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



Executive Summary:

- ➔ In 2012, LUG S.A. Capital Group followed a strategy of dynamic foreign expansion which increased the share of exports in its revenues from sales to 50 percent.
- ➔ Our expansion into the South American continent was accompanied by the establishment of a new subsidiary, LUG do Brazil Ltda.
- ➔ An adverse economic environment resulted in only partial achievement of the Group's financial performance forecasts.
- ➔ The exceptionally high level of revenues (PLN 102 million) and stable net profits (PLN 3 million) confirm the Group's good condition and strong foundations.
- ➔ The most important challenges in 2013 include the opening of a plant extension for manufacture of electronic components, and building competences the new plant will need in the years to come.
- ➔ LUG S.A. Capital Group's growth strategy for the years 2013 – 2016 will be implemented in line with the idea of energy efficiency and reduction of CO₂emissions.

Dear Sirs,

Presenting you with our Consolidated Annual Report, I would like to invite you to study a summary of LUG S.A. Capital Group operations in 2012.

Despite the adverse economic environment, 2012 was a good year for LUG S.A. Capital Group in many ways. We have invested a lot of energy into increasing our presence on the international lighting market, and our efforts delivered a 50-percent share of exports in our sales structure, as well as completion of the registration process of our new foreign representative offices – in Paris and the United Arab Emirates.”

Our global expansion in 2012 has also been reflected in the establishment of a new subsidiary, LUG do Brazil Ltda., which has become our gateway into the South American market. The number of architects, designers, investors and representatives of local authorities who attended the grand opening of the showroom of our LUG, LUG&LED and Flash DQ lighting fixtures in Sao Paulo attest to the Group’s huge business potential on the new continent.

For most Poles, the past year was the year of EURO 2012. LUG S.A. Capital Group also actively participated in investments preparing the country to host that international event. Projects such as accommodation centres, roadside infrastructure, hotels or training grounds did not give us much publicity. Nevertheless, they were a source of profitable investments which added to our portfolio of purchase orders without straining the Company’s financial condition.

Unfortunately, the downturn in the Polish economy in the second half of 2012 prevented the strong results generated in export markets from offsetting weaker performance at home. The slowdown proved to be greater than both the initial and the reviewed forecasts of GDP dynamics. The rapidly deteriorating market situation forced us to employ measures counterbalancing the negative impact of economic factors on the domestic market. We focused on developing our most advanced LED solutions and our Flash DQ designer brand. The positive results of these efforts were visible during the LUX LIVE 2012 fair – the biggest lighting trade fair in the UK – which proved to be our great success. In addition, our Flash DQ fixture HB 886 received the GOOD DESIGN 2012 title awarded by the Polish Institute of Industrial Design. In December 2012, we witnessed an overall deterioration and a slump in the Polish economy in terms of investments. The wholesale electrotechnical market, one of our main distribution channels at home, surrendered to the media-generated fears of an impending crisis and drastically reduced purchases in the final weeks of 2012. Despite our great determination and full mobilisation right to the very end of the fourth quarter, we were only able to partially deliver on the performance forecasts for 2012.

PLN 3 million+ net profits and unprecedented revenues of PLN 102 million testify, however, to our strong foundations and attest to LUG S.A. Capital Group’s capacity for continued development despite adverse circumstances.

Looking ahead and taking up the challenges we face on the lighting market, we resolved to develop the company in the direction of manufacturing electronic components used in LUG brand lighting fixtures. Our forward-

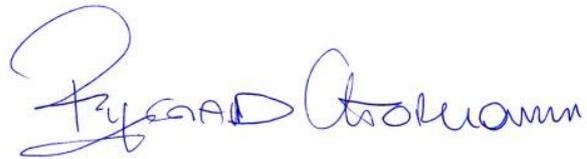
looking attitude was reflected in the purchase of an investment plot for the construction of a new plant by the end of 2015, and the decision to extend the existing facility already in 2013. The immediate launch of a new production line for SMD assembly will allow us to test new technological solutions and develop competences which will build our competitive advantage as we open the other plant.

The developments in 2012 and growth forecasts in the industry have inspired us to adopt a bold new Strategy for LUG S.A. Capital Group for the years 2013-2016. Our future will be based on 5 pillars, guiding LUG down the path of technological development in distinctly defined markets within the global potential of LED products estimated at EUR 88 billion in 2020. Faced with strong competition, we go beyond the basic trends and into the segment of supreme quality design with the Flash DQ brand, a new addition to our portfolio. All our objectives are motivated by the idea of development based on the principles of energy efficiency and reduced CO₂ emissions. We believe this approach will also allow us to deliver on our commitment to Shareholders and Investors by achieving the financial performance forecasts for 2013.

2012 was also a significant year for our Shareholders. In view of the strong financial condition of the entire Capital Group, the Company has paid out a dividend for the first time since its incorporation. Moreover, in response to the needs communicated to us by Investors, we have performed a reverse stock split. In doing that, we wanted to confirm our willingness to cooperate with the capital market, and prove our organisational maturity.

I wish to thank you for the confidence you have placed in us and emphasize our commitment to sustainable growth, integrity and dialogue, the values we will continue to uphold next year as we work to create value for our Shareholders, Clients and Employees.

Yours faithfully,



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

