






Letter from the President of LUG S.A.

” *In 2016, using our professionalism, experience and intuition, we have proven how we can efficiently handle market requirements, and how we convert it in a long-term success. Results achieved in 2016 let us look into the future with enthusiasm and it stimulates our appetites for next challenges, which we are going to face in 2017.* **”**

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



Summary of key conclusions:

-  Year 2016 was very significant for LUG S.A. Capital Group. Despite initial difficulties, it brought to us the expected success and the dynamic growth for the whole Group.
-  Business demands competences such as courage of facing challenges and making difficult decisions, which LUG S.A. Capital Group has continued to improve consistently for almost 30 years.
-  In March 2016 we participated in the prestige lighting industry exhibition Light+Building in Frankfurt am Main, which has given us an opportunity to initiate relations with many new customers.
-  Revenue from sales in 2016 has achieved the highest level in LUG's history level of PLN 120.9 Million. What's more, we manage to improve our gross margin on sales up to 39.1%
-  The spectacular success for LUG S.A. Capital Group was the signing an agreement with the Government of Misiones Province from Argentina. According to the agreed conditions, LUG is going to deliver lighting luminaires valued for almost EUR 21 Million to the local market. It is also a great chance to widen our client portfolio in Argentina and the entire South America.



LUG Spółka Akcyjna
Producent Opraw Oświetleniowych



Dear Sirs,

I have the honour to invite you to read LUG.S.A. Capital Group Annual Report for 2016 with certainty, that it will prove to be inspiring. It represents the commitment, professionalism and dedicated work, which once again brought us the success. The report offers a summary of the last twelve months of our activity.

*Year 2016 was rich with significant events for LUG S.A. Capital Group. Despite tough beginnings and several sudden turns, it eventually brought us satisfaction and a dynamic growth of the whole Group. We proved, how with full professionalism and responsibility, driven by our own experience and intuition, we have coped with market demands, changing them into long-term success. **Business often demands a high level of competence, such as the courage to face challenges and make difficult decisions, and LUG S.A. Capital Group has continued to improve without interruptions for almost 30 years.** Moreover, the results achieved in 2016 let us look into the future with enthusiasm and it wets our appetite for new challenges, which we are going to face in 2017.*

*First quarter of 2016 was full of uncertainty for LUG S.A. Capital Group. This was connected with somewhat pessimistic mood of investors, and this resulted in delays in implementation of many investments. However, we did not allow ourselves to be discouraged with the temporary difficulty and we continued with diligent execution of adopted growth strategy. In March 2016, we participated in the prestige lighting industry fair Light+Building in Frankfurt am Main, organized every two years. It let us initiate relations with many new customers. We also commenced a project of cooperation with an International Association of Controllors – ICV and we made a significant investment in our infrastructure purchasing a machine enriching SMT line for assembly of the surface LED modules. **Thanks to that, our production capacities has increased significantly and the assembly time has shortened, thereby LUG's overall flexibility in LED modules manufacturing area increased.***

*The excellent annual results of LUG S.A. Capital Group, found its confirmation in our financial reports. **Finally, the consolidated sales revenue of LUG S.A. Capital Group increased by over 10% in 2016, and it has reached the highest level in LUG's history, PLN 120.9 Million. In addition, we have augmented this fantastic result with an improved gross margin on sales up to 39.1%.** Net profit in whole 2016 amounted to PLN 3,01 Million and, despite lower year-to-year comparison, it let us initiate next year with a optimism and satisfaction.*

***A spectacular success of LUG S.A. Capital Group was signing an important strategical agreement with the Government of Misiones Province in the 4th quarter of 2016. The agreement specifies that we will build a production/assembly facility in Argentina. In the future, LUG will deliver lighting luminaries valued for almost EUR 21 Million to the local market.** The whole project will be implemented in stages, while increasing LUG's presence in Argentina through intensifying production activity and establishing LUG Argentina. We are convinced, that this presence will allow us widen the group of clients in Argentina and the entire South America.*

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LUG Spółka Akcyjna
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On behalf of LUG S.A. Management Board I would like to thank our Shareholders for giving us their trust, for their participation and active engagement in the Group's growth. As well I would like to express my gratitude to all our employees, whose knowledge, professionalism and the sense responsibility are the foundation of the success of LUG S.A. Capital Group.

Best regards,

Ryszard Wtorkowski
President of LUG S.A. Management Board