to PKD 2007 - 70)
National Business Registry Number (REGON)	080201644
Tax Identification Number (NIP)	929-16-72-920
National Court Register Number (KRS)	The company is registered in the Register of Entrepreneurs of the National Court Register kept by the District Court in Zielona Góra, 8th Commercial Division of the National Court Register under KRS number 0000287791.
Duration of the capital group	Parent company LUG S.A. and other Group entities as indicated in section 1.1.3 of this Report.

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

As of the publication date of this report, the LUG S.A. Capital Group included the following companies:

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

Table 10. Data of entities with capital ties to the Issuer.

Company name	Registered office	Registration data	Object of activity	Share capital	Percentage of equity	Percentage of voting rights
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LUG Light Factory Sp. z o. o.	Zielona Góra, ul. Gorzowska 11	KRS 0000290498 NIP 929-17-85-452	Manufacture of electric lighting equipment and electric lamps	PLN 29,000,000.00	100%	100%
LUG GmbH	10179 Berlin Wilhelmine-Gemberg-Weg 6, Aufgang G	KRS HRB12835 NIP 262127740	Manufacture, distribution and installation of electrical equipment	EUR 25,000.00	100%	100%
T.O.W LUG Ukraina (activity suspended)	ul. Diehtariwska 62A, 03040 Kyiv	KRS 107410200000154 70 NIP 34190214	Wholesale and retail of lighting equipment. Design and production of lighting equipment	UAH 160,233.00	100%	100%
LUG do Brasil Ltda	Al. Santos, 2480 Cj.51 - Cerqueira César, São Paulo	CNPJ/MF 15.805.349/0001-78	Wholesale and retail of lighting equipment. Design and production of lighting equipment	BRL 500,000.00	65%	65%
LUG Lighting UK Ltd.	The Building Centre, 26 Store Street, London WC1E 7BT, UK	KRS 08580097 NIP 171766096	Wholesale and retail of lighting equipment. Design and production of lighting equipment	GBP 5,000.00	100%	100%
LUG Argentina SA	Calle 62 y 239 Paraje Nemesio Parma, Parque Industrial Posadas, CP 3300 Posadas, Misiones, Argentina	Registered by La Inspección General de Justicia (IGJ) in Register no. 85 of Joint-Stock Companies (RPC) under number 17573	Production, processing, assembly and assembly of luminaires, trading and consulting activities in the field of lighting technology.	ARS 28,700,000.00	50%	50%
BIOT Sp. z o.o.	ul. Nowy Kisielin – Nowa 7, 66-002 Zielona Góra	KRS 0000695926 NIP 9731045329	Activities related to software and consultancy in the field of information technology and technology	PLN 700,000.00	93%	93%
LUG Aydınlatma Sistemleri Anonim ŞİRKETİ (LUG Turkey)	Anadolu Hisari, Ruzgarlı Bahçe Mahallesi, Cumhuriyet Caddesi, Ferağat Sokak, Demir Plaza, No:3/A Beykoz, İstanbul	Istanbul Trade Registry, Mersis number: 060908488200000 1, Tax No: 6090848820	Commercial, manufacturing and consulting activities in the field of professional lighting solutions.	50,000.00 TRY	66.8%	66.8%
ESCOLIGHT Sp. z o.o.	ul. Mickiewicza 3A, 65-053 Zielona Góra	KRS 0000816193 NIP 9292024347	Comprehensive project support including preparation, financing, implementation and service of lighting investments	PLN 100,000.00	45%	45%
LUG Services Sp. z o.o.	ul. Gorzowska 11 65-127 Zielona Góra	0000828305	Design and construction of lighting installations and integration of software elements cooperating with installations.	50,000.00 PLN	97%	97%

Source: LUG S.A.

Acquisition of shares in ESCOLIGHT Sp. z o.o

On July 13, 2022, LUG S.A. acquired 300 shares of ESCOLIGHT with a nominal value of PLN 50.00 each. The acquired shares represent 15% of the Company's share capital. After the purchase, the Issuer holds 900 shares with a total nominal value of PLN 45,000.00, representing 45% of the Company's share capital.

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

On June 2, 2022, the Extraordinary Meeting of Shareholders of BIOT passed a resolution to increase the Company's share capital by PLN 300,000.00 through the creation of 6,000 new shares. The Company's existing Shareholders were given a priority right to take up the new shares in proportion to their existing shares. LUG S.A. exercised its priority right and took up 5,265 newly created shares with a nominal value of PLN 50.00. As a result, LUG S.A. held 12,285 shares with a total nominal value of PLN 614,250.00 (87.75% of the share capital). The second Shareholder abstained from making a decision with regard to the exercise of the priority right to take up shares. As a result of failure to exercise this priority right, on August 12, 2022, LUG S.A. acquired another 735 shares in BIOT Sp. z o.o. with a total value of PLN 36,750.00. As a result of the transaction, LUG S.A. now holds 13,020 shares with a value of PLN 50.00 per share, with a total nominal value of PLN 651,000.00 (93% of BIOT's share capital). The funds raised from the increase in BIOT's share capital were used to finance the next stages of the company's projects.

As of the date of publication of the report, the Group has no other affiliates.

All companies of the LUG S.A. Group are consolidated using the full method. The exceptions are:

- T.O.W. LUG Ukraina, whose activities are suspended and therefore not consolidated (the company does not generate any results), and
- ESCOLIGHT Sp. z o.o. established on October 24, 2019, which is an affiliate of LUG S.A. and is consolidated using the equity method, as communicated in current report 8/2019 dated 24/10/2019.

Chart 1 Structure of the LUG S.A. Group as of the publication date, i.e. 08/05/2023.



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

Source: LUG S.A.

There were no other changes to the structure of the LUG S.A. Capital Group in 2022.

1.1.3. Duration

- LUG S.A. is a company established for an indefinite period of time.
- LUG Light Factory Sp. z o.o. is a company established for an indefinite period of time.
- LUG GmbH is a company incorporated for an indefinite period of time.
- T.O.W. LUG Ukraina is a company established for an indefinite period of time, as of December 31, 2022 its activities were suspended.
- LUG do Brasil Artigos de iluminação Ltda. is a company incorporated for an indefinite period of time.
- LUG Lighting UK Ltd. is a company incorporated for an indefinite period of time.
- LUG Argentina SA is a company incorporated for a definite period of time, i.e. 99 years, due to applicable Argentine law.
- BIOT Sp. z o.o. is a company incorporated for an indefinite period of time.
- LUG Aydinlatma Sistemleri Anonim Sirketi is a company incorporated for an indefinite period of time.
- ESCOLIGHT Sp. z o.o. is a company established for an indefinite period of time.
- LUG Services Sp. z o.o. is a company established for an indefinite period of time.

1.1.4. Share capital

No events occurred in 2022 that would affect the value of LUG S.A.'s share capital.

As of December 31, 2022 and as of the date of this report, the share capital of LUG S.A. amounted to PLN 1,799,642.50 and was divided into 7,198,570 shares with a nominal value of PLN 0.25 each, including:

- 4,320,000 (four million three hundred and twenty thousand) series A ordinary bearer shares with a nominal value of PLN 0.25 (twenty-five groszy) each;
- 1,438,856 (one million four hundred and thirty-eight thousand eight hundred and fifty-six) series B ordinary bearer shares with a nominal value of PLN 0.25 (twenty-five groszy) each;
- 1,439,714 (one million four hundred and thirty-nine thousand seven hundred and fourteen) ordinary series C bearer shares with a nominal value of PLN 0.25 (twenty-five groszy) each.

Table 11. Share capital structure as of the date of this report

	Number of individual shares	Share in share capital (%)	Number of votes	Share in the total number of votes (%)
A series	4,320,000	60.01%	4,320,000	60.01%
B series	1,438,856	19.99%	1,438,856	19.99%
C series	1,439,714	20.00%	1,439,714	20.00%
Total	7,198,570	100%	7,198,570	100%

Source: LUG S.A.

Share capitals of LUG S.A. Group companies:

- As of 31/12/2022 and as of the date of this report, the share capital of **LUG Light Factory Sp. z o.o.** amounted to PLN 29,000,000.00 and was divided into 58,000 equal, indivisible shares with a nominal value of PLN 500.00 each.

- As of 31/12/2022 and as of the date of this report, the share capital of **LUG GmbH** amounted to EUR 25,000.00 and was divided into 500 equal, indivisible shares with a nominal value of EUR 50.00 each.
- As of 31/12/2022 and as of the date of this report, the share capital of **T.O.W. LUG Ukraina** amounted to 160,233.00 hryvnias and was divided into two shares with a nominal value of 80,116.50 hryvnias each.
- As of 31/12/2022 and as of the date of this report, the share capital of **LUG do Brasil Ltda.** amounted to 500,000.00 Brazilian reals and was divided into 500,000 shares with a nominal value of 1 Brazilian real each. Of which the Issuer held 65% of the shares.
- As of 31/12/2022 and as of the date of this report, the share capital of **LUG Lighting UK Ltd.** amounted to GBP 5,000.00 and was divided into 500 shares with a nominal value of GBP 10.00 each.
- As of 31/12/2022 and as of the date of this report, the share capital of **BIOT Sp. z o.o.** amounted to PLN 700,000 and was divided into 14,000 shares with a nominal value of PLN 50 each (in connection with the capital increase shown in ESPI Report 11/2022 dated 02/06/2022). LUG S.A. holds a 93% stake in BIOT's share capital (details of the increase are described in section 1.1.2 of this report on page 23).
- As of 31/12/2022, the share capital of **LUG Argentina SA** amounted to 28,700,000.00 Argentine pesos, with the Issuer's share in the share capital equal to 14,350,000 Argentine pesos and divided into 143,500 shares with a nominal value of 100 Argentine pesos each.
- As of 31/12/2022 and as of the date of this report, the share capital of **LUG Aydinlatma Sistemleri Anonim Sirketi (LUG Turkey)** amounts to TRY 50,000, with the Issuer having subscribed for 33,400 series A shares with a par value of TRY 1, representing 66.8% of the share capital and entitling the Issuer to cast the same number of votes at the Company's General Meeting.
- As of December 31, 2022 and as of the date of this report, the share capital of ESCOLIGHT Sp. z o.o. amounts to PLN 100,000, with LUG S.A. purchasing 300 shares of ESCOLIGHT with a nominal value of PLN 50.00 each on 13/07/2022. The acquired shares represent 15% of the Company's share capital. After the purchase, the Issuer holds 900 shares with a total nominal value of PLN 45,000.00, representing 45% of the Company's share capital and entitling to cast the same number of votes at the Company's General Meeting.
- As of 31/12/2022 and as of the date of this report, the share capital of 33.400 amounts to PLN 50,000, with the Issuer having taken up 970 shares with a nominal value of PLN 50/share, which constitutes 97% of the share capital and entitles to cast the same number of votes at the Company's General Meeting.

1.1.5. Shares and shareholding structure

Shares of LUG S.A.

The securities of LUG S.A. made their debut on the NewConnect market of the Warsaw Stock Exchange S.A. (WSE) on November 20, 2007.

- **A series ordinary bearer shares**, by virtue of the resolution no. 1 of the Extraordinary General Meeting of LUG S.A. dated 21/09/2007, were converted from registered shares to bearer shares. Series A shares are shares of a founding nature. They were created on the basis of the provisions of the Commercial Companies Code concerning the establishment of a joint-stock company. Series A registered shares were created by virtue of the resolution of 02/08/2007. Extraordinary General Meeting of Shareholders of LUG Sp. z o.o., the legal predecessor of the Issuer. The date of registration of A series shares is 03/09/2007.
- **B series ordinary bearer shares** were issued by virtue of Resolution No. 2 of the Extraordinary General Meeting of LUG S.A. dated 21/09/2007. The issue of B-series shares was registered by the commercial court having jurisdiction over the Issuer's seat on 03/12/2007.
- **C series ordinary bearer shares** were created by virtue of the Resolution No. 5 of the Extraordinary General Meeting of LUG S.A. dated 23/03/2010, regarding the increase of the Company's share capital through a public issue of C series ordinary bearer shares in a closed subscription with retention of the subscription right, changes in the Articles of Association, expressing consent for their dematerialization and introduction to organized trading in the "NewConnect" Alternative Trading System. Subscription of series C shares lasted from 04/05/2010 to 14/05/2010. The shares were allotted on 27/05/2010. The issue price of series C shares was set at PLN 0.15. Series C shares in the exercise of pre-emptive rights were subscribed for by 393 investors in basic subscriptions and 149 investors in additional subscriptions. The reduction rate for additional subscriptions was: 93.5%.

In November 2012, pursuant to the provisions of the EGM of 28/09/2012, the shares were merged at a ratio of 25:1 with a simultaneous increase in their nominal value. This means that the nominal value of the shares of all LUG series was increased from PLN 0.01 (1 groszy) to PLN 0.25 (25 groszy). The amalgamation took place with a proportional reduction in the total number of shares, from 179,964,250 to 7,198,570, i.e. by combining each 25 shares with a previous nominal value of 1 groszy into one share of the Company with a new nominal value of 25 groszy. The entire procedure did not affect LUG S.A.'s share capital of PLN 1,799,642.50, which remained unchanged.

Table 12. Share structure before and after the reverse split of LUG S.A. Shares.

Series of shares	Number of shares before the reverse split (nominal value of PLN 0.01)	Number of shares after the reverse split (nominal value of PLN 0.25)
A series	108,000 000	4,320 000
B series	35,971 400	1,438,856
C series	35,992 850	1,439,714
Total	179,964 250	7,198 570

Source: LUG S.A.

In 2022, there were no events affecting the share structure of LUG S.A.

Structure of shares of the parent company in companies from the LUG S.A. Capital Group.

Ownership of shares in LUG S.A. Group companies held by the parent company, as of the date of this report, is shown in Table 13.

Table 13. Structure of LUG S.A.'s holdings in the Group's subsidiaries and affiliates as of 12/05/2023.

Company	Shareholder	Number of shares	Value of shares	Share in the share capital	Share in the number of votes at the AGM
LUG Light Factory Sp. z o.o.	LUG S.A.	58,000	PLN 29,000,000	100%	100%
LUG GmbH	LUG S.A.	500	EUR 25,000	100%	100%
T.O.W LUG Ukraina	LUG S.A.	2	160,233.00 UAH	100%	100%
LUG do Brasil Ltda.	LUG S.A.	325,000	325,000.00 BRL	65%	65%
LUG Lighting UK Ltd.	LUG S.A.	500	GBP 5,000	100%	100%
LUG Argentina SA	LUG S.A.	143,500	ARS 14,350,000	50%	50%
BIOT Sp. z o.o.	LUG S.A.	13,020	PLN 651,000	93%	93%
LUG Turkey	LUG S.A.	33,400	TRY 33,400	66.8%	66.8%
ESCOLIGHT Sp. z o.o.	LUG S.A.	900	PLN 45,000	45%	45%
LUG Services Sp. z o.o.	LUG S.A.	970	PLN 48,500	97%	97%

Source: LUG S.A.

Shareholding structure of LUG S.A.

Shareholders holding at least 5% of LUG S.A.'s share capital as of the date of this management report are shown in Table 14 and Figure 2.

Table 14. Structure of LUG S.A. Shareholders holding at least 5% of LUG S.A. shares as of 12/05/2023

Name and surname/name	Share series	Share number	Share in the share capital	Share in the number of votes at the AGM
Ryszard Wtorkowski	A, C	2,670,610	37.10%	37.10%
Iwona Wtorkowska	A	1,120,000	15.56%	15.56%
Funds managed by OPERA TFI	A, B, C	1,365,049	18.96%	18.96%
MKK3	B, C	362,334	5.03%	5.03%
Other shareholders	B, C	1,680,577	23.35%	23.35%
TOTAL	A,B,C	7,198,570	100.00%	100.00%

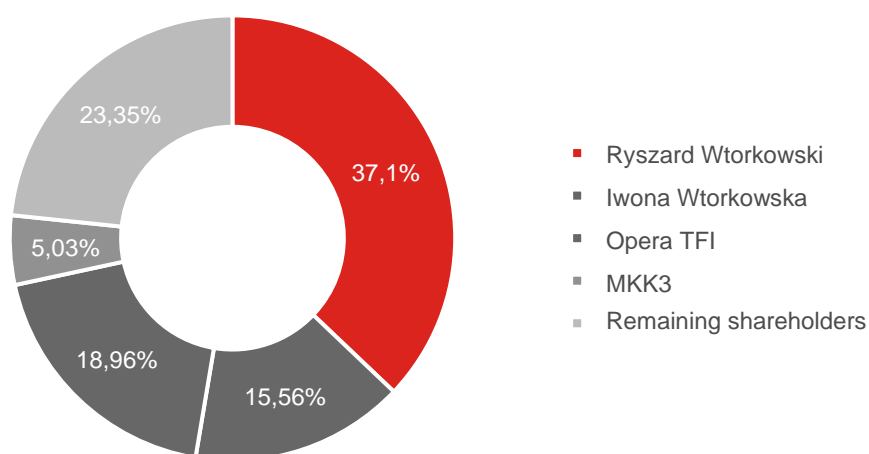
Source: LUG S.A.

The shareholder structure was determined based on the following documents:

- **Ryszard Wtorkowski** - list of persons entitled to participate in the OGM of LUG S.A. on 27/06/2022 (11/06/2022 - date of registration of participation in the OGM of LUG S.A.);
- **Iwona Wtorkowska** - list of persons entitled to participate in the OGM of LUG S.A. on 27/06/2022 (11/06/2022 - date of registration of participation in the OGM of LUG S.A.);
- **Funds managed by OPERA TFI** - correction of the notification of May 19, 2022 regarding the notification of May 10, 2022 on reducing the share in the total number of votes at the General Meeting by NOVO Fundusz Inwestycyjny Otwarty managed by OPERA TFI S.A.. – RB ESPI 9/2022;
- **MKK3 Sp. z o.o.** – notification dated 23/09/2021 regarding direct shareholding held to date by increasing above 5% in the total number of votes – RB ESPI 11/2021.

In 2022, the Issuer received notifications from the shareholder OPERA TFI S.A. about the change in the holding of LUG S.A. shares. According to the notifications, NOVO Open Investment Fund, managed by OPERA TFI S.A., concluded transactions on April 12 this year and on May 4 this year, as a result of which NOVO FIO ultimately held a total of 717,905 shares (9.97% of votes at the general meeting of LUG S.A.). At the same time, OPERA TFI's shareholding before and after the transactions on April 12 and May 4 remained at 1,365,049 shares (18.96% of votes at the general meeting of LUG S.A.).

Chart 2 Shareholding structure of LUG S.A - as of the date of this report



Source: LUG S.A.

Description of LUG S.A. Shareholders

The dominant shareholder in the shareholding structure of LUG S.A. is Mr. Ryszard Wtorkowski, who owns 2,670,610 LUG S.A. shares, which constitutes 37.10% of the company's shareholding structure. Mr. Ryszard Wtorkowski is the founder of LUG S.A. standing at the head of the entire LUG S.A. Capital Group. A block of 1,120,000 shares, representing 15.56% of the shareholding structure, is held by Ms. Iwona Wtorkowska, Mr. Ryszard Wtorkowski's wife. The number of shares held by Mr. Ryszard Wtorkowski and Ms. Iwona Wtorkowska gives a total of 52.66%, which is the majority share in the shareholder structure of LUG S.A. Funds managed by Opera TFI hold a total of 1,365,049 shares, or 18.96% of the shareholding structure, based on an update dated May 19, 2022 regarding the correction of the notice of reduction of the share in the total number of votes at the General Meeting

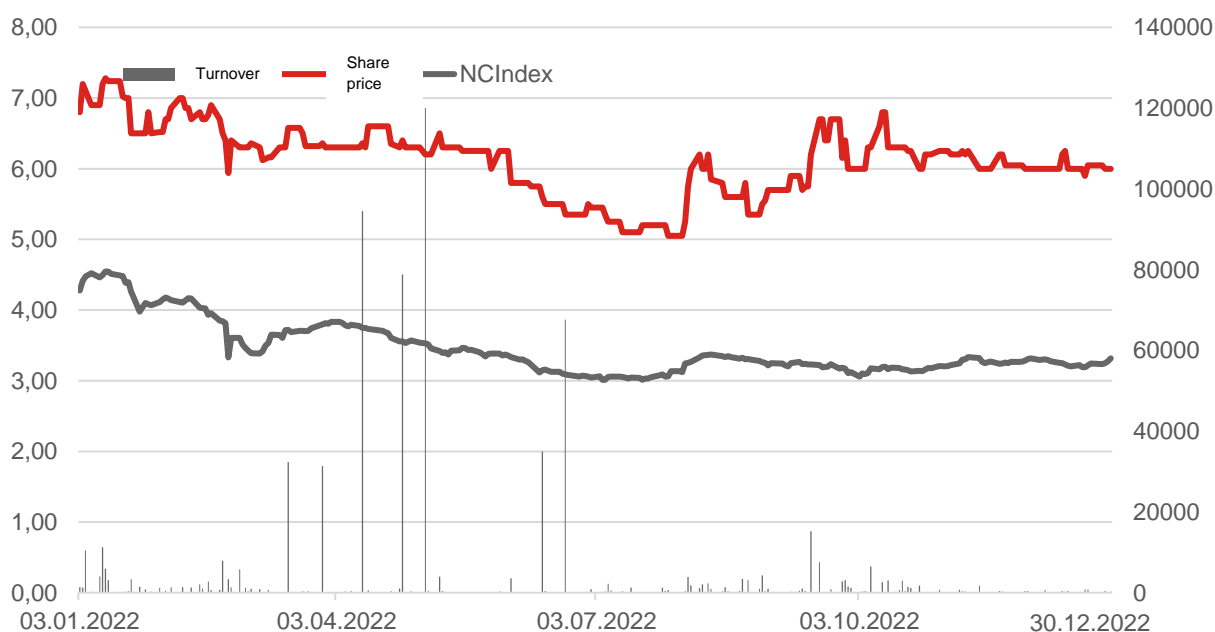
by NOVO Open Investment Fund (RB ESPI 9/2022). Shareholder MKK3 Sp. z o.o. made a notification dated 23/09/2021 regarding the direct shareholding held to date by increasing above 5% in the total number of votes at the General Meeting of LUG S.A., which was communicated in the Issuer's current report ESPI 11/2021. As of the date of publication of this report, MKK3 Sp. z o.o. had not informed the Issuer of any change in its shareholding. Other shareholders hold a total of 1,695,911 shares representing 23.56% of the shareholder structure.

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

Listings of LUG S.A. for the period 01/01/2022 - 31/12/2022

LUG opened trading at around PLN 7/share in 2022, which, as it turns out, was the highest value not only quarterly, but also for the whole of 2022. Thereafter, a moderate downward trend was observed, which eventually accelerated around May to lead to last year's low of PLN 5.05/share on July 28. Since August, there have been increases, within which the maximum valuation of the second half of the year was PLN 6.80/share last October 11. The 2022 quotation finally closed at PLN 6.00/share on December 30.

Chart 3 Listings of LUG S.A. shares in the period 01/01/2022 - 31/12/2022



Source: LUG S.A.

In 2022, LUG S.A.'s shares, as in previous years, were part of the NCIndex, with qualification to the NC Focus segment from December 2020 until the publication of this report.

Dividend

In 2022, the General Meeting of Shareholders of LUG S.A. decided not to pay dividends and thus to allocate the net profit for 2021 in the amount of PLN 0.39 million entirely to the retained earnings reserve.

1.1.6. Shares (stocks) held by the Issuer's management and supervisory personnel

The shareholders of the LUG S.A. Group companies include the following persons who are members of LUG S.A.'s management and supervisory bodies:

Table 15. Shares (stocks) of LUG S.A. Group companies held by managing and supervising persons - as of the date of this report.

Name and surname/name	Function	Shares in the company	Number of shares	Share in the share capital	Share in the number of votes at the AGM
Ryszard Wtorkowski	President of the Board of LUG S.A.	LUG S.A.	2,670,610	37.10%	37.10%
Małgorzata Konys	Member of the Management Board of LUG S.A.	LUG S.A.	15,200	0.21%	0.21%
Iwona Wtorkowska	Chairperson of the Supervisory Board LUG S.A.	LUG S.A.	1,120,000	15.56%	15.56%
Renata Baczańska	Member of the Supervisory Board LUG S.A.	LUG S.A.	28,408	0.39%	0.39%
Eryk Wtorkowski	Member of the Supervisory Board LUG S.A.	LUG do Brasil Ltda.	100,000	20.00%	20.00%

Source: LUG S.A.

1.2. Management bodies of LUG S.A. and the LUG S.A. Capital Group.

1.2.1. Governing bodies of the LUG S.A. Capital Group entities.

Management of the parent company

According to the Company's Articles of Association, the Management Board of LUG S.A. consists of one or more members, including the President of the Management Board who chairs the Management Board and directs its work. Members of the Management Board are appointed and dismissed by the Supervisory Board for a joint three-year term of office. The Supervisory Board may dismiss the President of the Management Board, the Vice President of the Management Board or a Member of the Management Board before the end of the term of office of the Management Board. If a Management Board member is appointed during the term of office of the Management Board, he or she is appointed for the period until the end of that term. Mandates of the Management Board members expire on the date of the General Meeting of Shareholders approving the financial statements for the last fiscal year ending during their term of office.

The composition of the Issuer's Management Board as of December 31, 2022 and as of the date of this report:

- Ryszard Wtorkowski – President of the Management Board,
- Mariusz Ejsmont – Vice-President of the Management Board,
- Małgorzata Konys – Member of the Management Board.

The current term of office of the Management Board began on 29/04/2021, i.e. on the date of the Supervisory Board meeting and adoption of resolutions No. 01/04/2021, No. 02/04/2021 and No. 03/04/2021 appointing existing Management Board Members for the next term.

Table 16. The terms of office of the Management Board of LUG S.A.

Full name	Function in the Management Board of LUG S.A.	Beginning of first term	Duration of the current term
Ryszard Wtorkowski¹⁾	President of the Management Board	2/08/2007	until 28/04/2024
Mariusz Ejsmont²⁾	Vice-President of the Management Board	2/08/2007	until 28/04/2024
Małgorzata Konys³⁾	Member of the Management Board	2/08/2007	until 28/04/2024

Source: LUG S.A.

¹⁾ Appointment to the Management Board for the first term on 02/08/2007. Appointment for the current term under Resolution No. 01/04/2021 of the Company's Supervisory Board.

²⁾ Appointment to the Management Board for the first term on 02/08/2007. Appointment for the current term under Resolution No. 02/04/2021 of the Company's Supervisory Board.

³⁾ Appointment to the Management Board of the first term on 02/08/2007. Appointment to the Management Board for the current term under Resolution No. 1/03/2009 of the Company's Supervisory Board adopted on 16/03/2009. Appointment to the Management Board of the current term under Resolution No. 03/04/2021 of the Company's Supervisory Board.

Experience and competence of the members of the Management Board of the parent company



Ryszard Wtorkowski – President of the Management Board

Is the founder and largest shareholder of LUG S.A. He is an electronics engineer by education. From 2002 to 2007, he served as President of the Management Board of LUG Sp. z o.o. After the legal form was changed to a joint stock company in September 2007, he became President of the Management Board of LUG S.A. Currently, he is also President of LUG Light Factory Sp. z o.o., LUG GmbH and LUG Lighting UK Ltd, LUG Services Sp. z o.o. He actively supports numerous organizations integrating the scientific and business communities, including, among others, serving as Chancellor of the Lubusz Lodge of the Business Centre Club and, at the same time, Vice-President of the BCC Management Board in 2011-2013. Since June 2016, he has been Vice-President of the Western Chamber of Industry and Commerce. From 2018 to 2020, he was a member of the Supervisory Board of the Association of Stock Exchange Issuers. At the beginning of 2020, he became a Member of the Management Board of the Zielona Gora Agglomeration Association, while since 2021 he has been a Member of the Supervisory Board of Grono S.A. Ryszard Wtorkowski is also a Representative of the General Meeting of the Association of Lighting Equipment Manufacturers Pol-Lighting.



Mariusz Ejsmont – Vice-President of the Management Board

He holds a master's degree in electrical engineering. A graduate of Zielona Góra University of Technology (now University of Zielona Góra). He has served as Vice-President of the Management Board of LUG S.A. since 31.01.2011, having previously served as Member of the Management Board of LUG S.A. since 2007. Director of LUG Technology and Systems Integration and Member of the Management Board in the companies: LUG Light Factory Sp. z o.o. and LUG Services Sp. z o.o. Lighting industry specialist, board member of the Association of Lighting Equipment Manufacturers Pol-lighting, which brings together leading manufacturers of light sources and professional lighting equipment.



Małgorzata Konys – Member of the Management Board

Graduate of the University of Zielona Góra with a specialization in Management and Marketing and postgraduate studies in accounting at the Poznań University of Economics. She also completed postgraduate studies in Controlling at the University of Szczecin. In 2007, she became the Financial Director of LUG S.A. The company's organizational transformation and the establishment of a subsidiary resulted in a change of position to Financial Director of LUG Light Factory Sp. z o.o. and joining the Management Board of LUG S.A., a position she still holds.

Resumes of the Members of the Management Board have been published on the company's website: http://www.lug.com.pl/Relacje_inwestorskie/Spolka/Wladze_spolki and in the attachment to the current report RB EBI 3/2021.

Management principles of LUG S.A.

The Management Board of LUG S.A. operates on the basis of the Act of 15/09/2000 "Code of Commercial Companies" and other legal regulations, as well as the provisions of the Company's Articles of Association and the Regulations of the LUG S.A. Management Board. In addition, in performing their duties, the Members of the Management Board of the Company are guided by the principles contained in the Good Practices of Companies Listed on NewConnect.

The President of the Management Board of the Company is authorized to represent the Company as a single person. Making declarations on behalf of the Company is also possible with the cooperation of two Members of the Management Board.

The Management Board of LUG S.A. conducts the Company's affairs and represents it in all judicial and extrajudicial actions. The competencies of the Management Board also include all matters related to the Company's management, which are not restricted by legal regulations, provisions of the Company's Articles of Association, Regulations of the General Meeting and Regulations of the Supervisory Board.

The President of the Executive Board of LUG S.A. manages the business activities of the Company and takes decisions on all matters concerning the Company that are not reserved for the decisions of the Executive Board or other supervisory bodies.

In particular, the powers of the President of the Management Board include:

- conducting the Company's internal affairs and representing the Company in external contacts;
- coordinating all matters related to the activities of the Management Board of LUG S.A.;
- supervising the work of the business areas subordinate to him;

- issuing internal normative acts in accordance with applicable rules;
- making decisions related to the day-to-day management of the Company;
- performing factual and legal actions aimed at achieving the Company's goals;
- taking any other actions to ensure the efficient operation of the Company.

Other Members of the Management Board of LUG S.A.:

- conduct the Company's internal affairs and represent it in external contacts;
- manage the day-to-day business of the Company within the assigned scope and supervise the work of directly subordinate divisions;
- make decisions on matters not reserved for the decision of the Company's Management Board, within the scope of the functions entrusted to them, as well as other decisions within the scope of powers of attorney and authorizations granted to them by the Company's Management Board or the President of the Management Board;
- perform factual and legal actions aimed at achieving the Company's objectives;
- take any other actions to ensure the efficient functioning of the Company.

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

The first term of office of the Management Board of LUG Light Factory Sp. z o.o. in office in 2022 began as indicated in Table 17.

Table 17 The terms of office of the Management Board of LUG Light Factory Sp. z o.o. as of 31/12/2022 and as of the date of this report.¹⁾

Full name	Function in the Management Board of LUG Light Factory	Beginning of first term
Ryszard Wtorkowski²⁾	President of the Management Board	1/08/2007
Mariusz Ejsmont³⁾	Member of the Management Board	17/01/2011
Tomasz Makarski⁴⁾	Member of the Management Board	1/07/2019

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

¹⁾ According to the Company's Deed of Incorporation, the Management Board is appointed for an indefinite period of time, and members of the Management Board are appointed and dismissed by a resolution of shareholders.

²⁾ Until 17/01/2011. LUG Light Factory Sp. z o.o. had a one-person Management Board consisting of Ryszard Wtorkowski.

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

⁴⁾ Appointment to the Management Board by virtue of Resolution No. 2 of the Shareholders' Meeting of LUG Light Factory Sp. z o. o. dated 13/06/2019.

The President of the Management Board - individually or two Members of the Management Board jointly - are authorized to represent the Company.

The composition of the Management Board of LUG Light Factory as of the date of this report has not changed.

Its working principles and powers are defined in the following documents:

- Deed of incorporation of the company in the form of a notarial deed (Repertory A number 3047/2007),
- Applicable legislation.

Management Board of LUG GmbH

As of 31/12/2022 and as of the date of this report, LUG GmbH has a one-member Management Board consisting of Mr. Ryszard Wtorkowski. The composition of the Management Board in 2022 did not change.

The powers and rules of work of the Management Board of LUG GmbH are defined in the following documents:

- Articles of Association of the company in the form of a notarial deed (No. 1637 der Urkundenrolle für 2008),
- Applicable legislation.

Management Board of T.O.W LUG Ukraina

As of 31/12/2022 and as of the date of this report, the operations of T.O.W LUG Ukraina were suspended.

Management Board of LUG do Brasil Ltda.

As of 31/12/2022 and as of the date of this report, LUG do Brasil Ltda. has a Management Board consisting of Andrzej Barski, acting as President of the Management Board.

The powers and working principles of the Management Board of LUG do Brasil Ltda. are defined in the following documents:

- Articles of Association of the company in the form of a notarial deed dated 28/06/2012 and subsequent amending acts,
- Applicable legislation.

Management Board of LUG Lighting UK Ltd.

As of 31/12/2022 and as of the date of this report, LUG Lighting UK Ltd. has a one-member Management Board consisting of Mr. Ryszard Wtorkowski. The composition of the Management Board in 2022 did not change.

The powers and working principles of the Management Board of LUG Lighting UK Ltd. are defined in the following documents:

- Articles of Association of the company dated 21/06/2013,
- Applicable legislation.

Management Board of LUG Argentina SA

As of 31/12/2022 and as of the date of this report, LUG Argentina SA has a Management Board consisting of the President of the Management Board, Mr. Rogelio Bertone. The powers and working principles of the Management Board of LUG Argentina SA are defined in the following documents:

- Articles of Association of LUG Argentina SA dated 14/06/2017,
- Applicable local laws (Argentine Republic, Argentina).

Management Board of BIOT Sp. z o.o.

As of 31/12/2022 and as of the date of this report, BIOT Sp. z o.o. has a two-member Management Board in the form of the President of the Management Board, Mr. Wojciech Lewandowski, who represents the majority shareholder of LUG S.A., and Mr. Artur Politanski as a Member of the Management Board.

The competencies and work principles of the Management Board of BIOT are defined in the following documents:

- Articles of Association of BIOT Sp. z o.o. dated 09/09/2017,
- Applicable legislation.

Management Board of LUG Aydınlatma Sistemleri Anonim Sirketi (LUG Turkey)

As of 31/12/2022 and as of the date of this report, LUG Turkey has a one-member Management Board in the person of the President of the Management Board, Mr. Mariusz Ejsmont, who represents the majority shareholder, LUG S.A.

Management Board of ESCOLIGHT Sp. z o.o.

In 2022, there was a change in the composition of the Management Board of ESCOLIGHT Sp. z o.o.:

- as of 31/05/2022, Mr. Grzegorz Głowacki ceased to serve as a Member of the Company's Management Board;
- as of 21/09/2022, Mr. Marek Krzyżanowski was appointed Member of the Company's Management Board.

As of 31/12/2022 and as of the date of this report, ESCOLIGHT Sp. z o.o. has a two-member Management Board in the persons of Mr. Bartosz Radkowiak and Mr. Marek Krzyżanowski as Members of the Management Board.

Management Board of LUG Services Sp. z o.o.

As of the date of this report, LUG Services Sp. z o.o. has a two-member Management Board in the person of Mr. Ryszard Wtorkowski, President of the Management Board, and Mr. Mariusz Ejsmont, Member of the Management Board.

1.2.2. Supervisory bodies of the LUG S.A. Capital Group entities.

As of 31/12/2022 and as of the date of this report, the Supervisory Board of LUG S.A. was composed as follows:



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

Table 18. Terms of office of the Supervisory Board of LUG S.A.

Full name	Function in the Supervisory Board of LUG S.A.	Beginning of first term	Start of the current term of office	Duration of the current term
Iwona Wtorkowska	Chairperson of the Supervisory Board	2/08/2007	27/06/2022	until 26/06/2025
Renata Baczańska	Member of the Supervisory Board	2/08/2007	27/06/2022	until 26/06/2025
Eryk Wtorkowski	Member of the Supervisory Board	2/08/2007	27/06/2022	until 26/06/2025
Zygmunt Ćwik	Member of the Supervisory Board	21/09/2007	27/06/2022	until 26/06/2025
Szymon Ziolo	Member of the Supervisory Board	21/09/2007	27/06/2022	until 26/06/2025

Source: LUG S.A.

Rules of appointment of the Supervisory Board of LUG S.A.

As long as shareholder Ryszard Wtorkowski holds at least 5% of the votes at the General Meeting of Shareholders, he appoints and dismisses, in accordance with Art.385 §2 of the Polish Commercial Companies Code, one member of the Supervisory Board, who serves as Chairperson of the Supervisory Board. He does so by submitting to the shareholders' meeting his written statement to that effect. The remaining members of the Supervisory Board are appointed and dismissed by the General Meeting of Shareholders. The term of office of the Supervisory Board is three years, appointed for a joint term. The terms of office of the Supervisory Board members expire on the date of the General Meeting of Shareholders approving the report for the last financial year of the joint term.

Rules of functioning of the Supervisory Board of LUG S.A.

The Supervisory Board exercises constant supervision over the Company's activities in all areas of its operations. It consists of three to seven persons appointed for a 3-year term of office. The term of office of the Supervisory Board is common for all members. According to the Regulations of the Supervisory Board, its members are appointed and dismissed by the General Meeting.

The Supervisory Board of LUG S.A. acts on the basis of the Commercial Companies Code, the Company's Articles of Association, the Regulations of the Supervisory Board, resolutions of the General Meeting and other applicable laws, as well as in compliance with the Good Practices of Companies Listed on NewConnect.

The Supervisory Board has not identified any committees or working teams from among its members.

Experience and competence of LUG S.A. Supervisory Board members.

Iwona Wtorkowska - Chairman of the Supervisory Board of LUG S.A.

She has been associated with LUG since its inception. Initially she was a partner in LUG Wtorkowski and Company. Between 2001 and 2007 she served as a Proxy in LUG Sp. z o.o., and between 2003 and 2007 she was also a Proxy of the LUG S.A. Management Board. After the company was transformed into a joint-stock company, she was elected by the General Meeting of Shareholders as Chairwoman of the Supervisory Board of LUG S.A. and continues to hold this position to this day. Ms. Iwona Wtorkowska also serves as a Proxy of LUG Light Factory Sp. z o.o. Iwona Wtorkowska has a higher pedagogical education: she graduated from the Higher School of Pedagogy in Zielona Góra. In addition, she is a graduate of numerous courses and trainings for members of Supervisory Boards.

Renata Baczańska - Member of the Supervisory Board of LUG S.A.

She is a legal counselor and performs legal activities within the "Kancelaria Adwokatów i Radców Prawnych Baczańska, Szarata" spółka partnerska. She has been a member of the Supervisory Board of LUG S.A. since 2007. She has a university degree in law, having graduated from the Faculty of Law at the University of Wrocław and completed postgraduate studies at the aforementioned Faculty: "Tax Law". Renata Baczańska is not bound to the Issuer by an employment relationship. Renata Baczańska is a partner in the Law Office, which, on the basis of a contract of mandate, provides services to the subsidiary company LUG Light Factory Sp. z o.o.

There is no conflict of interest between the duties incumbent on Ms. Renata Baczańska by virtue of being a member of the Issuer's Supervisory Board and duties incumbent on her by virtue of other titles. There are no family relations between Ms. Renata Baczańska and members of the Supervisory Board and the Management Board.

Eryk Wtorkowski - Member of the Supervisory Board of LUG S.A.

He is currently employed at the subsidiary LUG Light Factory Sp. z o.o. under an employment relationship as Development Director. From 2009 to 2012 he served as Export Manager at LUG Light Factory Sp. z o.o., while from 2013 to 2015 he served as Member of the Management Board and Managing Director of the subsidiary LUG do Brasil Ltda. Eryk Wtorkowski is a Member of the Management Board of LUNA spółka z ograniczoną odpowiedzialnością.

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

Eryk Wtorkowski is not engaged in any other activity that could give rise to any conflict of interest. Eryk Wtorkowski is the son of Ryszard Wtorkowski - President of the Executive Board of LUG S.A. and the son of Iwona Wtorkowska - Chairman of the Supervisory Board of LUG S.A.

Zygmunt Ćwik - Member of the Supervisory Board of LUG S.A.

Performs activities in the field of accounting services and tax consulting under "A&TC Kancelaria Biegłych Rewidentów Zygmunt Ćwik, Jolanta Banaszczak" spółka cywilna. Zygmunt Ćwik has a university degree in economics: he graduated in finance from the Higher School of Economics.

Zygmunt Ćwik is not connected with the Issuer by an employment relationship. There is no conflict of interest between the duties incumbent on Zygmunt Ćwik as a member of the Issuer's Supervisory Board and duties incumbent on him under other titles. There are no family ties between Zygmunt Ćwik and members of the Supervisory Board and the Management Board.

Szymon Ziolo - Member of the Supervisory Board of LUG S.A.

Performs legal activity within the "Kancelaria Adwokatów i Radców Prawnych Baczańska, Szarata" spółka partnerska. He has been a member of the Supervisory Board of LUG S.A. since 2007. Szymon Ziolo has a university degree in law - he graduated from the Faculty of Law and Administration at the A. Mickiewicz University in Poznań.

Szymon Ziolo is not bound to the Issuer by an employment relationship. Szymon Ziolo is a partner in the Law Firm, which provides services to the subsidiary LUG Light Factory Sp. z o.o. on the basis of a contract of mandate. There is no conflict of interest between the duties incumbent on Szymon Ziolo by virtue of being a Member of the Issuer's Supervisory Board and duties incumbent on him by virtue of other titles. There are no family relations between Szymon Ziolo and members of the Supervisory Board and the Management Board.

Competencies of the Supervisory Board of LUG S.A.

The competencies of the Supervisory Board include:

- examination of the balance sheet and profit and loss accounts for the given fiscal year;
- examining the Management Board's report on the Company's activities;
- submitting a written report to the General Meeting on the results of the above examination;
- selection of an auditor;
- representing the Company in contracts and disputes between the Company and members of the Management Board;
- appointing and dismissing members of the Management Board;
- adopting the Regulations of the Management Board;
- approval of the acquisition and disposal of real estate, perpetual usufruct or an interest in real estate or the right of perpetual usufruct of land;
- approval of expenditures or obligations incurred by the Company in excess of PLN 1,000,000 (one million zlotys);
- determining the principles for remunerating members of the Company's Management Board;
- assessing the Management Board's motions regarding the distribution of profit or coverage of loss;

Supervisory Board of LUG Services Sp. z o.o.

As of 23/08/2022, the Shareholders' Meeting of LUG Services Sp. z o.o. appointed a Supervisory Board within the Company consisting of:

- Iwona Wtorkowska - Member of the Supervisory Board
- Anna Wtorkowska - Member of the Supervisory Board
- Jakub Wtorkowski - Member of the Supervisory Board

The Supervisory Board of LUG Services Sp. z o.o. consists of at least three members appointed and dismissed by a resolution of the shareholders. Its term of office is 3 years. The body exercises constant supervision over the activities of LUG Services Sp. z o.o. in all areas of its operations.

In the other companies forming the LUG S.A. Capital Group, no supervisory bodies have been separated.

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

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

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

Within the LUG S.A. Supervisory Board, between its individual members, there are the following relationships:

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

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

1.2.4. Contracts concluded between companies of the LUG S.A. Capital Group and members of the Management Board, providing for compensation in the event of their resignation or dismissal.

No such agreements exist.

1.2.5. Value of salaries and rewards by virtue of performing functions in the authorities of the LUG S.A. Capital Group companies

Information on the value of salaries and rewards due to functions in the authorities of LUG S.A. and in the authorities of subsidiaries is provided in Note 39 of the consolidated financial statements of the LUG S.A. Capital Group for 2022.

1.2.6. Rules for amending the Articles of Association

Any changes to the Articles of Association of the parent company LUG S.A. are adopted by the General Meeting. An amendment to the Articles of Association of LUG S.A. requires a resolution of the General Meeting of the Company and an entry in the Register of Entrepreneurs. This resolution of the General Meeting shall be passed by an absolute majority of votes if the provisions of the Commercial Companies Code (Art. 414 and Art. 415 CCC) do not provide otherwise.

The General Meeting of LUG S.A. may authorize the Supervisory Board to establish the uniform text of the Articles of Association. After the entry of changes in the Articles of Association in the Register of Business Entities, a current report on the subject is published.

In 2022, the General Meeting did not amend the Articles of Association of LUG S.A.

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

The LUG S.A. Group's system of internal control and risk management in the process of preparing financial statements is based on a number of procedures and internal regulations aimed at ensuring effective and efficient control and identifying and eliminating potential risks. In particular, the system is based on the following principles:

- application of accounting recording procedures and control of their observance;
- verification of the application of uniform accounting policies by the companies of the LUG S.A. Capital Group in terms of recognition, valuation and disclosures in accordance with the International Financial Reporting Standards (IFRS), as approved by the European Union;
- use of uniform templates for individual and consolidated financial statements and annual verification of the correctness of their application in the LUG S.A. Capital Group companies;
- application of the procedure for authorization and opinion of annual financial statements prior to publication,
- auditing annual financial statements of LUG S.A., the LUG S.A. Capital Group and the LUG Light Factory sp. z o.o. subsidiary;
- operation at the LUG Light Factory Sp. z o.o. subsidiary. Integrated Quality Management System, compliant with the requirements of the international ISO 9001 standard, the last recertification of which took place in March 2021;

- control carried out as part of supervisory duties over subordinate organizational units by all employees in managerial positions - concerning subsidiaries.

The recording of economic events in the LUG S.A. Capital Group is carried out through an integrated financial and accounting system, the configuration of which is in accordance with the Group's accounting policy. Security and availability of information contained in this financial and accounting system are controlled at all levels.

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

The Issuer uses authorization procedures, according to which periodic reports are submitted to the Company's Management Board and then to members of the Supervisory Board for their opinions. After obtaining the opinion of the Supervisory Board and after the auditor completes its verification, the financial reports are approved by the Company's Management Board for publication, and then forwarded by an employee of the Investor Relations Section to the relevant capital market institutions and to the public. Until publication, periodic reports including financial statements are made available only to those involved in the process of their preparation, verification and approval.

2. GENERAL INFORMATION ABOUT THE CAPITAL GROUP

2.1. History of the Issuer and the LUG S.A. Capital Group



The history of the LUG S.A. Capital Group dates back to 1989, the moment LUG was established in Zielona Góra. Over the years, it has evolved from a family-owned company to the international LUG S.A. Capital Group, which is now made up of the parent company and specialized Group companies:

- LUG S.A. is the parent company of the LUG S.A. Capital Group and holds 100% of shares in LUG Light Factory Sp. z o.o., LUG GmbH, T.O.W. LUG Ukraina, LUG Lighting UK Ltd, 65% of shares in LUG do Brasil Ltda, 93% of shares in BIOT Sp. z o.o., 50% of shares in LUG Argentina SA., 66.8% in LUG Aydinlatma Sistemleri Anonim Sirketi, 45% in ESCOLIGHT Sp. z o.o. and 97% in LUG Services Sp. z o.o. Since 2008, all production activities previously carried out by LUG S.A. have been taken over by LUG Light Factory Sp. z o.o., and the parent company's activities have focused on the supervision and control of subsidiaries and the implementation of a strategy to expand its network of representative offices in the domestic and foreign markets. The company was established in 1989 in the form of a spółka cywilna [Polish private partnership]. On 03/09/2007, LUG Sp. z o.o. was transformed into a spółka akcyjna [Polish joint stock company], and since 2008 the company has been functioning as a parent company in the LUG S.A. Capital Group.
 - The subsidiary **LUG Light Factory Sp. z o.o.** is a leading manufacturer of luminaires that specializes in industrial and decorative luminaires. On 01/08/2008, the Company took over the previous activities carried out by the Issuer and is engaged in the design, implementation, production and sale of luminaires.
 - Subsidiary **LUG GmbH** - since 11/09/2008 has been an element of the foreign trade organization of the LUG S.A. Capital Group and focuses on sales and promotion of products on the German market.
 - Subsidiary **T.O.W. LUG Ukraina** - was established in 2005 and dealt with sales of LUG brand luminaires in the Ukrainian market. The Company's operations have been suspended for several years due to the difficult business environment in Ukraine.
 - The subsidiary company **LUG do Brasil Ltda.** - was registered on 28/06/2012, while the official opening of its headquarters took place on 24/04/2013. Its primary task is to distribute LUG-branded products in Brazil and more broadly in South America, thereby increasing the group's share in the global lighting market.
 - The subsidiary company **LUG Lighting UK Ltd.** - was registered on 21/06/2013, while the completion of all formal and legal procedures related to the start of operations took place on 10/09/2013. Its primary task is to introduce LUG brands to the UK and Irish markets, export and sell luminaires and lighting systems.
- The subsidiary **BIOT Sp. z o.o.** - was registered on 09/09/2017. The main activity of the new entity is to conduct research and stimulate development in the area of new IoT lighting technologies.
- **LUG Argentina SA** - registered on 30/08/2017. The purpose of the Company is to conduct activities including, but not limited to, manufacturing, processing, assembly and assembly of luminaires, commercial activities, include sales of luminaires and accessories, and consulting activities in the field of lighting technology, including for energy conservation projects.

- **LUG Aydınlatma Sistemleri Anonim Şirketi (LUG Turkey)** - was registered on 06/08/2018 with headquarters in Istanbul. The purpose of the Company is to conduct commercial and consulting activities in the field of professional lighting solutions. The establishment of LUG AYDINLATMA SİSTEMLERİ ANONİM ŞİRKETİ is a result of the LUG S.A. Capital Group's foreign expansion, an element of which is the expansion of its business in the Turkish market.
- On 24/10/2019, a limited liability company, which is a related party to LUG, operating under the name **ESCOLIGHT Sp. z o.o.** with its registered office in Zielona Góra, was established. The company was established for an indefinite period of time, and its object is to provide lighting management services: Light-as-a-Service, consisting of comprehensive project services including preparation, financing, implementation and maintenance of lighting investments.
- On 27/01/2020, a new company was established in the LUG S.A. Capital Group: **LUG Services Sp. z o.o.** with its headquarters in Zielona Góra. The company was established for an indefinite period of time, and the subject of its activity is the design and implementation of lighting installations, as well as the integration of software components cooperating with lighting installations.

On November 20, 2007, LUG S.A. made its debut on the NewConnect market run by the Warsaw Stock Exchange S.A. and was included in the NCIndex. In addition, in the fourth quarter of 2012, LUG S.A. was included in the NC Lead segment, grouping the best companies meeting a number of quantitative and qualitative criteria, and in 2013 and periodically in 2014 and 2015, the Company was included in the NCIndex30 index of the most liquid companies. In 2017, LUG S.A.'s shares, as in previous years, were part of the NCIndex, with the Issuer's shares classified in the NC Focus segment as of December 2020.

Table 19. Issuer's stock market history

Event	Details
Listing market / Segment	NewConnect / Construction
IPO date	20/11/2007
IPO - securities introduced to trading	27,000,000 A series shares 8,922,850 B series shares
Issue value	PLN 20.6 million
Original nominal price	PLN 0.04
Date of split 1:4	26/03/2010
Number of shares after the split	143,971,499 items
Date of SPO	19/07/2010
SPO - securities placed on the market	35 992 850 C series shares
Issue value	PLN 5.4 million
Number of shares	179,964 250
Number of votes at the GM	179,964 250
Nominal price	PLN 0.01
Share capital	1,799,642.50
Date of reverse split 25:1	23 November 2012
Number of shares after the reverse split	7,198,570 items
Nominal price	PLN 0.25

Source: LUG S.A.

2.2. Business profile

LUG is a manufacturer of professional LED luminaires and exporter of lighting solutions with over 34 years of experience. LUG brand products can be found both in Poland and in more than 70 countries around the world.

The business model of the LUG S.A. Capital Group is based on designing, manufacturing and selling innovative lighting solutions, including luminaires and the LUG Urban lighting management system, offering a lighting service (Light as a Service), and performing design and consulting services for:

- architects,
- designers,
- contractors,
- wholesalers,

LUG's luminaires are characterized by modern design, functionality and excellent lighting parameters, meeting the requirements of individual markets and satisfying the tastes of users around the world. This is confirmed by the light realizations of spectacular objects completed over the years. The vast majority of LUG's luminaires are LEDs, whose share in LUG's sales structure in 2022 was 100%.

The high luminous parameters of LUG brand luminaires are confirmed by certificates, including:

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

as well as numerous awards and accolades, i.e. the iF Design Award 2022 received for innovative luminaire systems: FRAME and ARTERA LED, recognizing the best industrial design. These are more iF Design awards for LUG products.

Table 20. Selected foreign projects of LUG in 2022

Foreign projects	
Lighting of an electric power substation, Palmela	Portugal
Modernization of street lighting in the city of Willemstad, Curaçao	Caribbean
Lighting of the office building of the MAPFRE insurance company, Lima	Peru
Lighting for the Bürogebäude office building, Grossmann Straße, Jena	Germany
Lighting for the slopes of Ruka Ski Resort, Kuusamo	Finland
Modernization of power plant lighting for the Van Phong BOT Thermal Power Plant Project, Khánh Hoa	Vietnam
Sylux luminaires office building lighting in Ljubljana	Slovenia
Street lighting in the cities: Kynartai, Pilviskiai and Virbalis	Lithuania
Comprehensive lighting of Besins Healthcare pharmaceutical factory, Muel, Zaragoza	Spain
Complex lighting of Al. Udeid Air Base, Dukhan Airbase & Doha Airbase	Qatar
Lighting of the New Capital Grand Mosque, Cairo	Egypt
Upgrading the exterior lighting of the Buenaventura mine in the cities of Cajamarca and Cerro de Pasco	Peru

Source: LUG S.A.

Table 21. Selected domestic projects of LUG in 2022

Domestic projects	
Urban lighting modernization project of the Capital City of Warsaw	Warsaw
Lighting of the Kozierki Tennis Academy Sports and Tennis Complex	Grodzisk Mazowiecki
Modernization of street lighting in the city of Grudziądz and municipalities including Łabiszyn, Nakło nad Notecią, Nowa Wieś Wielka, Pasłęk, Lipowiec Kościelny, Tolkmicko, Wielgie, Chocianów, Świerklany and Osieczna	multiple locations
Lighting of a paint and coatings plant of Peter Lacke Polska	Siechnice
Modernization of street lighting in municipalities: Lidzbark, Ława and Pasłęk	multiple locations
Bricomarche store chain lighting	All of Poland
Lighting for the outdoor area and a parking lot at the Sports and Entertainment Arena (Hala Sportowo-Rekreacyjna CRS)	Zielona Góra
Modernization of street lighting in cities and municipalities: Złocieniec, Żuromin, Górzno, Strzegowo, Ścinawa, Łopuszno, Kłoczew	multiple locations
Lighting of a large-area warehouse of TPV Displays Polska,	Gorzów Wielkopolski
First stage of modernization of lighting of Marywilska Shopping Center	Warsaw
Interior lighting of Hanza Tower apartment building	Szczecin
Modernization of interior lighting of PLUM	Ignatki
Comprehensive lighting of Dramiński Ultrasonografy	Olsztyn

Source: LUG S.A.

2.3. Assortment

The LUG assortment is a diversified portfolio of lighting products consisting of infrastructure, industrial and architectural luminaires that are used in such areas as city and park lighting, street lighting, building illumination, gas station lighting, large-scale shopping malls, retail chains, offices, cultural and public facilities.

The luminaires of the LUG S.A. Capital Group are designed and manufactured in the factories located in the Kostrzyn-Słubice Subzone of the Special Economic Zone in Zielona Góra and in the Research and Development Center together with the production complex located in Nowy Kisielin, in Zielona Góra. In addition, solutions dedicated to South American markets are being developed at the LUG factory located in Posadas province in Argentina.

Table 22. Categories of luminaires of the LUG S.A. Capital Group.

Interior lighting	Exterior lighting
luminaires and decorative systems	floodlights
Projectors	infrastructure lighting (street and park lighting)
downlight fixtures	outdoor architectural luminaires
indirect luminaires	
louvre and modular luminaires	
clean surface lighting	
quick assembly lines	
industrial luminaires	
Ceiling light fittings	
emergency luminaires	

Source: LUG S.A.

A separate category is Smart Lighting and SmartCity solutions, which LUG develops through its subsidiary BIOT Sp. z o.o

In 2020, the Issuer expanded its portfolio with PURELIGHT LUG solutions that use UV-C radiation to decontaminate surfaces and air (walls, countertops, objects, etc.). It reaches the most inaccessible places as reflected rays eliminating up to 99.9% of bacteria and viruses in the room. These solutions are LUG's answer to the current needs of the HoReCa, medical, tourism, catering and other service segments, among others.

2.4. Lighting market and its development prospects

2.4.1. Industry characteristics

In 2022, the tense geopolitical situation caused by the war in Ukraine has exacerbated and accelerated the energy crisis in Europe, and rising electricity prices are just the beginning. The situation is stimulating demand for energy-efficient lighting, which is particularly evident in the segment of infrastructure lighting and the activity of TSUs in joining lighting infrastructure modernization projects. The industry and retail sectors are also suffering from rising energy costs due to inefficient and energy-intensive lighting systems.

Characteristics of the lighting industry

The lighting industry is a diversified, complex and mature segment, and its products address needs in many different areas. It is distinguished by a stable market of recipients in which products are mainly distributed by specialized electrotechnical wholesalers or directly sold for investments. The European lighting sector employs over 150,000 people and its revenues constitute about 30% of the industry's global revenues. The sector features a high level of innovation and high fragmentation – in addition to a number of entities with a significant position on a global scale, it includes several thousand enterprises from the SME sector, which operate primarily in the area of distribution of lighting fittings.

The increasing demand for energy-saving and smart lighting solutions, the need to reduce electricity costs, growing investments in infrastructure, including roads, offices, residential complexes, parks, hotels, etc. are the main drivers of the increase in the value of the European LED lighting market. All this has to do with population growth, increasing urbanization and climate change. The trends also determine the dynamic development of the industry on the Polish market.

There are three main segments within the entire lighting market:

- backlighting (lighting used, among others, in LCD technology),
- automotive lighting (lighting used in the automotive industry) and
- general lighting (the segment of LUG's operations).

LED lighting continues to be the most popular technology on the market. It is based on light-emitting semiconductor materials that convert electricity into light. It is the fastest growing lighting segment, and stands out as the technology with the highest rate of market penetration among environmentally friendly solutions.

The LUG S.A. Capital Group is an international entity operating in the lighting industry in Poland and abroad. It targets the general lighting segment focused around the production of lighting fittings for professional customers. LUG is building its competitive position through comprehensive services from design to customization and delivery of complete lighting solutions.

The Plimsoll Insights report, published in January 2022, indicated a market share of 525 players, of which the European lighting market is dominated by the largest lighting companies. The top ten players control as much as 69% of the market.

Global lighting market



Source: <https://www.researchandmarkets.com/reports/5511341>

According to the “Global LED Lighting Market Report and Forecast 2022-2027”, the global LED lighting market reached a value of about USD 64,382 million in 2021. Thanks to growing environmental awareness worldwide, the market is projected to continue growing at a CAGR of 9.1% from 2022 to 2027 to reach about USD 109,661 million by 2027.

The LED lighting industry is being driven by growing environmental awareness around the world. This is linked to rising global pollution levels and increased demand for energy-efficient solutions. In addition, the popularization of LED lighting solutions is positively influenced by their low operating costs and reduced heat loss. Increasing investment in the development of green building infrastructure will drive demand for LED lighting.

According to analysts, factors hindering the development of the smart lighting sector are:

- high component costs,
- unstable metal prices,
- scarcity of electronic components.

As a counterbalance, the smart lighting sector will be driven by a rapid increase in investments in infrastructural solutions characterized by higher energy efficiency.

Polish lighting market

The professionally organized lighting market in Poland, is characterized by a high degree of fragmentation, from small lighting companies of a few people, through large companies with a stable market position and a wide range of products (i.e. the LUG S.A. Capital Group), ending with the largest multinational corporations.

The leading position of lighting solutions in LED technology is the result of leading trends, which include:

- cost optimization;
- looking for savings with LED technology;
- smart and economical management of street lighting;
- progressive automation.

In addition to the need for efficiency, over the years there has also been a significant increase in awareness among societies that not only care about noticeable savings and undeniable quality of lighting, but also the natural environment and fully consciously want to use products and services that have a positive impact on climate change.

The popularity of energy-efficient lighting is on the rise, and rising electricity prices are prompting professional lighting manufacturers to offer increasingly sophisticated systems that, with remote control, will not only enable convenient lighting control, but also recoup their investment costs within a few years. Managers seeking savings first find them in lighting installation. Although investment in modern LED technology is initially much higher than in the case of traditional light sources, it pays off faster, not only in the form of real savings, but also in the convenience and longer life of the luminaires. Available LED luminaires can replace traditional light sources in a 1:1 ratio, which generates profits of up to 50-70% compared to conventional lighting.

IoT (Internet of Things) solutions, successfully used in smart cities, are also gaining popularity. In addition to a range of advanced services, IoT improves lighting control, adjusting lighting according to the time of day, the presence of users or current weather conditions. Modern LED luminaires dedicated to street lighting are equipped with communication modules, but as well as advanced optical technology, increasing road safety. At night or in difficult weather conditions, LED technology eliminates the phenomenon of unpleasant glare that blinds road users. Street lighting modernization can be financed from state funds. It is encouraged by the trend to use urban infrastructure ecologically and improve the energy efficiency of external lighting systems. Thanks to LED lighting, municipalities are able to save up to 70% on electricity costs.

Manufacturers of lighting systems increasingly often decide to offer ESCO funding to modernize lighting.

ESCO service:

- reduces the costs associated with equipment maintenance,
- reduces system failure rates,
- allows for maximum efficiency,
- is offered to both private entrepreneurs and local government units.

The entire practice consists of cashless lighting upgrades. The user covers the cost of the investment in monthly instalments which are generated by the savings resulting from the operation of the upgraded system. This trend is a continuation of the energy-saving idea of LED lighting, which guarantees real profits for investors.

Good light is primarily intended to serve humans and improve their comfort in daily life, which is related to the development of Human Centric Light (HCL), which takes into account the effects of light on the body and human psyche. Staying in artificially illuminated spaces with limited access to natural light leads to disruption of the natural circadian rhythm (insomnia, concentration problems, chronic fatigue). The result of the search for a solution is the HCL configuration, which accurately replicates daylight. The concept combines stimulating blue light with a warmer, more pleasant color. In 2023,

the LUG Group decided to go a step further and develop the Nature Centric Lighting concept, which takes into account broadly, not only the needs of humans, but also animals and the environment as a whole.

2.4.2. Prospects for market development

The need to save energy is growing worldwide. Lighting accounts for nearly 10% of electricity consumption in households and 18-40% in commercial premises. The transition to energy-efficient lighting is expected to reduce global electricity demand for lighting by 30-40% in 2030. In addition to the visible savings, this will translate into a reduction of the carbon footprint and will help to prevent climate change.

Regulatory, environmental and social factors driving the development of the lighting market:

- EU targets to increase energy efficiency;
- Approximately 75% of lighting installations in Europe are older than 25 years, which further stimulates the process of widespread replacement of lighting with energy-saving solutions;
- Downward pressure on electricity costs for building and infrastructure maintenance;
- Energy security priority;
- Capital expenditures on infrastructure, which contribute to the creation of new roads, parks, office buildings, apartment buildings, hotels and other facilities;
- The EU financial perspective for 2021-2027 and the availability of funds as a driver of investment levels across the European Union.

Technological factors:

- The rapid development of LED technology leading to increasingly better parameters in terms of efficiency and sustainability, with a simultaneous decrease in the prices of LED light sources;
- IoT concept development;
- Development of new business models based on the development of new technologies;
- Human/Nature Centric Lighting;
- Automation of services.

The development of the industry is also stimulated by megatrends and phenomena observed on a global scale:

- rapid population growth, especially in developing countries, and rising population incomes that are willing to spend more money on lighting;
- increasing urbanization, which provides a boost to demand for lighting;
- irreversible climate change;
- high electricity price increases.

2.5. Major markets of operation and branch information

The LUG S.A. Capital Group supplies professional lighting solutions with high technical and performance parameters to investment projects in Poland and around the world through its domestic sales offices and foreign representative offices.

As of the date of publication of the report, the Issuer's domestic sales structure consisted of regional offices in major Polish cities, including:

Warsaw, Katowice, Wrocław, Poznań

Within the foreign trade structure of the LUG S.A. Capital Group, as of the date of publication of the report, there were foreign branches located in the following cities:

Berlin, London, Dubai, Sao Paulo, Posadas, Istanbul, Morocco

The Berlin, London, Sao Paulo and Posadas branches operate through subsidiaries, while the Dubai and Morocco branches function as foreign representative offices. LUG's representative office in the Kingdom of Morocco was registered at the beginning of 2022 and operates under the name LUG Maroc. The headquarters of LUG do Brasil Ltda., LUG Lighting UK Ltd., LUG GmbH, the regional office in Warsaw, as well as the Company's headquarters in Zielona Góra, operate luminaire showrooms where the latest LUG luminaires can be seen in a close-to-natural operating environment. In addition, LUG has two partner showrooms for North African customers: in Casablanca, Morocco, and in Algiers, Algeria.

The LUG S.A. Capital Group, through its companies, conducts business in Poland and on European and world markets. The most important export direction is European countries, which accounted for 38% of total sales revenue in 2022.

Table 23. Main sales markets of the LUG S.A. Capital Group.

	2022 [PLN million]	2021 [PLN million]	2020 [PLN million]
Poland	106.87	81.38	69.33
Other countries in total, including:	133.08	122.53	113.40
Europe	92.29	91.02	79.41
Middle East and Africa	34.26	9.70	12.40
Other	6.54	21.82	21.58

Source: LUG S.A.

The company's commercial strategy is to focus its activities on 5 strategic macro-regions, which were identified in 2022. The macro-regions, by strengthening local structures and relying on economies of scale, are a strategic element of our main goal, namely development in international markets. The foundation for the implementation of macro-regions is the need to organize geographically and take into account the cultural and development aspects of individual markets.

Factors analyzed in the process of entering new markets are:

- conclusions resulting from observations of market trends;
- analysis of LUG's portfolio in terms of products corresponding to customers' needs and tastes, in accordance with the product life cycle of the professional lighting sector in individual markets;
- past experience - in order to limit the risk of entering new markets, LUG has strategically chosen the markets where it has been operating for several years, thus the premises - opportunities and limitations that may exist in a given market - are known;
- geographical analysis and segmentation - the choice of several different markets is due to the need to ensure the guarantee of an adequate level of sales (different countries, from different parts of Europe and the world allow diversification of foreign exchange risk);
- dynamics of economic growth and potential value of the market;
- political stability;
- the human rights and sustainable development situation;
- respect for international contracts and standards.

In 2022, the LUG Group's goal was to maximize revenues by leveraging the potential of the markets where LUG companies have a presence, despite the impediments of post-pandemic repercussions and the tense geopolitical situation related to the war in Ukraine. An element supporting revenue maximization was the expenditures made in previous years on investments in building a retail network, launching showrooms and building the LUG brand in individual markets.

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

- the subsidiary LUG Light Factory Sp. z o.o. within the framework of the plants located in Zielona Góra and Nowy Kisielin;
- LUG Argentina SA within a plant located in Posadas, Misiones Province, Argentina.

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

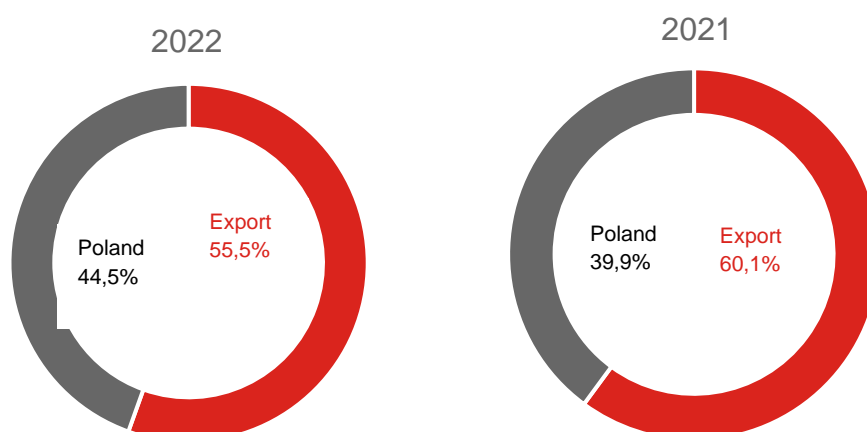
2.6. Issuer's revenue structure

Starting from 2013, the level of sales revenues realized by the LUG S.A. Capital Group in foreign markets has remained above the 50% level, taking the following values: in 2020 - 62.1%, in 2021 - 60.1%, in 2022 - 55.5%.

In 2022, the share of exports and domestic sales was balanced, for which the strengthening of domestic sales is largely responsible. The share of export revenues in the Group's scale reached 55.5%, while revenues from foreign sales increased to PLN 133.10 million (+8.6% year-on-year). The Group also recorded a significant increase on domestic revenues, up 31.3% to PLN 106.87 million.

The LUG S.A. Group's goal is to increase the share of exports so that it accounts for 75% of consolidated sales revenues.

Chart 6 Structure of sales revenues on a year-to-date basis



Source: LUG S.A.

Table 24. Structure of sales revenues of the LUG S.A. Capital Group YoY

	2022		2021	
	Value [in millions of PLN]	Share [in %]	Value [in millions of PLN]	Share [in %]
Domestic	106.87	44.5%	81.38	39.9%
Export	133.10	55.5%	122.54	60.1%
TOTAL	239.97	100.00%	203.92	100.00%

Source: LUG S.A.

In 2022, LUG sold its products to 74 countries (in alphabetical order):

Albania, Algeria, Saudi Arabia, Argentina, Armenia, Australia, Austria, Azerbaijan, Bahamas, Bahrain, Belgium, Belarus, Bosnia and Herzegovina, Brazil, Bulgaria, Chile, Croatia, Cyprus, Montenegro, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Ghana, Greece, Georgia, Spain, Netherlands, India, Iran, Ireland, Iceland, Israel, Jamaica, Jordan, Qatar, Kuwait, Lebanon, Lithuania, Luxembourg, Latvia, Macedonia, Malta, Morocco, Mauritius, Moldova, Germany, Nigeria, Norway, New Zealand, Oman, Pakistan, Paraguay, Peru, Poland, Portugal, Romania, El Salvador, Serbia, Slovakia, Slovenia, Sri Lanka, Switzerland, Sweden, Tunisia, Ukraine, Hungary, United Kingdom, Vietnam, Italy, Curaçao, United Arab Emirates.

Table 25. Growth of sales revenues of the LUG S.A. Capital Group according to IAS/IFRS

Year	Growth - domestic	Growth - export	Total growth
2020 / 2019	+3.79%	+11.50%	+8.45%
2021 / 2020	+17.38%	+8.05%	+11.59%
2022 / 2021	+31.32%	+8.61%	+17.67%

Source: LUG S.A.

The structure of the LUG S.A. Group's customers in the period 01/01/2022 - 31/12/2022 was significantly diversified, both in terms of subjects and geography. The LUG Group cooperated with a large number of regular customers, among which the dominant customer due to the value of the contract being executed was the City of Warsaw, represented by the Municipal Roads Administration in Warsaw. The value of the contract executed for this client in 2022 under Stage I is PLN 40.48 million. In 2023 and 2024, the LUG Group will supply luminaires worth PLN 39.4 million for this client, as part of Stage II of the investment.

2.7. Competitive environment

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

In addition to small manufacturers and importers, the industry includes a group of more than a dozen entities operating in the area of professional lighting technology. Companies in this group specialize in the production of luminaires for commercial applications, including illumination of industrial, commercial, sports, office, hotel or road infrastructure facilities. The aforementioned segment is the domain of the LUG S.A. Capital Group's operations, which is why only manufacturers of professional luminaires and lighting systems on an international scale should be counted among the Issuer's competitors.

In addition to professional lighting manufacturers, Polish lighting companies also compete with foreign suppliers of low-cost and poor-quality solutions, mainly from Central and Eastern Europe and Asia (mainly China). Despite the lack of any comparability of products, this situation is due to the fact that customers and investors have limited awareness of product differences and their impact on aspects such as quality, energy efficiency or minimizing the negative impact on the environment when making purchasing decisions. However, thanks to numerous educational campaigns and ongoing training, this situation is steadily improving.

2.8. Lighting market share

Revenues from sales of LUG brand luminaires in 2022 amounted to PLN 238.47 million. Due to the lack of clear data on the value of the Polish lighting market from the Central Statistical Office and the lack of data on the value of individual foreign markets, the Company does not publish information on the current market share of the LUG S.A. Capital Group.

At the same time, the Management Board of LUG S.A. was taking a number of measures in 2022 to maintain and expand its share in the lighting market, including:

- Development of strategic product groups in the areas of public, architectural and industrial lighting.
- Launch of the implementation of the strategic audit and work on updating the Strategic Development Directions for 2023-2026, which was finalized in the first quarter of 2023;
- Deepening penetration of the markets where the Issuer is present;
- LUG's organizational changes regarding further consolidation of commercial structures and separation of macro-regions;
- Activities of subsidiaries in foreign markets, as well as BIOT and LUG Services expanding the scope of the Group's activities;
- Intensified efforts to disseminate smart lighting and smart light management technologies in a broad sense;

- Staying ahead of market trends and being ready to embrace new technologies, which resulted in a record-breaking street luminaire efficiency of more than 190lm/W;
- Intensive development of the product range and investment in new lighting solutions, as exemplified by the activities of BIOT Sp. z o.o. for development in the IoT area.

3. SIGNIFICANT EVENTS AFFECTING OPERATIONS IN 2022

3.1. Key circumstances and events affecting operations

The most important events that affected the operations and financial results of the LUG S.A. Group companies in 2022 included:

Implementation of a lighting modernization project for the City of Warsaw

With reference to RB ESPI 3/2021 dated January 13, 2021, in 2022 LUG Light Factory implemented the largest urban lighting modernization project in Poland and one of the largest in Europe. The LUG Group delivered a total of approximately 43,500 luminaires (basic contract + option right) under the contract for "Delivery of new luminaires in LED technology for the City of Warsaw". Revenue from the performance of this contract in 2022 alone amounted to PLN 22.49 million. On November 10, 2022, LUG signed an addendum to this contract, under which the scope of the executed contract was increased, and the final delivery date for all luminaires was changed to May 30, 2023. Taking into account the above, the current value of the contract has increased to PLN 40.48 million gross. The ordering party, in accordance with the terms of the contract, exercised its option right to the full extent. The investment is scheduled for completion in April/May 2023.

On April 21, 2023, LUG Light Factory signed another contract with the Capital City of Warsaw, represented by the Municipal Road Administration, for the implementation of the second stage of the investment. Under this contract, the company will deliver over 35,000 luminaires with a total gross value of PLN 39.4 million within 18 months. The ordering party is entitled to the so-called "option right" with a gross value of PLN 5 million.

Completion of the expansion of the LUG Research and Development Center

On January 17, 2022, the Issuer published a current report ESPI 1/2022 on the signing of the investment's acceptance protocol between LUG and the investment's contractor, M&J. Pursuant to the signed document, the new warehouse hall and the added part of the administrative building began to be used. As a result of the investment, the warehouse area has increased by 3,000 sqm, while the office and social space has expanded by about 500 sqm. The Center in Nowy Kisielin is LUG's second production facility in Poland. The first is our headquarters in Zielona Góra, established in 2008. The enlarged facility improved the Group's warehouse management and provided space for the further growth of the company.

Opening of representative office in Morocco

On February 14, 2022, LUG opened a sales representative office in Morocco, which operates in the Moroccan market under the name LUG Maroc. The opening of the representative office was another step in strengthening its active presence in the North African region, where the LUG Group had already completed a number of successful lighting projects, including the modernization of street lighting in the city of Meknes in Morocco, the lighting of public spaces in Casablanca and comprehensive lighting for the New Cairo City project in Egypt.

Election of a proxy of LUG S.A.

On March 25, 2022, the Management Board of LUG S.A. passed a resolution on the appointment of the Company's Proxy (independent proxy) consisting of Mr. Jakub Wtorkowski.

Appointment of LUG representative to the SEG Supervisory Board

Mr. Jakub Wtorkowski, LUG's Proxy and Director of Strategic Finance and Risk, has been appointed to the Supervisory Board of the Association of Stock Exchange Issuers by the General Meeting of Shareholders of the Association of Stock Exchange Issuers.

As an ordinary member, he oversees the Association's activities on behalf of member companies listed on the NewConnect market. The SEG Supervisory Board has 8 members representing significant Issuers who are member companies and so-called supporting members of the Association.

Recommendation of the Management Board on the allocation of LUG S.A.'s net profit for 2021

The Management Board of LUG S.A., on May 26, 2022, passed Resolution No. 01/05/2021 regarding a motion to the Ordinary General Meeting of Shareholders to allocate the net profit of LUG S.A. for 2021 in the amount of PLN 391,497.72 in its entirety to reserve capital from retained earnings. This proposal was referred to the Company's Supervisory Board, which evaluated it positively and made no comments. The final decision on the distribution of LUG S.A.'s profit for 2022 was made by the Company's Annual General Meeting.

Ordinary General Meeting of LUG S.A. held on June 27, 2022

The Ordinary General Meeting of LUG S.A. was held on June 27, 2022 at 12:00 p.m. at the company's headquarters, which proceeded in accordance with the agenda, without any adjournments.

Increase of share capital in a Group company: BIOT Sp. z o.o.

On June 2, 2022, BIOT's Extraordinary Meeting of Shareholders passed a resolution to increase the Company's share capital by PLN 300,000.00 through the creation of 6,000 new shares. The Company's existing Shareholders received a priority right to take up the new shares in proportion to their existing shares. LUG S.A. exercised its priority right and took up 5,265 newly created shares with a nominal value of PLN 50.00. As a result, LUG S.A. held 12,285 shares with a total nominal value of PLN 614,250.00 (87.75% of the share capital). The second Shareholder abstained from making a decision with regard to exercising the priority right to take up shares. The funds raised from the increase in BIOT's share capital were used to finance the next stages of the company's projects.

Acquisition of shares in BIOT Sp. z o.o.

On August 12, 2022, LUG S.A. acquired 735 shares in BIOT Sp. z o.o as a result of failure to exercise the pre-emptive right to acquire these shares by the other shareholder of BIOT. Accordingly, LUG acquired another 735 new shares with a total value of PLN 36,750.00. As a result of the transaction, LUG S.A. currently holds 13,020 shares with a value of PLN 50.00 per share, with a total nominal value of PLN 651,000.00 (93% of BIOT's share capital).

Acquisition of shares in ESCOLIGHT Sp. z o.o.

On July 13, 2022, LUG S.A. acquired 300 shares of ESCOLIGHT with a nominal value of PLN 50.00 each. The acquired shares represent 15% of the Company's share capital. After the purchase, the Issuer holds 900 shares with a total nominal value of PLN 45,000.00, representing 45% of the Company's share capital.

Appointment of the Supervisory Board of LUG S.A. for another term of office

By virtue of resolutions 16-20 of the Ordinary General Meeting of LUG S.A. dated July 27, 2022, the following persons were appointed to the Supervisory Board of LUG S.A. for a new term:

- Iwona Wtorkowska - to the position of Chairperson of the Supervisory Board,
- Eryk Wtorkowski - to the position of Member of the Supervisory Board,
- Renata Baczańska - to the position of Member of the Supervisory Board,
- Zygmunt Ćwik - to the position of Member of the Supervisory Board,
- Szymon Ziolo - to the position of Member of the Supervisory Board.

Thus, the Supervisory Board of LUG S.A. remained unchanged in its composition its term of office is 3 years.

Notification from shareholder OPERA TFI S.A.

In 2022, the Issuer received notifications from the shareholder OPERA TFI S.A. about the change in the holding of LUG S.A. shares published in the current reports of ESPI LUG S.A. (ESPI 7/2022,

8/2022 and 9/2022). According to the notifications, NOVO Open Investment Fund, managed by OPERA TFI S.A., concluded transactions on April 12 this year and on May 4 this year, as a result of which NOVO FIO ultimately held a total of 717,905 shares (9.97% of votes at the general meeting of LUG S.A.). At the same time, OPERA TFI's shareholding before and after the transactions on April 12 and May 4 remained at 1,365,049 shares (18.96% of votes at the General Meeting of LUG S.A.).

Appointment of the Supervisory Board at the subsidiary LUG Services Sp. z o.o. for the first term of office

In the Issuer's subsidiary, pursuant to resolutions 1-3 of the Extraordinary Meeting of Shareholders of LUG Services Sp. z o.o. dated August 23, 2022, the following persons were appointed to the Supervisory Board for the first term:

- Iwona Wtorkowska - to the position of Member of the Supervisory Board,
- Anna Wtorkowska - to the position of Member of the Supervisory Board.
- Jakub Wtorkowski - to the position of Member of the Supervisory Board.

The term of office of the Supervisory Board of LUG Services Sp. z o.o. is 3 years.

3.2. Achievements in research and development

An absolute prerequisite for the competitiveness of the offer of LUG Light Factory Sp. z o.o. is continuous development, which in 2022 was carried out on the basis of several fundamental elements:

- research and development work related to the design of new solutions,
- completion and commissioning of the expanded Research and Production Center in Nowy Kisielin,
- technological development based on the Group's subsidiary BIOT Sp. z o.o.,
- enhancing the qualifications of LUG's internal laboratory,
- an Integrated Management System based on ISO certification,
- improvement of internal processes,
- cooperation with LUG Group companies (ESCOLIGHT Sp. z o.o. and LUG Services Sp. z o.o.) to create an added value chain for customers.

The research and development work of LUG Light Factory Sp. z o.o. is mainly concerned with the design of new lighting solutions, not only by creating completely new lighting products, but also by improving the parameters and enhancing the luminaires already on offer.

Research and development activities are carried out by LUG Light Factory in an internal laboratory located in the Research and Production Center in Nowy Kisielin, near Zielona Góra. The luminaires and components are tested mainly in terms of safety of use and light performance achieved. Among other things, thermal conditions, luminaire tightness (IP degree), resistance to mechanical impact (IK degree), plastic aging, as well as all electrical parameters are tested. The laboratory of the LUG S.A. Capital Group is equipped with a draft-free chamber for thermal testing of luminaires in accordance with the PN-EN 60598-1 standard, as well as a device for testing the flammability of materials using the heated wire method (GWT) in accordance with the PN-EN 60695-2-10 standard. In addition, the chamber for thermal testing, allows conducting aging tests, which, in combination with the exposure of samples to UV light, makes it possible to simulate the durability of luminaires and their components over time. The laboratory also includes a photometric darkroom equipped with a high-end automatic system for very precise measurements of light distribution curves of luminaires and other light sources (C-Gama type Goniophotometer). For the needs of the electronics department, the Laboratory was retrofitted with a multifunctional generator for EMC testing with accessories, including: immunity to conducted radio frequency disturbances and immunity to pulse waveforms. The laboratory is fully equipped to meet the needs of a broad spectrum of product quality control, and in 2018 the facility received ISO 17025 system approval from TUV SUD.

The Research and Development Division is not only laboratory research, but also design activities, analysis, simulation, construction work and, finally, implementation processes. Customization work, i.e. the development of "tailor-made" solutions and innovations according to customer expectations, is also of great importance in the division. The Customization Department works on projects submitted by a specific customer and develops unique variants and solutions to meet the individual needs of the stakeholder.

In 2022, LUG Light Factory continued its activities in the field of intellectual and industrial property protection as a result of its research, development and implementation work. In 2022, 3 RCD industrial designs were filed with the European Union Intellectual Property Office (EUIPO).

In 2022, LUG Light Factory Sp. z o.o. had two inventions filed for patenting with the Polish Patent Office:

- Invention P.440349 Luminaire (connector);
- Invention P.440601 Light fixture cover (bumper).

Both inventions were created as part of a project co-financed from national funds of the National Research and Development Center, under Measure 4.1. Scientific research and development work of the Operational Program Smart Development 2014-2020 entitled "Industrial research and experimental development work on the development of a safe lighting point" was continued. Implementation work on this solution continued in 2022. The project which has a total value of PLN 5,249,832.36 and the amount of funding: PLN 3,827,141.04 was carried out as part of a consortium, assumed close scientific cooperation with research units, popularization of research results and 4 patent applications. Its goal was to develop an innovative safe lighting pole integrated with a luminaire, constituting a so-called safe lighting point. The solution was presented as a product innovation at the 9th Kraków Road Safety Days conference.

In 2022, LUG Light Factory Sp. z o.o. also continued the project entitled "Industrial research and experimental development work on the development of lighting solutions for personalization of lighting, taking into account chronobiology - possible implications in innovative luminaires", co-financed by the European Union from the European Regional Development Fund under the Regional Operational Program Lubuskie 2020 in the amount of PLN 2,324,289.99, with a total value of: PLN 4,315,418.76. The project involves the development of innovative luminaires in the field of HCL (Human Centric Lighting) and the introduction of new functionalities of luminaires aimed at HCL lighting technology. In the reporting period, development work involving laboratory testing and validation of solution prototypes developed during industrial research continued. The project created new jobs, product innovations, continued cooperation with scientific entities and diffusion of innovations to SMEs. The project will prepare patent applications and design claims in 2023.

Other work carried out in 2022 at the Issuer's subsidiary, LUG Light Factory, was research work commissioned by the Multispecialist Regional Hospital in Gorzów Wielkopolski as a subcontracting service in the research and development project entitled "Utilization of UV-C technology to reduce transmission of SARS-CoV-2 virus and limit transmission of infections in hospitals" in connection with the receipt by the Hospital of a grant for the project "Support of single-name hospitals in the fight against the spread of SARS-CoV-2 virus infections and COVID-19 treatment", funded by the National Research and Development Center. LUG's task was to carry out part of the substantive research on a system for surface and air disinfection, using UV-C devices, with the aim of reducing the transmission of the SARS-CoV-2 virus and reducing the transmission of infections in hospitals. As part of the ongoing project, a prototype of an innovative mobile flow device using UV-C technology was also developed and submitted for testing at the Gorzów Hospital and for research at the University of Zielona Góra and the Częstochowa University of Technology. LUG also joined in the preparation of a new medical procedure related to disinfection of hospital rooms and reduction of infection transmission in hospitals. The research work began in July 2021 and lasted until the end of the first quarter of 2022. The value of the research order was PLN 937,260 gross. In October 2022, the Research

Report for the Project was prepared, thus completing the project process in which LUG was the contractor for part of the substantive research.

At the end of 2022, the second stage of the competition for the selection of key areas within the framework of Lubuskie Smart Specializations, organized by the Board of the Lubuskie Voivodeship, was resolved. The project entitled "Smart City and IoT - smart management of resources in the economy," of which BIOT Sp. z o.o. is the Leader and LUG Light Factory Sp. z o.o. is a partner, has been recommended to conclude an agreement with the Marshal's Office for the development of partnerships within the selected key area. The conclusion of the agreement is scheduled for the first half of 2023. The main objective of the planned Project is to create SmartCity and IOT solutions for smart resource management in the economy by: building business partnerships in areas of specialization - networking, building interdisciplinary cooperation, preparing research and development projects and promoting SmartCity and Internet of Things.

Another direction of the implemented development activities is cost optimization and increasing process efficiency. As part of these activities, the KAIZEN philosophy and 5S methods are being implemented at LUG. The KAIZEN philosophy, as a concept of continuous improvement, found its way into LUG's organizational culture in 2018 in the context of the involvement of all company employees, regardless of level, in the constant search for ideas to improve all areas of the organization. In the same year, the implementation of the 5S program began, which initially covered production areas. The Kaizen project provided employees with an impact on their immediate workplaces, and the 5S program expanded this methodology to include standardization of activities throughout the Production Division. As part of the program, the necessary training and workshops were conducted for all employees in the areas concerned, both directly and indirectly in production. The changes implemented improved quality, efficiency and increased workplace safety. Zone labeling was standardized, division into areas of responsibility (area ownership) and material flow was introduced. Thanks to the standardization following the 5S Methodology, changes introduced in one area were also implemented in other areas. Adherence to 5S principles is verified during periodic audits. Development plans for the coming years include increasing employee activation, supporting an organizational culture of change and continuous process improvement. Through planned training, space will be revised, programs and systems will be systematized and improved. The introduction of production optimization through engineering balancing of production stages will enable the free flow of the production stream through the lines, ergonomization of workstations according to the 5S program, as well as organizing teamwork and improving workstation and assembly instructions.

3.3. Significant non-financial information and data

In accordance with Article 55 Paragraphs 2b and 2c of the Accounting Act, the Company has prepared a separate report of the LUG S.A. Group on non-financial information, and the most relevant information is presented below.

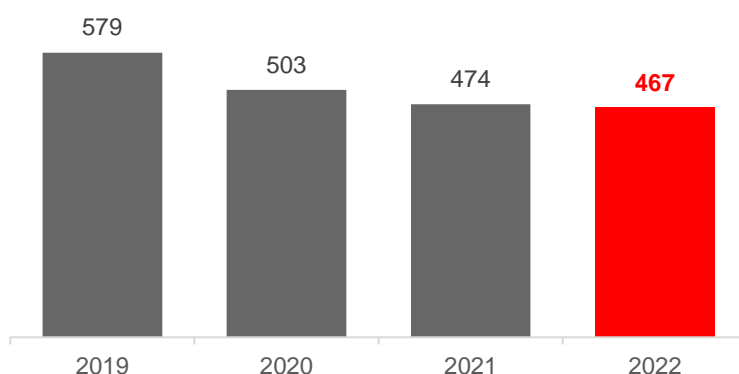
3.3.1. Human Resources

Due to the transfer of the Issuer's entire production and sales activities on 01/08/2008 to the subsidiary LUG Light Factory Sp. z o.o., the subsidiary became the largest employer in the LUG S.A. Capital Group.

The number of people in an employment relationship with LUG S.A. as of 31/12/2022 and as of the date of this report was 0.

As of 31/12/2022, the LUG S.A. Group employed 467 people on a full-time basis, compared to 474 people at the same time last year.

Chart 7 Level of employment in the LUG S.A. Capital Group in 2019 - 2022 on an annual basis (employment based on an employment contract).¹



Source: LUG S.A.

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

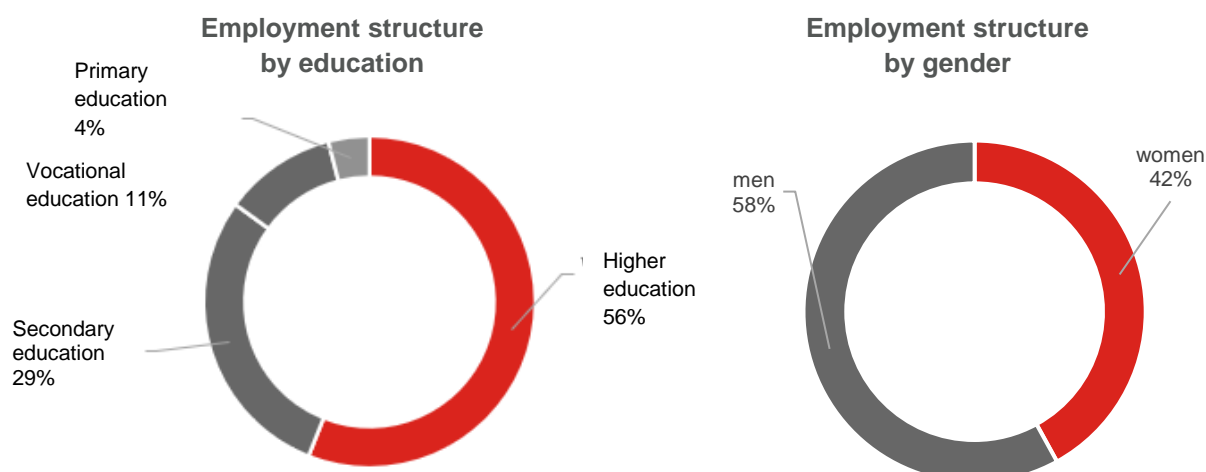
Table 27. Human resources of the LUG S.A. Capital Group and LUG S.A. as of 31/12/2022.

Detailed list	LUG S.A. Capital Group	LUG S.A.
Number of employees (full-time)	467	0
Number of employees (part-time)	3	0
Other forms of employment	32	0
Average age of employees	40 years 5 months	-

Source: LUG S.A.

¹ The change in employment figures is due to a change in the employment conversion methodology in connection with the expansion of the Group with additional subsidiaries.

Chart 8 Employment structure by gender and education



3.3.2. Corporate social responsibility

All entities of the LUG S.A. Capital Group implement the idea of socially responsible business, taking into account legal regulations, ethical norms, as well as social interest. In its daily business activities, the Company ensures high standards and harmony in its environment. In addition, the Company is involved in local community initiatives and charitable organizations.

In 2022, work was underway to develop and implement a unified Code of Ethics for the LUG S.A. Group, which took effect in early 2023. The Code was created on the basis of best practices in the management of the area of business ethics. It is a comprehensive document, the purpose of which is to establish and structure a system of rules of ethical conduct common to all LUG Employees, Associates and Partners. The rules described and the basic mechanisms to ensure the effective application of its provisions are designed to support sustainable development and responsible organizational culture of the LUG Group.

In the 2022 financial year, the LUG S.A. Capital Group made charitable donations totaling PLN 57.2 thousand (compared to PLN 13.5 thousand in 2021). Among the recipient organisations and institutions were:

- Sierpomaga Foundation: collection for Ukraine;
- Ludzie dla Ludzi (People for People) Association: Mecenat Złotego Serca (Patronage of the Golden Heart);
- Teatr za jeden uśmiech (Theater for a Smile);
- St. Joseph Parish in Zielona Góra.

In addition, in 2022, LUG Light Factory Sp. z o.o. supported various individual benefits and provided in-kind support, which has so far taken various forms, such as funding protective masks for volunteers of the Wielka Orkiestra Świątecznej Pomocy (Great Orchestra of Christmas Charity).

As part of its ongoing cooperation with the Territorial Committee for the Protection of Children's Rights, LUG provides ad hoc financial support, as well as sharing its know-how, for example, in marketing, in order to reach TKOPD to a wider audience in need of help.

In 2022, LUG Light Factory employees devoted a total of nearly 400 volunteer hours to helping people fleeing war in various forms. Among these activities were:

- organizing collections of food, hygiene products and clothing,
- sorting donations,
- coordinating and carrying out transports,
- organizing places to stay,
- organizing psychological assistance,
- purchasing a school starter kit,
- organizing equipment for those fighting at the front.

Environmental social responsibility

Responsibility towards the environmental impact of operations is one of the key elements of the LUG Group's organizational culture, as reflected in the "Strategic Development Directions for 2023-2026" adopted at the beginning of 2023. In the face of far-reaching climate change and the need for energy-efficient and sustainable lighting solutions, the LUG Group has also identified the area of sustainable development among its values and goals for the next years of its operations.

With knowledge and design tools at its disposal, LUG innovates by optimizing its projects. This translates into reducing the negative impact on the environment, both through its own operations and production activities and the subsequent use of LUG products. This is primarily due to the high energy efficiency of LEDs compared to traditional light sources, which reduces indirect greenhouse gas emissions into the atmosphere. The installation of LED luminaires is the most economically justifiable way for virtually any company or institution to reduce its negative impact on the environment.

The companies of the LUG S.A. Capital Group pursue a responsible policy in the field of environmental protection and exercise due diligence to ensure that the investments carried out comply with the requirements and take into account technological achievements in the field of environmental protection.

The spread of knowledge in the field of lighting technology and modern marketing tools lead to the widespread development of an energy-saving culture and changes in the product mix in favor of energy-saving products with higher utility standards. Fourteen leading companies in the lighting industry in Poland, combining their own pro-development goals with the demand for environmental protection, have jointly formed an organization: The Association of Lighting Equipment Manufacturers "Pol-Lighting", of which LUG Light Factory Sp. z o.o. is an active member (including participation in the Promotion Committee) and a partner in the "Good Light" project implemented by the aforementioned Association.

The foundation for environmental protection activities in 2022 was the ISO systems: the Environmental Management System according to the international standard ISO 14001:2015 and the Energy Management System according to the ISO 50001:2011 standard. These systems confirm that the Issuer's subsidiary, LUG Light Factory Sp. z o.o., meets the legal requirements related to environmental protection. Both the Environmental Management System Certificate according to ISO 14001:2015 and the Energy Management System Certificate according to ISO 50001:2011 have been held by LUG Light Factory Sp. z o.o. since 2018.

As part of the ISO Integrated Management System, the regularly audited PN EN ISO 9001:2015 standard is in place at the LUG Argentina SA factory in Posadas. In addition, in 2022, BIOT Sp. z o.o. began activities to implement ISO 27001 as a response to the LUG Group's customers' expectations and market requirements.

LUG S.A. Group companies did not incur any criminal penalties for violations of environmental requirements in 2022.

Social responsibility in the development of human resources

The LUG S.A. Group attaches great importance to the promotion of values such as equality, fairness and dialogue, which is confirmed in the LUG Group Code of Ethics, which was developed in 2022 and implemented in 2023. With social justice and gender equality in mind, the Issuer is committed to balancing the gender structure of human resources, and opposes all forms of discrimination and racism. The ratio of female employees to male employees is 42% to 58%. There are women on the Management Board and Supervisory Board of LUG S.A. The company's employees are of various different nationalities.

In 2022, the average number of training hours per person in the LUG S.A. Capital Group:

- among senior executives increased by 252.1% YOY to 50 hours,
- among managers and executives increased by 242.1% YOY to 55 hours,
- among other employees, increased by 56.4% to 13.1 hours.

Overall, the average number of training hours in 2022 increased by 83.5% among all employees.

In the year under review, we conducted training and development programs aimed primarily at developing such competencies as:

- negotiating competencies - aimed at employees of the Sales Department;
- managerial competencies - aimed at representatives of the Management Board, Division and Department Directors and leaders;
- language competencies, supporting the development of potential in international markets.

In addition, each person starting work at the company undergoes a few days of training in light technology.

The Company also supports the sports activities of employees gathered in the LUG TEAM running team and the LUG MTB TEAM mountain biking team.

3.3.3. Prizes

In 2022, the Issuer and companies of the LUG S.A. Capital Group, including in particular LUG Light Factory Sp. z o.o., received awards and distinctions presented in the table below.

Table 28. Awards and distinctions in 2022.

Award	Description
The Best Annual Report 2021	The LUG Group received the Grand Prize of "The Best Annual Report" competition in the category of companies from the NewConnect market for the 7th time. The event organized by the Institute of Accounting and Taxes for the 17th time aims to distinguish the best annual reports prepared for shareholders and investors to be a reliable source of information about the company.
Economic Award of the Marshal of the Lubuskie Voivodeship 2022	The LUG S.A. Capital Group took second place in the "large enterprises" category. The award of the Marshal of the Lubuskie Voivodeship honors over 33 years of LUG's activities in its home region, where the company continues to grow in respect for the needs of the local community. On October 13, 2022, a festive gala of the Economic Congress - Lubuskie 2022 took place at the Lubuskie Theater in Zielona Góra, during which the winners of the Economic Award of the Marshal of the Lubuskie Voivodeship 2021 were selected.

Lubuskie Leader in Innovation	On September 12 2022, the Lubuskie Voivodeship Business Leader Gala was held at the Gorzów Philharmonic. It was organized by the Western Chamber of Commerce and Industry (Zachodnia Izba Przemysłowo-Handlowa). This year, 40 companies competed to win the statuettes, LUG Light Factory Sp. z o.o. once again won the title of the Leader of Innovation of the Lubuskie voivodeship. The aim of the competition was to select and reward the best enterprises in the region.
iF Design Award 2022	The Artera LED and FRAME innovative luminaire systems have been recognized in the iF Design Award 2022 competition. The double win in this prestigious competition rewarding the best industrial design is a great pride and joy for the entire LUG design team. ARTERA LED and FRAME modular luminaire systems are the perfect complement to urban design and a quality that redefines urban space.
Polish pavilion at EXPO in Dubai awarded	In the WorldExpoAwards competition organized for 30 years by EXHIBITOR Magazine, Poland won in the large pavilion category. LUG is part of this victory through lighting. The company supplied CALIBRO LED, MODENA LED, RUNA luminaires and 25 PURELIGHT LUG FLOW UV-C air disinfection units, among others. In other categories, the first places went to the pavilions of Saudi Arabia (very large pavilion) and Switzerland (medium pavilion).

Source: LUG S.A.

3.3.4. Trade fairs and conferences

In 2022, costs of approximately PLN 250 thousand were incurred. LUG Light Factory had the opportunity to participate in the following ventures:

- Light &Building 2022 Trade Show in Germany,
- CONCRETA Porto, in Portugal,
- Belelektro Berlin,
- Architect @ work Poland,
- Architecture Days in France,
- Archifest in France,
- 9th Kraków Road Safety Days,
- 7th European Congress of Local Governments,
- RoadVIP 2022 Polanica-Zdrój,
- Salon de L'Innovation Venoy,
- Vakbeurs Ruimte & Licht Houten in the Netherlands,
- Helso Electricity Vilnius.

The LUG Group focuses its activities on events that provide a space for informed debate on the role of professional lighting solutions, technology, IoT, Smart Lighting and Smart City in areas such as architecture, design, infrastructure and the development of urban/public spaces. As an industry leader with over 34 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.

LUG S.A., as the parent company and parent entity of the Group, does not participate in trade fairs and conferences.

3.3.5. Investor Relations

Transparency and high quality of information policy are the most important elements of LUG S.A.'s communication with the capital market environment. To this end, the Issuer uses two types of instruments. The first one is obligatory actions, the second type is alternative communication tools. The Issuer's Management Board makes every effort to act with the highest standards in both areas. While fulfilling information obligations, LUG S.A. supplements them with a series of corporate communication activities, which allow investors to get to know the Issuer as well as possible and make rational investor decisions:

- direct communication with shareholders and investors,
- investor chats,
- informational materials,
- interviews and press articles;
- social media channels.

In the competition "The Best Annual Report 2021", the Issuer received the Grand Prize of "The Best Annual Report" competition for the seventh time in the category of NewConnect companies. The event organized by the Institute of Accounting and Taxes for the 17th time aims to distinguish the best annual reports prepared for shareholders and investors to be a reliable source of information about the company.

3.3.6. Marketing activities

The LUG Group S.A. focuses its marketing activities on undertaking a variety of modern and effective activities to conduct effective communications directed at strengthening global brand recognition. It creates deep expertise by participating in discussions within key communication platforms such as ecology; energy efficiency; laying the foundations of Smart cities; creating friendly and inclusive urban spaces - for each of the strategic personas.

Given VUCA's turbulent environment and events in the company's closer and farther surroundings, the existing strategic perspective was extended to 2022. This time was used to work out actions to be taken under the new strategic perspective for 2023 - 2026.

Selected activities implemented in 2022 included:

- Development of strategic product groups in the areas of public, architectural and industrial lighting within the processes of Product Lifecycle Management and New Product Development.
- Intensification of activities in the area of online marketing, including in particular:
 - Regular communication with the company's stakeholders through e-mailing campaigns and social media activity;
 - Development of social channels (including exceeding 15,000 likes on the Company's Facebook profile);
 - Conducting dozens of webinars, both internal - aimed at LUG employees in order to continuously improve their competencies - and external - aimed at the company's strategic target groups in order to raise their awareness of the LUG brand, improve their knowledge of the company's offerings and acquire new contacts and business opportunities;
- Development, publication and promotion of a series of new marketing materials targeting the company's strategic target groups in multiple languages to promote LUG's offerings to current and potential future partners in Poland and foreign markets;
- Development of the Zone P - particularly with regard to the development of tools for improving internal communication within the LUG S.A. Group and self-improvement of employee qualifications;

- Internal marketing activities related to various celebrations and the integration of the team around sports events (the *Ludzie z pasją (People with a Passion)* program and sponsorship of the *winobranie (grape harvest) team run*).
- Participation in industry and cultural events (see section 3.3.4 Trade fairs and conferences for more information in this regard). Trade fairs and conferences).

3.3.7. Proceedings before the court

During the reporting period, i.e. from 01/01/2022 to 31/12/2022, LUG S.A. and the other companies of the LUG S.A. Capital Group did not conduct any significant proceedings before a court, an authority competent for arbitration proceedings or a public administration body.

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

3.4.1. Macroeconomic background

In 2022, the degree of volatility in the business environment was significant, and the underperforming readings of economic indicators recorded in the last quarter of the year foreshadowed a weak economy in early 2023. Inflation in Poland reached its highest level in nearly 26 years, and interest rates in 19 years. Relative to 2023, there are some signals giving grounds for cautious optimism, but the improvement, according to analysts, will not be spectacular.

The economic situation of the end of 2022 was influenced by the following factors:

- **PMI index**

The PMI index of the Polish industrial sector rose in December 2022 to 45.6 points (+2.2 points MOM). Thus, the index reached its highest level since May, but remained below the neutral threshold for the eighth consecutive month. The PMI reading indicates less pessimism among businesses, suggesting that the biggest fears about the consequences of the energy crisis, the severity of the recession or the escalation of the war are passing². Sub-indexes for manufacturing and new orders rose, although they remained below 50 points. The PMI index suggests that domestic prosperity may be near the bottom of the cycle. According to experts, Q1 2023 will be the weakest point in economic growth, followed by a rebound. However, the GDP growth rate may remain low in 2023.³

- **Galloping inflation and rising costs**

The average rate of increase in the prices of consumer goods and services reached 17.3% in the last three months of the year, the highest quarterly inflation rate recorded since 1996. In December, the inflation rate reached 16.6%, down slightly from the end of the third quarter. The alarmingly high level of the inflation rate negatively affects the condition of the Polish economy as a whole, and its prolonged elevated level has provoked symptoms of an inflationary spiral being set in motion.⁴ According to IPAG experts' predictions, inflation in Poland will slightly accelerate at the beginning of 2023, and from the beginning of the second quarter it will gradually start to slow down.

Rising costs, especially for energy, will have a key impact on the commercial market in 2023. This can increase the importance of energy efficiency in buildings and accelerate the introduction of innovative solutions. High inflation and expected lower wage growth rates could lead to a decline in the purchasing power of businesses and consumers in 2023.⁵

² Wskaźnik PMI dla Polski wyższy od oczekiwań. Są dane za grudzień, www.forsal.pl, 2.01.2023r., g.:10:41.

³ PMI odbija, *Codziennik Santander*, www.santander.pl, 3.01.2023 r.

⁴ Stan i prognoza koniunktury gospodarczej nr 1/2023 (117), IPAG, luty 2023r.

⁵ Rok 2022 pod znakiem wzrostów. Jakie trendy będą kształtować rynek w 2023?, www.inteligentnybudynek.eu, 22.12.2022r.

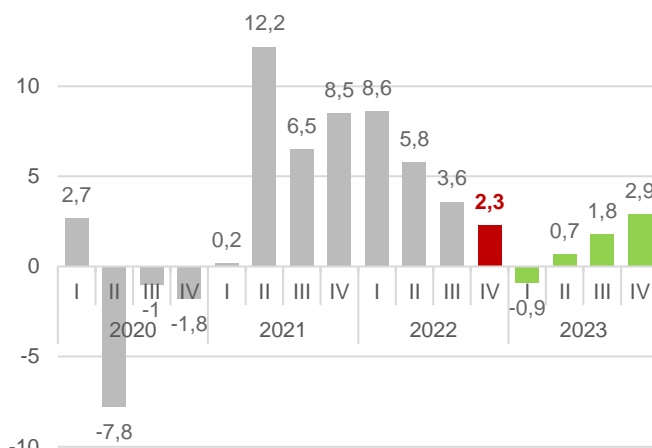
- **Global supply chain disruption and rising commodity prices**

Trade disruptions are on the rise and are likely to destabilize global supply chains in future periods as well. They have exposed inherent weaknesses, leading to a reshuffling of the global supply chain. Most companies have taken steps to improve the resilience of their supply chains for fear of outages. In particular, the Russian invasion of Ukraine provided the impetus for changes in supply chains – defined here as diversification of supplier bases (Baldwin and Freeman 2022). This stems from the belief that these disruptions will not disappear quickly, as the war in Ukraine has created the prospect of further geopolitical (and thus trade) tensions.⁶

- **Poland's GDP**

Poland's GDP grew by 4.9% in 2022, compared to 6.8% in 2021.⁷ According to estimates by the Institute for Economic Forecasting and Analysis (IPAG), the GDP growth rate in the last quarter of the year was 2.3%. This was the lowest growth rate in the last seven quarters. This means that the Polish economy has entered a period of slower economic growth. According to the preliminary estimate of the Central Statistical Office, GDP for the whole of 2022 grew by 4.9%, (-6.8% YOY).⁸ The upward surprise came from investment data, which experts estimate grew by 5.2% YOY in the last quarter of the year, compared to 2.0% YOY in Q3 2022.

GDP growth rate (% , YOY)



Source: GUS, IPAG

For the whole of 2023, the GDP growth rate will be 1.5%, and in 2024 it will increase to 3.5%.⁹

- **Trade balance and gradual strengthening of the zloty**

In the second half of 2022, Polish exports showed higher dynamics than imports. This means that the foreign trade balance had a positive impact on domestic economic growth. This situation will only reverse in the second half of the year. Throughout 2023, import dynamics will exceed export dynamics. In the convention of national accounts, exports in 2023 will grow by 4.9%, and imports by 5.1%.¹⁰

⁶ Struktura globalnych łańcuchów dostaw już ulega zmianie, 02.01.2023. www.obserwatorfinansowy.pl

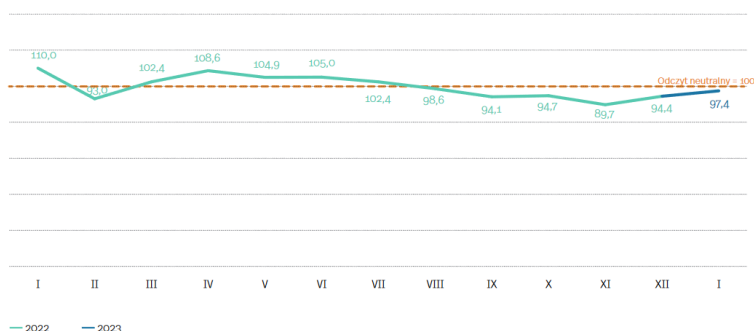
⁷ PKB hamuje, ale wolniej od oczekiwań, Codziennik Santander, 31.01.2023r.

⁸ Stan i prognoza koniunktury gospodarczej nr 1/2023 (117), IPAG, luty 2023r.

⁹ Stan i prognoza koniunktury (op.cit).

¹⁰ Ibidem.

- **Monthly Economic Outlook Index**



The Monthly Economic Outlook Index (MIK), which surveys sentiment among 500 Polish companies assigned by industry and size, reached 97.4 points in January. (+3.0 points MOM).

Source: Miesięczny Indeks Koniunktury BGK, 2023

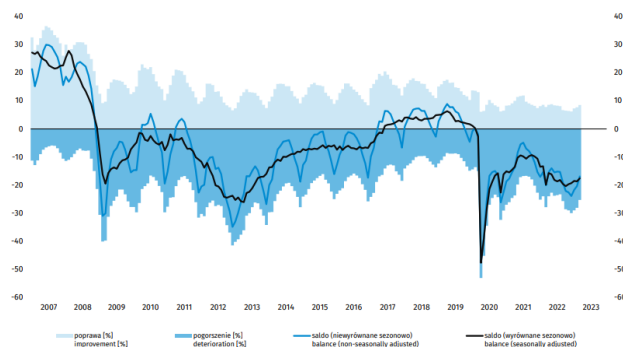
Taking into account December's 4.7-point improvement in the index, its total increase since November last year (when the MIK recorded its lowest value of 2022) was 7.7 points. Still, January 2023 represents the sixth consecutive month in which the MIK reading remains below the neutral level (100.0).

This is a result of the perceived uncertainty of economic conditions for doing business. January's MIK is 12.6 points lower than last year's reading in January 2022, in which its value (110.0 points) was above the neutral level. The MOM increase in the MIK index in the first reading of 2023 was determined by the preponderance of positive assessments in two components, namely salaries and liquidity. The remaining five components (sales value, new orders, employment, production capacity, investment) were dominated by negative assessments of entrepreneurs, for which MIK values remain below the neutral level.¹¹

- **Overall economic climate in the construction industry**

In 2023, the effects of the downturn will be felt most in the construction industry. The results recorded in 2022 were better than expected. Despite the weak economy in the last quarter, there were no declines in value added and sold production, which was determined by the situation of the infrastructure construction segment. In 2023, the effects of the bad economy in construction will be more clearly reflected in the economic data. This will be influenced by the high level of interest rates, the high level of operating costs (prices of construction materials, fuel and energy, and wages), and the high level of market uncertainty. Value added in the construction industry will decline by 4.7% in 2023, and construction output sold will fall by 3.1%. The second half of the year should be slightly better than the first in this regard.

Overall economic climate in the construction



The general business climate index stood at minus 16.9 in March (minus 20.4 in February). An improvement in the business climate is signaled by 8.5% of enterprises, while its deterioration is signaled by 25.3% (in February 7.7% and 28.1%, respectively). The remaining

Source: The Central Statistical Office (Główny Urząd

¹¹ mik.pie.net.pl Miesięczny Indeks Koniunktury. Styczeń 2023 – PIE, BGK, styczeń 2023r.

enterprises consider their situation unchanged.¹²

An increase in payment delays for completed construction work is reported. A reduction in employment is anticipated, and the price of construction work is expected to rise.¹³

- **Construction and industrial production**

December figures for industrial and construction production and retail sales show a deceleration to 1.0% YOY, -0.8% YOY, 0.2% YOY, respectively.¹⁴ Government orders at the end of 2022 registered a sharp decline: to -8.9% YOY from 13.7% YOY in November and down 17% MOM. Export orders were down: to -6.5% YOY from 23.1% YOY in November and by 20.3% MOM. This result may herald a further slowdown in industrial production (it rose just 1% YOY in December).¹⁵

¹² Koniunktura w przetwórstwie przemysłowym, budownictwie, handlu i usługach 2000-2023, GUS, Warszawa, marzec 2023 r

¹³ Koniunktura w przetwórstwie przemysłowym, budownictwie, handlu i usługach 2000-2023, (op.cit.)

¹⁴ Codziennik Santander, Gospodarka Hamuje, 24.01.2023 r.

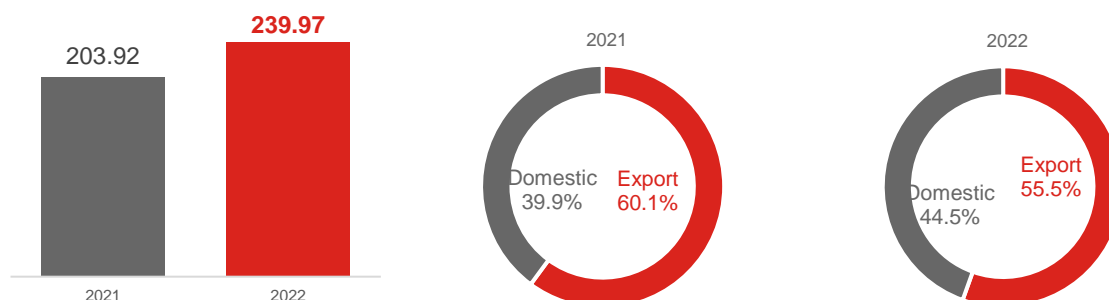
¹⁵ Spadek zamówień w przemyśle, Codziennik Santander, www.santader.pl, 26.01.2023r.

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

Presentation changes have been made to the Consolidated Financial Statements of the LUG S.A. Capital Group for 2022. Explanations of the aforementioned changes can be found in the statement of comprehensive income and the statement of financial position starting on page 4 of the 2022 Consolidated Financial Statements of the LUG S.A. Capital Group.

Revenue

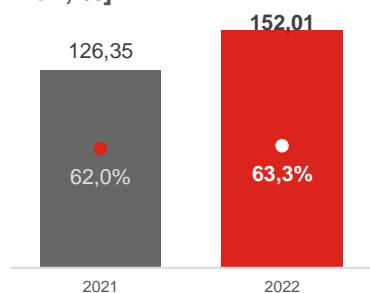
Chart 9. Sales revenues and their geographic structure [PLN million, %]



In 2022, the consolidated revenues of the LUG S.A. Capital Group amounted to PLN 239.97 million, 17.7% higher than a year ago. The share of exports was 55.5%, 4.6 p.p. Lower than a year ago. This was primarily due to the high share of domestic sales in the second half of last year on a cumulative basis of nearly 50%. The increase in revenue came at a time when countries' economies were gradually returning to how they were in the pre-pandemic period.

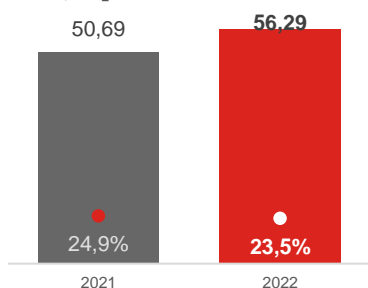
Costs and investments

Chart 10. Cost of products, goods and materials sold [PLN million, %]



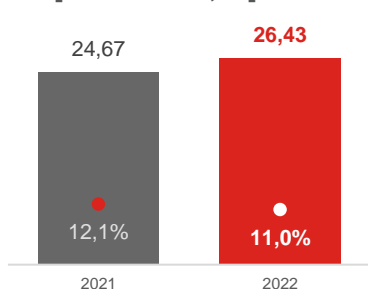
Costs of products, goods and materials sold amounted to PLN 152.01 million in 2022, 20.3% higher than last year. The increase in the cost of products, goods and materials sold was mainly due to the execution of contracts concluded before 2022, as well as the increase in component prices and the operation of the organization in a deteriorating economic environment.

Chart 11. Sales costs [PLN million, %]



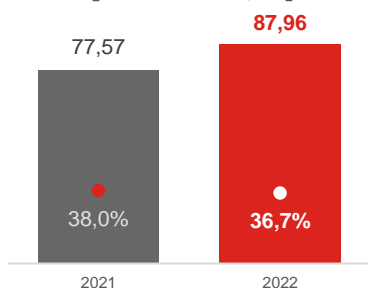
Cost of sales amounted to PLN 56.29 million in 2022, 11.0% higher than a year ago, which is lower than the rate of revenue growth. This reduced the ratio of cost of sales to revenue to 23.5%, down 1.4 p.p. The relatively higher cost of sales is a result of accounting for annual sales commissions.

Chart 12. General administration costs [PLN million, %]



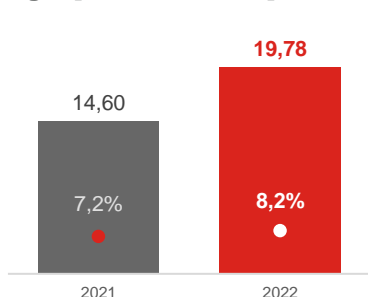
General and administrative expenses amounted to PLN 26.43 million in 2022 and were 7.1% higher than a year ago, a dynamics significantly lower than the rate of revenue growth. The ratio of general and administrative expenses to revenue decreased by 1.1 p.p. over the year to 11.0%. Higher general and administrative expenses were related to ongoing development activities and adaptation of the LUG Group's operations to a larger scale of operations.

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



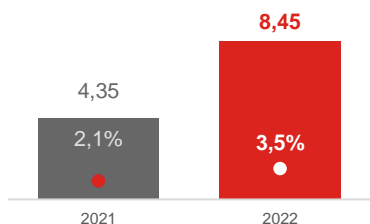
Gross profit on sales in 2022 amounted to PLN 87.96 million, 13.4% higher than a year ago. Gross margin on sales decreased by 1.3 p.p. to 36.7%. The increase in gross profit on sales was the result of a relatively reduced cost of sales while the cost of products, goods and materials sold increased.

Chart 14. EBITDA result and margin [PLN million, %]



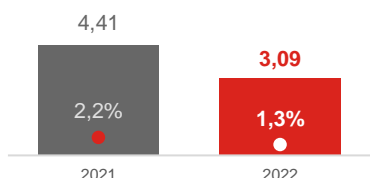
EBITDA result in 2022 amounted to. PLN 19.78 million compared to PLN 14.60 million a year earlier (+35.5% YOY). The EBITDA margin increased to 8.2%. The increase in EBITDA result was mainly due to an exceptionally high result in Q3 2022.

Chart 15. Operating result and margin [PLN million, %]



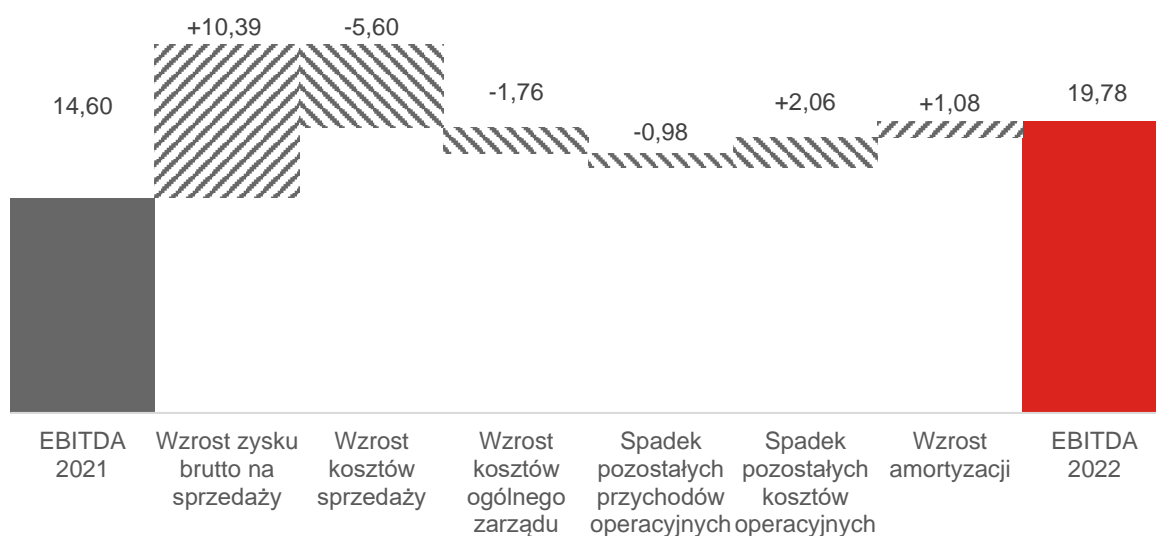
Operating profit in 2022 amounted to PLN 8.45 million, compared to PLN 4.35 million the previous year, nearly doubling EBIT YOY. The operating margin increased from 2.1% in 2021 to 3.5% (+1.4 p.p.) over the 12 months of 2022.

Chart 16. Net result and margin attributable to the parent company's shareholders [PLN million, %]



The Group recorded a net profit for shareholders of the parent company of PLN 3.09 million in 2022, compared to PLN 4.41 million in the previous year. Net margin in 2022 reached 1.3%, up from 2.2% a year ago (-0.9 p.p.).

Chart 17. Composition of EBITDA result in 2022 [PLN million]

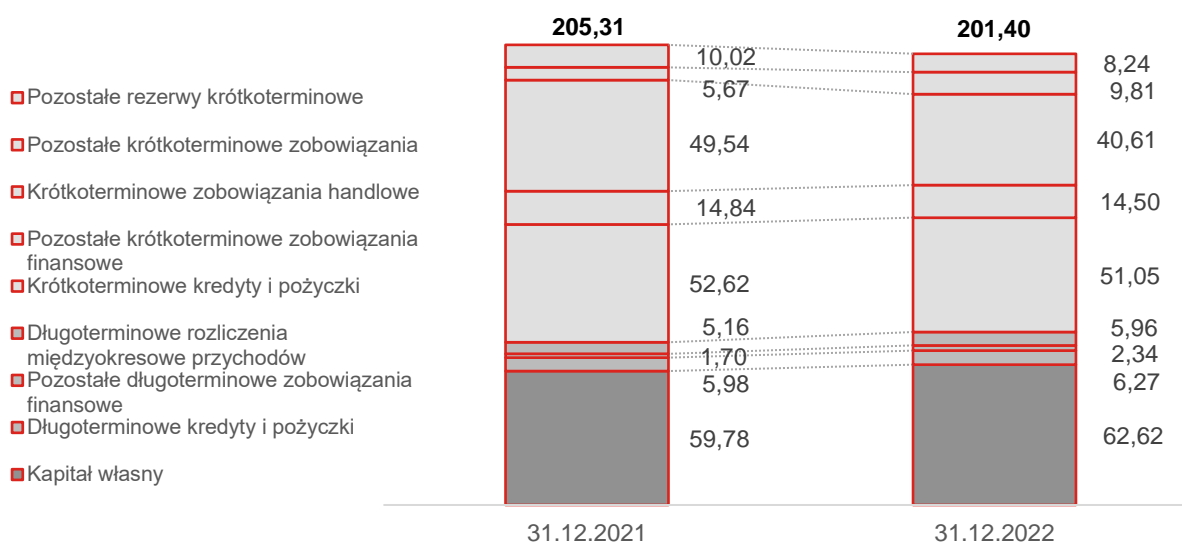


The increase in EBITDA in 2022 was mainly due to an increase in gross profit on sales (by PLN 10.39 million), as well as a decrease in other operating expenses by PLN 2.06 million (consisting of a PLN

0.56 million lower loss on impairment of trade and other receivables and PLN 1.50 million lower other operating expenses) and a PLN 1.08 million increase in depreciation. These factors were not offset by an increase in selling expenses (by PLN 5.60 million), an increase in general and administrative expenses (by PLN 1.76 million) and a decrease in other operating income (by PLN 0.98 million).

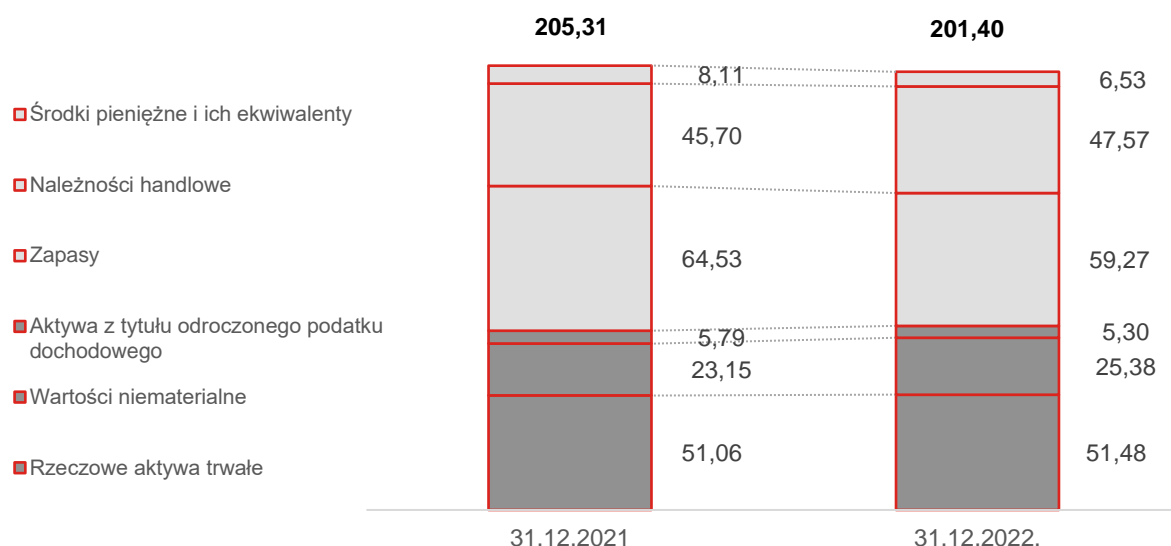
Balance sheet

Chart 18. Selected liabilities items [PLN million]



Total assets as of 31/12/2022 amounted to PLN 201.40 million, 1.90% lower than a year ago. Book value per share at the end of 2022 was PLN 8.70. The structure of liabilities showed a 4.75% increase in equity to PLN 62.62 million. Total long-term liabilities increased from PLN 12.84 million to PLN 14.57 million, i.e. by 13.4%, mainly as a result of taking out a long-term loan to finance the expansion of the Research and Development Center (as a result, long-term loans and borrowings amounted to PLN 6.27 million at the end of 2022. PLN 6.27 million). Current liabilities (consisting of other current provisions, other current liabilities, current trade payables, other current financial liabilities, current loans and borrowings) decreased by 6.4% year-on-year. A significant contributor to this was the decrease in short-term trade payables (down 18.03% to PLN 40.61 million), which was related to the release of funds from inventories to pay off liabilities.

Chart 19. Selected assets items [PLN million]



In the structure of assets, the share of inventories decreased (down 8.15% to PLN 59.27 million), which is a positive effect combined with the increase in revenues. Also noticeable was a decrease in cash and cash equivalents by 19.48% to PLN 6.53 million. In non-current assets, it was noticeable that intangible assets (per the financial statements: intangible assets) increased by 9.63% to PLN 25.38 million, due to activated development work.

Cash flow statement

Table 29. Cash flows [PLN million]

	2022	2021
Cash and cash equivalents at the beginning of the period	8.11	6.01
Net cash flows from operating activities	+19.81	+5.30
Net cash flow from investment activities	-13.66	-17.44
Net cash flow from financial activities	-7.66	+14.24
Cash at the end of the period	6.58	8.11

In 2022, the LUG Group recorded positive cash flow from operating activities of +PLN 19.81 million, which, combined with negative cash flow from financing activities of PLN 7.66 million and negative cash flow from investing activities of PLN 13.66 million, implies high profitability for the LUG Group and the allocation of profits for development purposes and repayment of liabilities incurred. As a result, the cash balance decreased during the year by about PLN 1.5 million to PLN 6.58 million.

Ratio analysis

Table 30. Selected consolidated financial ratios of the LUG S.A. Capital Group for 2021 and 2022 [% , pp]

	2022	2021	change YOY
Gross profitability on sales	36.7%	38.0%	-1.3 pp
EBITDA profitability	8.2%	7.2%	+1.0 pp
Operating profitability	3.5%	2.1%	+1.4 pp
Net profitability	1.3%	2.2%	-0.9 pp
Return on equity (ROE)	4.9%	7.4%	-2.5 pp
Return on assets (ROA)	1.5%	2.1%	-0.6 pp
Total liquidity ratio	95.0%	93.9%	+1.1 pp
Total debt ratio	68.9%	70.9%	-2.0 pp

Net debt/EBITDA	3.42	4.59	-1.17
EV/EBITDA (end of period)	5.57	7.98	-2.41

In 2022, the LUG Group recorded a decrease in gross profitability on sales (down 1.3 p.p. to 36.7%) and net profitability (down 0.9 p.p. to 1.3%). Operating profitability increased by 1.4 p.p. to 3.5%. Return on equity and return on assets ratios decreased. The net debt to EBITDA ratio decreased to 3.42, and the EV/EBITDA ratio increased to 5.57.

Explanation of the ratios:

Gross profitability on sales

Formula: gross result on sales/sales revenues

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

EBITDA profitability

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

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

Operating profitability

Formula: result on operating activity/sales revenues

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

Net profitability

Formula: net result/sales revenues

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

Return on equity (ROE)

Formula: Net result / Equity, where: Shareholders' equity = Total assets - Liabilities (short and long-term)

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

Return on assets (ROA)

Formula: Net income / total assets

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

Total liquidity ratio

Formula: current assets/short-term liabilities

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

Total debt ratio

Formula: total liabilities/total assets

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

Net debt/EBITDA

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

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

EV/EBITDA

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

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

3.4.3. Financial situation of LUG S.A.

The Issuer's Management Board, fulfilling the information duties of companies listed on the NewConnect market, publishes the Separate Financial Statement of LUG S.A. However, this data only depicts the situation of the Company, which is the parent company of the LUG S.A. Capital Group, which does not directly conduct operating activities. The LUG S.A. Capital Group's operating activities are carried out almost exclusively at its subsidiaries, particularly LUG Light Factory Sp. z o.o. Consequently, LUG S.A.'s stand-alone financial results do not reflect the picture of the issuer's condition, development and prospects, and do not allow for a rational analysis that could be the basis for formulating conclusions about the company's financial situation.

Presentation changes have been made in the Separate Financial Statements of LUG S.A. for 2022. Explanations of the aforementioned changes can be found in the statement of comprehensive income and the statement of financial position starting on page 7 of LUG S.A.'s Separate Financial Statements for 2022.

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

	2022	2021
Sales revenues	1.90	1.90
domestic revenue	1.90	1.90
<i>% of domestic revenue</i>	<i>100.00%</i>	<i>100.00%</i>
foreign revenues	0.00	0.00
<i>% of foreign revenues</i>	<i>0.00%</i>	<i>0.00%</i>
Cost of products, goods and materials sold	0.00	0.00
<i>Cost of products, goods and materials sold as % of revenue</i>	<i>0.00%</i>	<i>0.00%</i>
Gross profit (loss) on sales	1.90	1.90
<i>Gross profitability on sales</i>	<i>100.00%</i>	<i>100.00%</i>
Other operating revenues	0.05	0.00
Sales costs	0	0.00
Cost of sales as a % of revenue	0	0.00%
General management costs	1.48	1.37
General and administrative expenses as a % of revenue	77.75%	72.26%
Impairment losses on trade and other receivables	1.63	0
Other operating expenses	0.10	0.01
EBITDA	-1.25	0.52
<i>EBITDA profitability</i>	<i>-66.8%</i>	<i>27.36%</i>
Profit (loss) on operating activities	-1.25	0.52
<i>Operating profitability</i>	<i>-66.8%</i>	<i>27.36%</i>
Financial revenues	0.73	0.05
Financial costs	0.01	0.01
Profit (loss) before tax	-0.53	0.55
Income tax	0.08	0.16
Net profit (loss) from continued operations	-0.62	0.39
Net profit (loss)	-0.62	0.39

<i>Net profitability</i>	-32.63%	20.52%
Net profit (loss) due to shareholders of the parent company	0.39	0.39
Net profit (loss) per share (PLN)	0.05	0.05

Source: Issuer

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

	31/12/2022	31/12/2021
ASSETS		
Fixed assets	32.84	32.97
Tangible fixed assets	0.00	0.00
Intangible assets	0.00	0.00
Investments in subordinated entities	32.20	31.92
Other financial assets	0.60	1.01
Deferred tax assets	0.04	0.05
Long-term receivables	0.00	0.00
Current assets	2.32	2.98
Provisions	0.00	0.00
Trade receivables	0.22	0.87
Other receivables	0.35	2.05
Accruals and prepayments	0.07	0.04
Other financial assets	1.62	0.00
Cash and cash equivalents	0.06	0.02
Total assets	35.16	35.96
LIABILITIES		
Equity	34.74	35.37
Long-term liabilities	0.00	0.02
Long-term credits and loans	0.00	0.00
Other long-term liabilities	0.00	0.00
Provisions for deferred income tax	0.00	0.02
Long-term deferred revenues	0.00	0.00
Short-term liabilities	0.42	0.57
Short-term credits and loans	0.00	0.00
Other short-term financial liabilities	0.00	0.00
Short-term trade payables	0.31	0.11
Other short-term liabilities	0.08	0.33
Other short-term provisions	0.03	0.04
Income tax liabilities	0.00	0.09
Total liabilities	35.16	35.96
Book value per share (PLN)	4.88	5.00

Source: Issuer

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

	2022	2021
OPERATING ACTIVITIES		
Profit before tax	-0.53	0.55
Total adjustments	1.85	-0.21
Depreciation	0.00	0.00
Profit due to exchange rate differences	0.00	-0.04
Interest and shares in profits (dividends)	-0.73	-0.02
Profit from investment activities	0.00	0.00
Change in provisions	-0.01	-0.01
Change in inventories	0.00	0.00
Change in receivables	2.42	-0.14
Change in liabilities, excluding loans and credits	0.19	-0.10
Change in accruals and deferred income	-0.02	0.09
Income tax (paid) / refunded	-0.24	-0.11
Net cash flows from operating activities	1.08	0.21
INVESTMENT ACTIVITIES		
Inflows	0.60	0.02
Dividends and profit sharing	0.60	0.02
Expenditure	-1.63	0.21
Loans granted	-0.52	0.21
Value of shares subscribed	-1.11	0.00
Net cash flow from investment activities	-1.04	-0.19
FINANCIAL ACTIVITIES		
Inflows	0	0.00
Expenditure	0	0.00
Dividends and other payments to owners	0	0.00
Interest	0	0.00
Net cash flow from financial activities	0.00	0.00
Total net cash flow	0.04	0.02
Cash and cash equivalents at the beginning of the period	0.02	0.00
Cash at the end of the period	0.06	0.02

Source: Issuer

3.4.4. Implementation of the 2022 forecast

The Issuer has not published financial forecasts for the period from 01/01/2022 to 31/12/2022.

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

Due to the armed conflict in Ukraine and the macroeconomic situation, the Management Board of LUG S.A. is taking a cautious prognosis for the future financial results of the LUG S.A. Capital Group. Thanks to the mitigating measures taken, LUG ensures the continuity of projects at a consistently

highest level in terms of products and services offered. The Management Board of LUG S.A. and a dedicated Crisis Team are constantly monitoring the company's environment. Preventive measures taken at an early stage of the pandemic enabled the implementation of protective measures at all LUG locations minimizing the risk of virus emission among employees and the impact on deliveries and service levels. This also translated into securing the continuity of supplies in the face of the war in Ukraine. In the opinion of the Company's Management Board, prudent measures will allow the LUG S.A. Capital Group to maintain flexibility in responding to changes in market conditions while guaranteeing stability and continuity of operations.

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

- Further development of the war in Ukraine;
- Availability of key components;
- Rising electricity costs;
- Fluctuations in international transport costs;
- The need to reduce the level of electricity consumption in Poland in order to meet obligations to the European Union, which may accelerate the process of replacing outdated conventional lighting with LED technology products;
- The consistent projected development of the general lighting segment, i.e. a segment of the LUG S.A. Capital Group's business. According to the latest forecasts, general lighting will be the fastest growing segment of the industry in the coming years.
- Regulations in the area of reducing the environmental impact of industry and in the area of increasing the energy efficiency of buildings and infrastructure facilities;
- The growth rate of the IoT (Internet of Things) segment and lighting control;
- Consumer maturity, which will translate into a willingness to pay for additional functionality within smart lighting in the overall ecosystem of IoT-related services and the "human centric lighting" trend;

and on **internal factors**, among which the most noteworthy are:

- Implementation of the adopted "LUG Strategic Development Directions for 2023 - 2026";
- Expansion of the portfolio in accordance with market needs based on the ideas of innovation and design at the highest global level;
- Evolution of the organizational structure following the implemented development directions and allowing the organization to adapt to changing operating conditions;
- Strengthening position in foreign markets and internationalization of revenues.

Both external and internal factors are taken into account by the Management Board of LUG S.A. in the process of managing subsidiaries and implementing the Strategic Development Directions of the LUG S.A. Capital Group.

The impact of the pandemic and the war in Ukraine on the operations of LUG S.A. and the LUG S.A. Capital Group is described in detail in Section 3.7 of this report.

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

Grappling with the effects of the pandemic and facing a tense geopolitical situation caused by the war in Ukraine, LUG's Board of Directors decided to extend the 2017-2021 Strategic Development Directions into the next year, 2022. The remodeled supply chain and the demands facing the world brought fundamental changes that prompted the development of conscious, responsible and effective responses to the above challenges in a new perspective. The developed strategy of the LUG S.A. Group for 2023 - 2026 is a set of strategic and tactical tools that will allow the LUG Group to even better meet the needs of Partners in a changing world, taking into account the new priorities, without compromising on the quality of the lighting solutions provided. The new "Strategic Development Directions of the LUG S.A. Capital Group for 2023 - 2026" was introduced and presented in Q1 2023.

Along with the strategy, the LUG Group introduced a new mission statement, which states that ***through light, LUG will create a sustainable living and development environment for a better tomorrow.***

LUG's new strategic outlook upholds the Group's growth pillars established in the 2017-2021 strategy, such as innovation and internationalism, but also presents new goals and initiatives for the transformation from a supplier model to a service model. LUG wants to develop international partnerships and lighting solutions that reduce energy consumption and lower CO₂ emissions. An absolute pillar of LUG's strategy will be the development based on SMART technologies in the product, technology and manufacturing areas, which will be reflected in the integration of more verticals within LUG's proprietary Urban management system or in building smart manufacturing processes that increase efficiency and eliminate weaknesses in LUG's internal system.

Strategic goals

By 2026, the LUG Group wants to achieve its strategic goals based on 4 pillars of growth.

Transformation to services

- Financing, consulting, design, execution, maintenance and development available as services.
- Knowledge and experience as added value to products.

International partnerships

- LUG as the center of an international community of customers, suppliers and partners.
- Strong and recognizable international brand.

Sustainability

- Fast, efficient, flexible production.
- Socially responsible organization.

Quality of life innovations

- New solutions for a higher quality of life.
- Agile implementation unit for product and service innovations.
- Development of SMART verticals.

LUG values

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:

- Innovation
- Partnership
- Responsibility
- Trust
- Sustainability

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

3.6. Purchase/sale of own shares (stocks)

In accordance with Art. 49, paragraph 2, item 5 of the Accounting Act, the report on the entity's activities should include information on the acquisition of own shares (stocks), and in particular the purpose of their acquisition, the number and nominal value, indicating what part of the share capital they represent, the purchase price and the selling price of these shares (stocks) in the event of their disposal. At the same time, in the case of a consolidated report, it is necessary to provide information on own shares (stocks) held by the parent company, group entities and persons acting on their behalf (see Article 55 paragraph 2 of the Accounting Act).

During the period 01/01/2022 - 31/12/2022, the Issuer did not purchase or sell own shares. Persons acting on behalf of the entities comprising the LUG S.A. Capital Group are indicated in section 1.2.1. of this report.

3.7. Events and circumstances significantly affecting operations after 31/12/2022

After the end of the fiscal year, i.e. after 31/12/2022 until the date of approval of the financial statements, the following events took place that affected the operations of the LUG S.A. Capital Group:

Adoption of the Strategic Development Directions of the LUG S.A. Capital Group for the years 2023-2026

On March 29, 2023, the Management Board of LUG S.A. passed a resolution to adopt the document "Strategic Development Directions of the LUG S.A. Capital Group for 2023-2026," which it presented the same day during a scheduled online conference.

For more information on LUG's new strategic outlook, see subsection 3.5 of this Report.

Another successful tender for lighting the City of Warsaw

On March 9, 2023, the Management Board of LUG S.A. learned that the offer of LUG Light Factory Sp. z o.o. had been selected as part of the tender procedure for the public order for "Delivery of new LED luminaires" (ZDM/UM/DZP/101/PN/22/22) for the City of Warsaw. On April 3, 2023, following the decision of the National Board of Appeals, the appeal of one of the competitors competing in the proceedings in question was rejected, and consequently the correctness of the selection of the offer of LUG Light Factory Sp. z o.o. as the most advantageous offer under the Public Procurement Law was confirmed, as part of the tender procedure for the contract for "Delivery of new lighting fixtures in LED technology" (ZDM/UM/DZP/101/PN/22/22). As a result, the Procuring Entity was able to proceed with the signing of the contract with LUG Light Factory Sp. z o.o., which took place on April 21, 2023.

According to the content of the signed agreement, LUG Light Factory sp. z o.o. will be responsible for the implementation of the project, i.e. for:

- development and delivery of luminaire designs,
- providing certificates (ENEC and ENEC+) for the luminaires,
- accepted by the Ordering Party,
- development and delivery of photometric designs,
- delivery of new luminaires based on the designs accepted by the Ordering Party,
- conducting the necessary training for the Ordering Party's personnel.

Nearly 35.3 thousand street lighting fixtures will be replaced, which will be made by LUG Light Factory Sp. z o.o. in accordance with the individual design project developed specifically for Warsaw within the proceedings ZDM/UM/DZP/61/PN/53/20. The total value of the offer of LUG Light Factory sp. z o.o. is PLN 39,440,925.87 gross. In addition, the Ordering Party will be entitled to the right of option, which will cover the supply of additional LED lighting fixtures with a total value of up to PLN 5,000,000 gross.

Adoption of the Code of Ethics of the LUG S.A. Capital Group

At the beginning of the second quarter of 2023, the Management Board of LUG S.A. adopted a resolution based on which it adopted the Code of Ethics of the LUG S.A. Capital Group. This document regulates ethical standards applicable to Group companies.

Adoption of the Anti-Corruption Policy of the LUG S.A. Capital Group

At the beginning of the second quarter of 2023, the Management Board of LUG S.A. adopted a resolution based on which it adopted the Anti-Corruption Policy of the LUG S.A. Capital Group. This document is a supplement to the Code of Ethics in the area of anti-corruption.

3.7.1. Impact of the COVID-19 virus pandemic on the operations of LUG S.A. and the LUG S.A. Group

In 2020, the Board of Directors of LUG S.A. took action in response to the introduced state of the COVID-19 pandemic in Poland. The established crisis team continuously monitored the development of the epidemiological situation in the region, in Poland and around the world.

At the beginning of 2022, adequate to the restrictions lifted throughout the country, the existing prevention rules, implemented through internal procedures, were adjusted at LUG plants. LUG employees continue to have ongoing voluntary access to:

- disinfectants
- protective masks
- thermal imaging body temperature measurement system.

The precautions taken support the reduction of the risk of infections among employees, and thus safeguard the continuity of LUG's operations. The Issuer is prepared for the possibility that the regulations will be tightened again and the restrictions will be put back in place.

In 2022 and up to the date of the report, the Issuer's facilities have not been placed under quarantine or shutdown. Based on the available information, the current risk assessment of the pandemic status classifies it as not threatening the functioning of the LUG Group and the execution of customer orders. The Company's management is also monitoring the indirect impact of COVID-19 on the organization of at least the previously occurring temporary closures of Chinese cities such as Shanghai and Shenzhen as a result of the incidence of increased disease cases there. Such lock-downs trigger production shutdowns of local factories and cause restrictions on shipping from Asia to Europe.

As of 12/05/2023, the date of publication of this report, the Issuer's order book meets expectations and allows it to maintain financial stability. Recipients around the world show a strong determination to continue operations in a pandemic environment, however, it should be borne in mind that subsequent periods will be influenced by the risks associated with the pandemic and its trends.

3.7.2. The impact of the armed conflict in Ukraine on the operations of LUG S.A. and the LUG S.A. Capital Group.

Members of the Management Board and LUG's executives are constantly monitoring the development of military activities on Ukrainian territory and their possible impact on LUG's operations.

The LUG S.A. Group has no assets in Ukraine, Russia or Belarus, and the operations of its subsidiary LUG T.O.W. Ukraine have been suspended for many years. Thanks to the geographic diversification of the LUG Group's sales revenues, sales targets for 2022 that were to be achieved in the Ukrainian market have been shifted to other markets.

In the absence of direct operations in Ukraine, Belarus and Russia, it is estimated that the impact of the armed conflict on the LUG S.A. Capital Group's operations will remain indirect and limited.

The assessment of the possible impact of the war in Ukraine on the various spheres of operation is as follows:

Economic environment

The further course and consequences of the armed conflict caused by Russia's aggression against Ukraine are difficult to predict. In 2022, the LUG Group operated in an environment characterized by worse economic indicators than those forecast by economists before the outbreak of the war. Examples include lower economic growth, higher inflation, higher interest rates, lower investment levels and high volatility of exchange rates. A possible economic slowdown, which would occur on a large scale throughout the European Union, could translate into a significant drop in investment and, consequently, a drop in demand for luminaires.

Component availability

The Issuer, learning from the experience of the pandemic, has diversified part of its supplier catalog minimizing the risk of supply chain disruptions. The economic sanctions imposed on Russia and Belarus, and the potential collapse of these economies, will translate into a reduction in the supply of raw materials, including energy resources. This may result in the need to continue looking for alternative suppliers, and further increases in component prices and profitability of previously contracted orders. The issuer's Management Board considered an increase in interest rates in 2022 in its analyses and it takes appropriate measures to limit its impact on the Group's financial result in the area not covered by the analyses.

Transport costs

Due to instability and the risk of transit disruption through Ukraine, periodically there may be disruptions in the supply chain of components from eastern directions. Among the main trends in the transport sector, one can identify the outflow of drivers of Ukrainian origin, as well as dynamic increases in fuel costs. In 2022, transport prices increased significantly, and currently, despite the observed price declines, their level is still higher than in the period before the pandemic and armed conflict in Ukraine.

Financial liquidity

In the opinion of the Issuer's Management Board, the financial condition of companies in the LUG Group is stable, and the structure of revenues and costs has been covered by relevant internal analyses, which take into account the risks and economic events mentioned in the report and their impact on the organization's liquidity. The Management Board manages the liquidity risk and assesses that operations will continue uninterrupted.

IT security

The issuer's Management Board analyzed the risk of cyber-attacks. Internal analyses of the organization's resilience to various types of cyber-attacks have been commissioned and additional security measures commensurate with the potential increase in the aforementioned risks have been put in place. Until the date of publication of this report, all IT systems of the LUG Group have operated correctly and have been subject to increased security tests. Special protection has been provided for backup copies of critical LUG systems.

Staffing

LUG employs citizens of Ukraine. Following the outbreak of the armed conflict, LUG Light Factory's management assesses the risk of increased absenteeism, and thus an increase in staffing problems, as stable. Moreover, the company is open to employing qualified citizens of Ukraine, e.g. in programming, engineering or warehouse positions.

Humanitarian crisis

The situation of Ukrainian civilians was critical from the very beginning. LUG directed two-pronged assistance to them - targeted at employees and associates of Ukrainian origin and their families, and dedicated to individuals regardless of their ties to LUG. Summary of activities undertaken:

- the LUG Moneybox, a sub-collection of the Siepomaga Foundation, was organized, for which LUG donated 10,000 euros and invited employees and business partners to participate;
- a team of Ukrainian-speaking employees was built to coordinate communication between employees of Ukrainian nationality and the crisis team coordinating relief efforts on behalf of LUG;
- cooperation was established with the OFF-LINE Holistic Family Center, co-founded by Ukrainian nationals, and an offer of free psychological assistance and an opportunity to integrate with the Ukrainian community in the Lubuskie region was organized;
- online psychological assistance was organized for a Polish-speaking group of employees, conducted by specialist psychologists from the Transmission Organization Clinic;
- free legal consultations were made possible for those in need of support in legalizing their stay in Poland and other current affairs as a consequence of the hostilities taking place in Ukraine;
- a number of transports of refugees from the Polish border to the Lubuskie region were organized, together with the organization of a place of residence;
- an in-kind collection was coordinated among LUG employees, in which bandages and first-aid supplies, cosmetics and hygiene products, baby items, high-energy and long-life food, trekking boots, knee pads, sleeping bags and sleeping pads, etc. were collected;
- combat and medical equipment for the territorial defense battalion of Ukraine was co-organized;
- a school starter kit for children was purchased;
- An information campaign was also organized to encourage LUG Group employees to provide volunteer assistance or provide a place of residence for visiting citizens from Ukraine.

The war in Ukraine does not affect the items presented in the financial statements as of the balance sheet date, as well as the recognition and measurement of items as of the publication date of this report.

3.8. Information about the auditor

Information on the remuneration of the auditing firm authorized to audit the financial statements of LUG S.A. is provided in Note 40 of the Consolidated Financial Statements of the LUG S.A. Group for 2022.



Management board report

On risk factors



4. RISK MANAGEMENT

Conducting business activities inextricably involves risks, resulting in opportunities and threats for the organization. Being an internationally operating organization, we define risks at the level of the LUG Capital Group. Entities operating within the LUG S.A. Capital Group actively manage risks in order to optimize all business processes within the Group and maximize its market value. Each company is subject to only selected risks, which make up a comprehensive list of the LUG S.A. Capital Group's risks, grouped into two categories: risk factors related to the environment and factors related to operations. In addition, the Group has identified risk factors affecting non-financial issues (environmental, social, labor risks). These are described in the LUG S.A. Group's Non-Financial Report for 2022.

Information on risks related to financial instruments is included in Note 40 to the Separate and Note 41 to the Consolidated Financial Statements.

Forecasting economic trends for the coming months and years on a global and local scale is fraught with unprecedented uncertainty, as it is difficult to determine unequivocally how much impact the COVID-19 pandemic, as well as the war in Ukraine and its consequences, will have on the various spheres of the economy.

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

4.1.1. Risks related to macroeconomic and industry conditions

The development of the lighting industry and the activities of the LUG S.A. Capital Group are directly correlated with the economic situation domestically and internationally. For the financial situation of the Issuer's Capital Group operating both in the Polish market and exporting professional lighting systems to foreign markets, macroeconomic variables such as the rate of economic growth, the rate of development of the construction industry and the level of investment in its various segments, the level of interest rates, fiscal policy and the level of exchange rate of foreign currencies against the Polish zloty are of paramount importance.

One of the main factors determining the level of economic activity of the LUG S.A. Group in 2022 was the war in Ukraine, which affected the tense geopolitical situation and economic uncertainty around the world.

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

- The continued high level of inflation observed;
- The short- and long-term impact of the armed conflict in Ukraine on the European and global economies;
- The economic consequences of sanctions imposed on Russia and Belarus;
- Possible reduction in the dynamics of investment in Poland and international markets.

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

4.1.2. Risk of changeability of the legal environment

Legal regulations, their interpretations and legal practice are still subject to relatively frequent changes in Poland, among other things also in connection with the process of adaptation to the requirements of the European Union. Legal regulations that may have a positive as well as negative impact on the Issuer's and its Group companies' business activities are mainly tax law, public procurement law, construction law, environmental protection law, labor and social insurance law, commercial law, international law and law on public trading of securities.

With the war going on across Poland's eastern border, the volatility of the legal environment remains high, due to legislation responding to extraordinary operating conditions and emerging needs.

In order to prevent potential doubts and ambiguities in the interpretation of legal regulations, the LUG S.A. Capital Group uses the services of professional advisors and law firms and constantly keeps track of the volatility of the legal environment.

4.1.3. Risk of changes in tax regulations and their interpretation

The Polish tax system is characterized by frequent changes in regulations, many of which are not formulated with sufficient precision and lack unambiguous interpretation. Interpretations of tax laws are subject to frequent changes, and both the practice of tax authorities and court rulings in the sphere of taxation are not uniform. Due to divergent interpretations of tax laws in the case of a Polish company, there is a risk that the company's activities and its tax treatment in tax returns and statements may be considered by tax authorities to be inconsistent with tax regulations. For companies operating in more stable tax regimes, this risk is lower.

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

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

The possibility of changes in market trends and trends in high-performance professional lighting makes the Issuer's Group exposed to the risk of deterioration of sales results. The difficulty of predicting and interpreting industry and economic trends is all the greater in 2023, as for the first time in modern history the world is facing such an unpredictable factor as a post-pandemic situation and war.

Considering the extent of the risks outlined, the Issuer identifies the following risks:

- Inaccurate predictions of the pace and sources of growth creation (especially in terms of investment activity) in the markets where the LUG Group operates or markets where it intends to start operations.
- Incorrect assessment of future market trends in professional lighting. Higher growth rates in the lighting market may result in a failure to adjust production capacity and sales support processes, causing the Group to lose its current market share.
- Misjudgment of technological innovations and their inclusion in long-term plans, which may lead to deterioration in sales performance.
- Improper assessment of customer preferences and needs.

To minimize this risk, customer preference surveys are conducted, the results of which are enriched by the knowledge and experience of the sales division's employees and management. Employees responsible for introducing new products to the Group's offer are present at the most important trade fairs in the world, as well as symposiums and meetings on lighting issues. Thanks to such activities, LUG brand luminaires are adapted to current trends. In addition, modern machinery allows flexible

adjustment of production orders to current customer orders and production of short series of luminaires, as well as so-called customization, i.e. adaptation of individual lighting solutions to the requirements of the individual customer.

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

Companies in the LUG S.A. Capital Group use, among other things, financing from bank loans when implementing projects. Due to the fact that the short- and long-term loan agreements indicated in the financial statements are constructed on the basis of variable interest rates, the Issuer, like other entities, is currently exposed to the impact of high variability in the level of interest rates. In order to minimize such risks, the Issuer decided to convert the loans from zloty to euro and implemented the process in 2022. Taking into account the financial performance of the Issuer's Capital Group and the level of debt ratios, the Issuer assesses the risk of credit obligations coming due as moderate.

4.1.6. Risk related to the outage of LUG's suppliers and contractors

In connection with the global pandemic of the COVID-19 virus, the Issuer has identified the risk of a possible outage of LUG's suppliers and business partners, which could involve a reduction in the availability of components to carry out the Issuer's core production activities and fewer orders flowing from contractors. The stability of supply chains may also be affected by the ongoing war in Ukraine, which has limited the availability of raw materials and also affected the capacity of trade routes.

In order to minimize the risk, the Issuer, guided by its long experience in the lighting industry and on the Polish market, has diversified its strategic suppliers by geography, among other factors, so as to ensure continuity of production. Risks are also minimized through ongoing monitoring of the components market, allowing observation of trends and early identification of potential threats. The Issuer monitors developments on an ongoing basis to manage incoming orders as efficiently as possible. According to current needs, orders are accelerated or delayed. Reacting to the current demand and supply shocks, the Issuer has increased its inventory levels of components in order to secure order fulfillment.

4.1.7 Credit, liquidity and financing availability risks

Due to the difficult economic situation related to the consequences of the COVID-19 pandemic and the war, many businesses may face financial difficulties, causing additional credit risk, higher than usual bad debt, and even potentially impairment and write-downs. This can also affect reduced cash flow, and the sheer uncertainty in the financial and capital markets can significantly affect the availability of financing.

To minimize the risk, LUG S.A. Group companies effectively manage incoming orders and systematically monitor the collectability of receivables from counterparties, also using receivables insurance tools. The company's management monitors the development of the epidemiological situation and signals received from capital markets around the world, determining the activities of financing institutions.

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

4.2.1. Risk associated with seasonality of sales

The basic product range sold by the LUG Capital Group is luminaires. These products are most often used in the final stage of the investment process in the construction industry. Seasonality is a factor characteristic of the entire construction industry. The process traditionally begins in the spring season, and most of the finishing work is done in the autumn-winter season. In 2023, the seasonality may change due to the delay of investments as a result of the impact of the pandemic and the war in Ukraine on the economy, and the peak season in the lighting industry may shift.

The Issuer's Group is prepared for seasonality in sales and takes appropriate measures in advance to prepare for the relevant quarters. An employment policy that takes seasonality into account and a model for managing the warehouse of components and finished goods mitigate the effects of such risks. An additional form of counteracting the risk of seasonality of sales is to increase exports of products to markets characterized by a different construction cycle, or completely immune to seasonal phenomena.

4.2.2. Risks related to increases in operating costs

A significant portion of costs by type are fixed or subject to increases and cannot be adjusted quickly if the Issuer Group's future sales revenues turn out to be lower than expected, the increase in costs is faster than the increase in sales revenues, or unforeseen costs arise. Correspondingly, if the Issuer Group's sales revenues in any period are significantly lower than expected, it may not be possible to adjust the basic costs in an appropriate proportion quickly enough, which may reduce the Issuer Group's profitability.

In addition to the value of products, goods and materials sold, which account for the largest portion of costs by type of the LUG S.A. Group, the LUG S.A. Group's operating and financial results are affected by other significant costs, including material and energy consumption, employee benefits and third-party services. The increase in the Issuer Group's costs described above depends to a large extent on factors beyond the Company's control. Factors that may result in an increase in costs include, in particular, inflation, changes in the tax system (in particular, higher taxes), rapidly rising transportation costs, rising oil prices, increases in minimum wages, changes in government policy, changes in the Labor Code and other laws or other regulations. An increase in the aforementioned and additional costs may directly affect the results of the LUG S.A. Group and its financial position.

4.2.3. Risk related to repayment of receivables by counterparties

In the current economic conditions, maintaining financial liquidity is one of the basic conditions that ensure the stability of business operations and development. The financial liquidity of the LUG S.A. Capital Group is inextricably linked to the timely repayment of receivables by counterparties, so the Issuer's Management Board has tightened its debt collection policy and taken a number of measures to minimize the risk of timely payment of receivables, such as:

- insuring receivables arising from contracts with domestic and foreign customers;
- covering key counterparties of the LUG S.A. Capital Group with a partial factoring agreement up to the amount of insurance granted;
- in case of inability to insure a given contract, a system of order fulfillment based on prepayments, including 100%, is used.

The Issuer's Management Board identifies delays in the collection of receivables at the level of about 20% of monthly turnover. Payment terms extend by about 30 days, and delays are inversely proportional

to the size of the counterparty. The biggest delays are in projects in the Middle East; delays are smaller in Poland and Western European countries.

4.2.4. Competition risks

The financial results achieved by the Issuer's Group may be affected by price reductions in the products offered or even dumping prices applied by competitors. At present, almost all of the world's major lighting companies operate in Poland, which exacerbates competition in the market for luminaires and light sources. It should be noted that the good prospects in terms of demand for lighting products is causing competition to tighten resulting in a price battle and possible reductions in the margins realized on sales.

An additional element of competitive risk is the expansion of companies from the Far East, which copy European solutions and introduce products to the market, most of which are characterized by low quality, but thus also by low prices. The LUG Group limits the risk of competition by constantly expanding its offer with technologically advanced and interesting design luminaires. Higher product quality is also guaranteed by continuous investment in the R&D Department of LUG Light Factory Sp. z o.o., an example of which is the achievement of the highest luminous efficiency from a LUG street luminaire at 190 lm/W - a world record. In addition, LUG Light Factory introduces smart lighting solutions, which are dynamically developed by entities in the LUG Group.

4.2.5. Risk of rising prices of raw materials and components

The production costs of luminaires depend on the prices of raw materials, the prices of which are determined on the basis of the indices of international commodity exchanges (aluminum, steel, glass, copper, oil - as raw materials for the production of plastics and powder paints used in the paint shop). In addition, the Group purchases various types of electronic and electrical components for production. Huge demand from fast-growing economies, including those in Asia, the geopolitical situation in countries rich in raw materials or restrictions on availability caused by the war in Ukraine and sanctions imposed on Russia and Belarus increase the risk of further increases in prices of raw materials and components.

A threat to the Issuer arising from the situation on the raw materials market is the difficult availability of electronic components, aluminum, steel and plastics. In order to minimize the indicated risk, the Issuer monitors the price levels of strategic raw materials. A system of supplier qualification under ISO procedures is also applied, and cooperation with component suppliers is based on long-term purchase plans, which are specified at the time of delivery.

The consequence of the increase in raw material prices and the lack of price guarantees from suppliers is a potential decrease in the profitability of the projects implemented by the Issuer, which works mostly on long-term projects with limited possibility of renegotiating the prices of the offered products. In order to mitigate this risk, the Issuer has introduced a number of internal measures, including, among others, periodic price increases for selected products or limiting the validity of bids submitted. In those cases where it is possible, the Issuer renegotiates signed contracts.

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

In connection with the Issuer Group's activities in the lighting industry, the Group may be exposed to the risk of penalties for failure to complete orders on time. This risk is related to the possibility of such factors as: interruption of the supply chain, shortage of components or problems with labor availability.

The LUG S.A. Group safeguards against this risk through careful analysis of contracts with contractors and long-term cooperation with component suppliers based on long-term contracts.

Group companies do not sign contracts with counterparties that provide for unfavorable delivery dates, and in extreme situations renegotiate contract terms. There is also constant supervision of contracts containing clauses on contractual penalties for non-performance or untimely delivery of luminaires.

4.2.7. Exchange rate risk

Exchange rate risk is inherent in the operation of any company that transacts in foreign currencies. In 2022, almost 56% of the LUG Group's sales revenues came from exports, where the euro is the main settlement currency. Taking into account that the vast majority of lighting components were settled in euros and dollars, it should be emphasized that to a large extent the LUG Group is characterized by natural currency hedging. Among other currencies, the Group's results are also moderately affected by fluctuations in the Argentine peso exchange rate, where a high volatility factor can affect the valuation of selected balance sheet components. The Issuer makes every effort to mitigate the risk of exchange rate fluctuations by conducting part of its trade in stable currencies such as the euro and the US dollar.

Receipts from product exports largely offset purchases of imported production materials. In order to reduce foreign exchange risk, LUG S.A. also uses forward hedging transactions. Each time the decision to choose an instrument is preceded by in-depth analysis and financial planning, and these instruments are used solely to hedge payments.

To the best of the Issuer's knowledge, as of the date of publication of the 2022 Annual Report, the valuation of forward contracts has no significant impact on the LUG S.A. Group's results of operations.

4.2.8. Risk of damage to reputation and loss of customer confidence

An essential role in building lasting customer relationships based on product loyalty is quality and a good manufacturer image. Deterioration of the organization's image and loss of customers' trust in LUG brand services and products may result in a decrease in sales, which could consequently have a negative impact on the LUG S.A. Capital Group's results. With the aim of maintaining the confidence of customers, LUG brand fixtures undergo rigorous testing before they are introduced to the market, and each new product is subject to verification with an assessment of customer expectations and validation. In addition, in its daily operations, the Issuer minimizes the risk of reputational damage by responsibly managing relationships with all its stakeholders.

4.2.9. Risk of failure to achieve strategic goals

The LUG S.A. Capital Group's exposure to the risk of achieving strategic goals is associated with failure to achieve the assumed growth parameters and the lack of expected effects if the goals are achieved, or with achieving goals based on erroneous analyses and forecasts of the macroeconomic situation or industry development trends. In both cases, the non-refundable expenses incurred in the implementation of the wrongly specified targets may worsen the financial condition of the entities forming the LUG S.A. Capital Group.

The Issuer currently assesses this risk as low, basing its position on the just-closed 2017-2022 strategic period, during which the main focus was on average annual growth at 10% CAGR, developing a 40% margin and expanding into foreign markets. Despite the difficult political and economic conditions, LUG met the selected targets by achieving revenue growth of nearly 17% CAGR, as well as developing a gross margin on sales that reached or even exceeded 40% during the strategic period, eventually reaching 37% in 2022. In line with its strategic aspirations, LUG also significantly increased the share of large projects in its sales structure.

4.2.10. Supply chain risks

LUG S.A. and its subsidiaries have a policy of purchasing strategic components based on the idea of diversification, so exposure to the risk of supplier dependence is limited. For most components, the Group has at least two independent and reliable suppliers. Risks are also minimized through ongoing

monitoring of the component market, which allows observation of trends and early identification of possible risks.

A system of supplier qualification within the framework of ISO procedures is also applied, and cooperation with component suppliers is based on long-term purchasing plans, which are specified at the time of delivery. In addition, the LUG S.A. Group has demand-responsive inventory levels of components.

In view of the ongoing war at the country's eastern border, the ability to predict the prices of raw materials used in production, but also oil or energy and their availability, is limited.

4.2.11. Risks associated with the contract concluded with the Government of the Province of Misiones (Argentina) regarding the establishment by LUG S.A. of a production and assembly plant for LED luminaires

In October 2016, LUG S.A. concluded an agreement with the Government of the Province of Misiones (Argentina) regarding the establishment by LUG S.A. of a production and assembly plant for LED luminaires in the Province of Misiones and the supply by LUG S.A. of luminaires using LED technology. In addition, the subject of the agreement is the establishment of mutual exclusivity for the production of LED technology and the development of a plant dedicated to this technology in the province. According to the presented agreement, the estimated value of the supplied luminaires will be around €5.6 million. In addition, subject to the positive implementation of the first stage of the agreement, the Government of the Province of Misiones has committed in the second stage to the acquisition of additional luminaires worth about EUR 15 million over the next three years. The construction of the Misiones Province plant was successfully completed in Q4 2018, and the plant was officially opened on October 29, 2018.

The Issuer identifies the risk that, as a result of unforeseen events, the contract in question between LUG S.A. and the Government of the Province of Misiones may be delayed or not implemented in full as originally intended. The contract with the Province is currently being implemented with some delay due to the need to reallocate the Province's financial resources for other purposes. However, the cooperation is going positively, and the Contracting Party has no comments on the implementation.

In order to mitigate the risk in question, the Issuer very carefully fulfills all agreements between the parties and monitors on an ongoing basis the degree of fulfillment of obligations under bilateral arrangements. In addition, in accordance with the Issuer's geographic division of operations within the LUG S.A. Capital Group, all rights and obligations related to the investment in Argentina have been assumed by the joint venture LUG Argentina, which will be entirely responsible for the Group's operations and investment in Argentina and other South American countries. This will significantly improve the supervision of the implementation of the provisions of the subject agreement with the Government of the Province of Misiones and the further development of the Issuer's and its Group's activities in the Argentine market and other South American countries.

4.2.12. Risk related to withdrawal of production batches from the market

Products and goods introduced into individual markets may be withdrawn, primarily due to manufacturing defects of a given product batch, which may adversely affect the LUG Capital Group's financial results. In the case of withdrawal of a product or commodity offered in one of the European Union markets, there is a risk that this product or commodity will have to be withdrawn from other European Union markets, which involves additional costs, such as costs of transportation, performance of tests and expert opinions, costs of legal proceedings and possible penalties.

This type of risk is minimized by the ISO 9001:2001 quality management system in place, which has the necessary procedures and instructions for quality control of products and goods. In addition, LUG brand luminaires and electronic components are subjected to safety-of-use tests

in an internal laboratory. Thermal conditions, the tightness of luminaires (IP degree), resistance to mechanical impacts responsible for plastic aging (IK degree), as well as all electrical parameters are also tested. The quality of the Group's products is confirmed by awarded certificates, e.g. ENEC, GOST and others. This risk is included in the Issuer's group insurance program.

4.2.13. Risk of temporary suspension of production due to failure, destruction or loss of assets

In the event of failure, destruction or loss of tangible fixed or current assets, production may be temporarily halted, resulting in the inability to fulfill orders placed by customers in a timely manner. Deterioration in the standard of customer service and delays in order fulfillment, and in extreme cases the inability to fulfill orders, may result in the takeover of order fulfillment by competitors and, consequently, may cause a change in the financial results of the Issuer Group.

In order to mitigate this risk, the Group has an appropriate investment policy, thanks to which the most important machines and equipment are duplicated in the machinery park. Minimization of the risk is also ensured by appropriate service contracts, which guarantee the repair of machines and equipment in the shortest possible time or the provision of replacement machines for the time. The LUG S.A. Group also has a dedicated insurance program that further protects the companies in terms of this and other risks.

4.2.14. Risks related to environmental protection

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

- Directive 2002/95/EC on the use of certain hazardous substances in electrical and electronic equipment, Regulation of the Minister of Development and Finance of December 21, 2016 on the essential requirements for limiting the use of certain hazardous substances in electrical and electronic equipment (Journal of Laws 2017 item 7);
- Directive 2002/96/EC of the European Parliament and of the Council on waste electrical and electronic equipment (WEEE), Act of September 11, 2015 on waste electrical and electronic equipment (Journal of Laws 2015, item 1688), as amended, with implementing acts;
- Directive 94/62/EEC on packaging and packaging waste, Act of December 14, 2012 on waste (Journal of Laws 2013, item 21), Act of June 13, 2013 on packaging and packaging waste management (Journal of Laws 2013 item 888);
- Directive 2006/66/EC on batteries and accumulators and waste batteries and accumulators and repealing Directive 91/157/EEC, Act of April 24, 2009 on batteries and accumulators (Journal of Laws No. 79, item 666);
- Act of April 27, 2001 Environmental Protection Law;
- Act of September 13, 1996 on maintaining cleanliness and order in municipalities;
- Act of February 25, 2011 on chemical substances and their mixtures;
- Act of July 12, 2017 amending the Act on Substances that Deplete the Ozone Layer and Certain Fluorinated Greenhouse Gases and certain other acts;
- Act of July 20, 2017 Water Law;
- Act of June 7, 2001 on collective water supply and sewage disposal.
- Act of November 24, 2017 on amendments to the Waste Act and certain other acts (Journal of Laws 2017 item 2422)
- Regulation of the Minister of Environment of January 19, 2018 on the rates of registration fee and annual fee (Journal of Laws 2018 item 184)
- Regulation of the Minister of Climate of January 2, 2020 on the waste catalog (Journal of Laws 2020 item 10)
- Regulation of the Minister of Economy of October 5, 2015 on detailed handling of waste oils (Journal of Laws 2015 item 1694)

- Regulation of the Minister of the Environment of November 10, 2015 on the list of types of waste that individuals or organizational units that are not entrepreneurs may subject to recovery for their own use, and permissible methods of their recovery. (Journal of Laws 2016 item 93)
- Regulation of the Minister of Climate of September 11, 2020 on detailed requirements for waste storage. (Journal of Laws 2020 item 1742)
- Regulation of the Minister of Environment of July 2, 2010 on cases in which the introduction of gases or dust into the air from installations does not require a permit (Journal of Laws 2010 no. 130 item 880)
- Regulation of the Minister of Environment of July 2, 2010 on cases in which the introduction of gases or dust into the air from installations does not require a permit (Journal of Laws 2010 no. 130 item 881)
- Act of July 12, 2017 amending the Act on Substances that Deplete the Ozone Layer and Certain Fluorinated Greenhouse Gases and certain other acts (Journal of Laws 2017 item 1567)
- Announcement by the Minister of Climate and Environment of October 11, 2021 on the rates of fees for use of the environment for 2022 (M.P. 2021 item 960)

There are various penalties for violations of the provisions of the aforementioned acts, as specified in each of them separately. In the course of its activities, the Issuer's Group complies with all environmental protection requirements imposed on it by legal acts.

The Group's products are free of substances such as: lead (Pb), mercury (Hg), hexavalent chromium (Cr+6), cadmium (Cd), polybrominated biphenyls (PBB) and polybrominated diphenyl ethers (PBDE) di-2-ethylhexyl phthalate designated with the symbol (DEHP), benzyl butyl phthalate designated with the symbol (BBP), dibutyl phthalate designated with the symbol (DBP), diisobutyl phthalate designated with the symbol (DIBP), or their amounts are within the ranges allowed by the regulations. In accordance with the regulations, the Issuer's Group ensures the collection, recovery and recycling of luminaires introduced into the environment in the country. They are labeled in accordance with the requirements.

In addition, the LUG S.A. Capital Group organizes the collection of used light sources and luminaires from customers, which are sent to recycling companies. The duty of recovery and recycling in relation to the introduced luminaires has been handed over to the Electrical and Electronic Equipment Recovery Organization by virtue of the concluded agreement. The LUG S.A. Capital Group uses batteries that are certified, comply with relevant standards and are properly labeled.

The Issuer complies with legal requirements by applying controls to all the packaging and products it introduces. It conducts selective waste collection and cooperates with recyclers, reduces the amount of waste sent to the landfill, and ensures recovery and recycling of packaging waste. All waste generated by the Group is recorded in detail using Waste Record Cards and Waste Transfer Cards. The Company submits required reports and reports to the relevant administrative authorities in a timely manner.

4.2.15. Risk of litigation, arbitration and proceedings before administrative authorities

In the area covered by this risk, LUG S.A. Capital Group companies are engaged in, among other things, debt collection proceedings and actions before the National Board of Appeals (KIO) in tender proceedings.

In 2022 and up to the date of publication of the report, no legal, administrative or tax proceedings that pose a threat to the operation of the LUG S.A. Capital Group were or are pending against the Issuer or its subsidiaries.

4.2.16. Risk of losing key employees and key executives, and inability to hire a sufficient number of qualified employees

The LUG S.A. Capital Group's human resources are its key assets largely determining the success of further dynamic development. Many of the people in management positions are individuals with many years of experience working in LUG S.A. Group companies. Changes in the composition of the workforce, especially managerial staff, are fraught with the risk of losing expert know-how and worsening the results generated by the Issuer in all areas of operation. In addition, there is a risk that due to its further dynamic development, the Issuer's Capital Group will not be able to acquire key personnel to fill vacancies or fill newly created positions with employees with the appropriate qualifications and experience, and may have to incur significant costs for their employment and training.

In order to minimize this risk, the Management Board, is taking a number of measures to develop the organizational culture. Among the most important are - management by values, or measures aimed at improving communication standards.

4.2.17. Risk of liability for personal injury and property damage in connection with the use of products offered by the Issuer

The products offered by the LUG Group are primarily luminaires powered by electric voltage, which may pose a threat to life or health in the event of improper use or a manufacturing defect. The occurrence of an event involving electrocution or damage to property may have a negative impact on the Issuer's image and result in the need to pay compensation.

In order to minimize this risk, the Group has entered into insurance contracts covering the producer's liability for damage to person or property caused to anyone in connection with the use, application or consumption of the product or group of products specified in the insurance contract. The insurance covers the manufacturer's liability for damages regardless of whether the product was affected by a design or manufacturing defect, where a defect is also considered to be a lack of or incomplete information about the product or a failure to warn about the product's dangerous properties.

4.2.18. Risk of random events

The Issuer, like any business entity, or the companies in its Group, are exposed to risks associated with random events. The occurrence of significant events or factors that the Issuer is unable to foresee may adversely affect the Issuer's operations and financial position. The Company protects itself against unforeseen losses through an insurance program.

4.2.19 Risk of an epidemic or pandemic outbreak

The unprecedented phenomenon of the COVID-19 virus pandemic, which began at the end of 2019 and spread globally at the beginning of the following year, prompted the Issuer to lean into a re-identification of risks, during which the risk of the possibility of a negative impact of the pandemic on the Issuer's business and financial performance was identified.

In order to reduce the possibility of the identified risk as much as possible, the Issuer conducts at a very early stage the identification of the problem and implements appropriate measures to secure the continuity of operations of the LUG S.A. Group companies, the health of employees and contractors who cooperate with them on a daily basis. The crisis management team, delegated to risk management, monitors the epidemiological situation in the country and around the world on an ongoing basis in order to take appropriate preventive measures well in advance. The Company's Management Board makes decisions in accordance with the recommendations of the WHO and the Ministries of Health.

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

As part of the materiality study, areas of non-financial risks relevant to the LUG S.A. Group's operations were identified. A broad description of the risks can be found in the Non-financial Financial Statements of the LUG S.A. Capital Group for 2022. The following table contains only a summary of them.

Table 34. Identified significant non-financial risks of the LUG S.A. Capital Group*

Area	Risks
Management area	Risks related to the risk management system
	Risks related to business ethics
	Risks related to anti-corruption and bribery
	Risks related to payment practices
Labor/social issues area	Risks related to consumer/end-user rights
	Risks of working conditions
	Risks related to equality of opportunity
	Risks related to other labor rights
Environmental issues area	Risks related to energy efficiency
	Risks related to the fuel and energy mix
	Risks related to GHG emissions
	Risks related to adaptation to climate change
	Risks of sourcing and using raw materials and resources
	Risks associated with circular business models

Source: LUG S.A.

* A detailed description of the listed risks is provided in the LUG S.A. Group's Non-Financial Report 2022.



Statement of the Management Board on the application of corporate governance principles



5. STATEMENT ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

LUG S.A. and the LUG S.A. Capital Group attach great importance to ensuring that all shareholders have free access to information about the Issuer and that their rights are respected regardless of the size of their shareholding. In order to give expression to the transparency of its operations and to provide its investors and shareholders with access to reliable information which, in view of the current situation in the financial markets, is essential for making rational investment decisions, LUG S.A. observes the principles of corporate governance contained in Attachment 1 to Resolution No. 795/2008 of the Exchange Management Board dated October 31, 2008. "Good Practices of Companies Listed on NewConnect" as amended by Resolution No. 293/2010 of the Management Board of the Warsaw Stock Exchange of March 31, 2010 on the amendment of the document "Good Practices of Companies Listed on NewConnect".

Table 35. Statement of the Issuer's Management Board on the application of corporate governance principles in 2022

Item	PRINCIPLE	YES/NO/NOT APPLICABLE	COMMENTS
1.	The Company should pursue a transparent and effective information policy, using both traditional methods and modern technologies that ensure speed, security and broad access to information. Using these methods to the fullest extent possible, the Company should ensure adequate communication with investors and analysts, allow the general meeting to be broadcast using the Internet, record the proceedings and make them public on the website.	YES, with the exception of broadcasting the proceedings of the general meeting over the Internet, recording the proceedings and making them public on the website.	The Issuer complies with this point of the set of Good Practices with regard to the provisions on the need to conduct a transparent and effective information policy to ensure that investors have quick and wide access to information. The data on the website www.lug.com.pl gives a full picture of the Issuer's situation both in terms of its finances and the industry in which it operates. In addition, each year the Issuer organizes result chats for investors with the CEO, making financial data more accessible to the investor. In the opinion of the Company's Management Board, the costs associated with the technical operation of broadcasting and recording the proceedings of the general meeting are disproportionate to the potential effects.
2.	The Company should ensure effective access to information necessary to assess the situation and prospects of the company and how it operates.	YES	
3.	The company maintains a corporate website and posts the following on it:	YES	

3.1.	basic information about the company and its operations.	YES	
3.2.	a description of the issuer's business, indicating the type of activities from which the issuer earns the most revenue.	YES	
3.3.	a description of the market in which the issuer operates, with an indication of the issuer's position in that market.	YES	
3.4.	professional resumes of members of the company's governing bodies.	YES	
3.5.	information, obtained by the management board on the basis of a statement by a member of the supervisory board, on the relationship of a member of the supervisory board with a shareholder holding shares representing not less than 5% of the total number of votes at the general meeting of the company.	YES	
3.6.	corporate documents of the company.	YES	
3.7.	outline of the company's strategic plans.	YES	The Issuer provides Strategic Development Directions at: https://www.lug.com.pl/relacje-inwestorskie/spolka/plany-strategiczne and https://luglightfactory.eu/strategy/
3.8.	published forecasts of financial results for the current financial year, along with assumptions to these forecasts (in case the issuer publishes such).	NOT APPLICABLE	In the opinion of the Management Board of LUG S.A., the current high volatility of the economic situation is not conducive to the stability of the premises necessary for the preparation of reliable financial forecasts. In view of the above, the Issuer's Management Board has decided not to publish financial forecasts. In the event of a change in the Issuer's policy regarding the publication of forecasts, they will be posted together with assumptions on the Issuer's website in the Financial Data tab.
3.9.			
3.10.		YES	

3.12.	the issuer's shareholding structure, indicating major shareholders and free float shares.		
3.13.	data and contact details to the person who is responsible in the company for investor relations and contacts with the media.	YES	
	published current and periodic reports.	YES	
3.14.	calendar of scheduled dates for publication of financial periodic reports, dates of general meetings, as well as meetings with investors and analysts and press conferences.	YES	
3.16.	information on corporate events, such as the payment of dividends, and other events resulting in the acquisition or limitation of rights on the part of the shareholder, including the timing and principles of these operations. This information should be posted in time for investors to make investment decisions.	YES	
3.17.	shareholders' questions on matters on the agenda, asked before and during the general meeting, together with answers to the questions asked.	YES	
3.18.	information on the reasons for the cancellation of the general meeting, change of date or agenda, with justification.	YES	
3.19.	information on the adjournment of the general meeting and the reasons for the adjournment.	YES	
3.20.	information on the entity with which the company has signed a contract for the provision of services of an Authorized Advisor, indicating the name, website address, telephone numbers and e-mail address of the Advisor.	NOT APPLICABLE	The Issuer is not under an obligation to cooperate with an Authorized Advisor.
3.21.	Information on the entity that acts as a market maker of the issuer's shares.	YES	
		YES	

	information document (prospectus) of the company, published within the last 12 months.		
	The information contained on the website should be posted in a way that allows easy access to this information. The issuer should update the information posted on the website. In the event that significant new information becomes available or a significant change in the information posted on the website occurs, the update should be carried out immediately.	YES	
4.	The Company maintains a corporate website, at the issuer's option, in Polish or English. Current and periodic reports should be posted on the website at least in the same language as their publication in accordance with the regulations applicable to the issuer.	YES	The issuer maintains a corporate website in both recommended languages (Polish and English).
5.	The Company should pursue an information policy with particular attention to the needs of individual investors. For this purpose, the Company, in addition to its corporate website, should use the investor relations section individualized for a given company, located at www.GPWInfoStrefa.pl .	YES	
6.	The issuer should maintain ongoing contacts with representatives of the Authorized Advisor, in order to enable him to properly perform his duties to the issuer. The Company should appoint a person responsible for contacts with the Authorized Advisor.	NOT APPLICABLE	The Issuer is not under an obligation to cooperate with an Authorized Advisor.
7.	If an event occurs in the company that, in the issuer's opinion, is material to the Authorized Advisor's performance of its duties, the issuer shall immediately notify the Authorized Advisor.	NOT APPLICABLE	The Issuer is not under an obligation to cooperate with an Authorized Advisor.
8.	The issuer should provide the Authorized Advisor with access to all documents and information necessary for the performance of the Authorized Advisor's duties.	NOT APPLICABLE	The Issuer is not under an obligation to cooperate with an Authorized Advisor.
9.1	The issuer provides information in the annual report on the total amount of remuneration of all members of the management and supervisory boards.	YES	

9.2	The issuer provides information in the annual report on the remuneration of the Authorized Advisor received from the issuer for providing services to the issuer in any capacity.	NOT APPLICABLE	The Issuer is not under an obligation to cooperate with an Authorized Advisor.
10.	Members of the management board and supervisory board should attend the general meeting in a composition that allows them to provide substantive answers to the questions asked at the general meeting.	YES	
11.	At least twice a year, the Issuer, with the cooperation of the Authorized Advisor, should hold a publicly accessible meeting with investors, analysts and the media.	YES	In 2022, public meetings replaced public investor chats. The Issuer implemented 4 investor chats in 2022.
12.	The resolution of the general meeting on the issue of shares with subscription rights should specify the issue price or the mechanism for determining it, or oblige the body authorized to do so to determine it before the date of determination of subscription rights, in time for the investment decision.	NOT APPLICABLE	The issuer did not issue shares in 2022.
13.	Resolutions of the general meeting should ensure that the necessary time interval is maintained between the decisions causing certain corporate events and the dates on which the rights of shareholders arising from those corporate events are determined.	YES	
14.	The date on which the rights to dividends are determined and the date on which dividends are paid should be set so that the time falling between them is as short as possible, and in any case no longer than 15 business days. Setting a longer period between these dates requires detailed justification.	YES	
15.	The resolution of the general meeting on the payment of conditional dividends may contain only such conditions, the possible fulfillment of which will occur before the date of determination of the right to dividends.	YES	

16.	<p>The issuer publishes monthly reports, within 14 days after the end of the month. The monthly report should include at least:</p> <ul style="list-style-type: none"> - information on the occurrence of trends and events in the Issuer's market environment that, in the Issuer's opinion, may have significant consequences for the Issuer's financial condition and results in the future, - a summary of all information published by the Issuer by way of a current report in the period covered by the report, - information on the realization of issue objectives, if such realization, even in part, took place during the period covered by the report, - an investor's calendar, including events to take place in the coming month that concern the Issuer and are important from the point of view of investors' interests, in particular the dates of publication of periodic reports, planned general meetings, opening of subscriptions, meetings with investors or analysts, and the expected date of publication of an analytical report. 	NO	<p>The Issuer stopped publishing monthly reports as of 16/01/2018. In the opinion of the Company's Management Board, taking into account the convergence of the information contained in monthly reports with the information provided regularly through current and periodic reports, which the Company prepares in accordance with the applicable legal regulations, timely published current and periodic reports allow all interested parties, including individual investors, to become familiar with all circumstances and events that may have a significant impact on the economic, property and financial situation of the Company or that could significantly affect the price or value of LUG S.A. shares.</p>
16a.	<p>In case of violation by the Issuer of the information obligation specified in Attachment 3 to the Regulations of the Alternative Trading System ("Current and periodical information provided in the alternative trading system on the NewConnect market"), the Issuer should immediately publish, in the mode proper for providing current reports on the NewConnect market, information explaining the situation.</p>	YES	

Source: Issuer

Ryszard Wtorkowski, President of the Management Board

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Mariusz Ejsmont, Vice-President of the Management Board

.....

Małgorzata Konys, Member of the Management Board.

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Statement of the management board of the LUG S.A. capital unit



**STATEMENT OF THE MANAGEMENT BOARD OF LUG S.A.
ON THE RELIABILITY OF THE PREPARATION OF THE SINGLE AND CONSOLIDATED
FINANCIAL STATEMENTS**

**for the period
from 01/01/2022 to 31/12/2022**

Zielona Góra, ul. Gorzowska 11

The Management Board of LUG S.A., pursuant to §5 item 7.1. point 5 of the Attachment 3 to the Regulations of the Alternative Trading System "Current and periodical information transferred in the alternative trading system on the NewConnect market", hereby declares that to the best of its knowledge, the annual consolidated financial statement and comparable data have been prepared in accordance with the Issuer's regulations and IAS/IFRS adopted in the EU and applicable.

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

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

Ryszard Wtorkowski, President of the Management Board

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Mariusz Ejsmont, Vice-President of the Management Board

.....

Małgorzata Konys, Member of the Management Board.

.....

**STATEMENT OF THE MANAGEMENT BOARD OF LUG S.A.
REGARDING THE SELECTION OF THE AUDITING COMPANY**

Zielona Góra, ul. Gorzowska 11

The Management Board of LUG S.A. pursuant to §5 item 7.1. pt. 6) of Attachment 3 to the Regulations of the Alternative Trading System "Current and periodical information provided in the alternative trading system on the NewConnect market" declares the selection of the auditing company carrying out the audit of the annual consolidated financial statement in accordance with the regulations, including the selection and the procedure for selection of the auditing company and indicates that the auditing company and the members of the team carrying out the audit met the conditions for drawing up an unbiased and independent report on the audit of the annual consolidated financial statement in accordance with applicable regulations, professional standards and principles of professional ethics.

Ryszard Wtorkowski, President of the Management Board

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Mariusz Ejsmont, Vice-President of the Management Board

.....

Małgorzata Konys, Member of the Management Board.

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2022

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