

FINANCIAL RESULTS OF THE ES-SYSTEM GROUP FOR Q1-Q3 2017

**STABLE SALES AFTER DYNAMIC GROWTH IN THE FIRST HALF OF THIS YEAR,
A STRENGTHENED POSITION IN THE EUROPEAN UNION AND THE MIDDLE EAST
PROSPECTS FOR GOOD RESULTS AT THE END OF 2017**

In thousands PLN	Q3 2017	Q3 2016	% change	Q1-Q3 2017	Q1-Q3 2016	% change
Revenue from sales	43 788	44 662	-2%	135 984	127 726	6.5%
Domestic	35 870	36 132	-0.7%	104 913	101 292	3.6%
Export	7 917	8 530	-7.2%	31 072	26 434	17.5%
EBIT	379	1 773	-78.6%	4 595	951	383.2%
EBITDA	2 721	3 841	-29.1%	11 341	7 291	55.5%
Net profit	726	1 515	-52.1%	4 780	1 287	271.4%

“After the steep increase in revenue in the 2nd quarter of this year, the 3rd quarter has brought calmed down progress on projects. Revenues in the 3rd quarter remained similar to those in the 3rd quarter of 2016. The cumulatively generated solid profits allow us to be optimistic about the result for all of 2017,” commented Rafał Gawrylak, president of ES-SYSTEM.

A SLOW-DOWN IN SALES AFTER RAPID GROWTH IN THE FIRST QUARTER OF THIS YEAR

The Group’s revenues from sales achieved in the 3rd quarter of this year were at a similar level y/y and amounted to 43.8 million PLN as a result of stable domestic sales. Cumulatively, the Group’s revenues increased by 6.5% y/y reaching 136 million PLN. The margin expressed in % on total sales in the three quarters of 2017 amounted to 37.8% and was higher than in the corresponding period of 2016 by 0.6 p.p. y/y.

STABLE DOMESTIC SALES, GROWTHS IN KEY MARKET SEGMENTS

In the 3rd quarter of 2017, the ES-SYSTEM Group’s domestic sales was similar y/y and came in at 35.9 million PLN. Revenues from domestic sales cumulatively amounted to 104.9 million PLN, i.e. a 3.6% increase y/y, resulting from dynamic growth in the first half of this year.

By segment in the 3rd quarter of this year, architectural lighting recorded sales growth by 6% y/y, which is the result of completing several key projects. One of the largest in this segment included lighting for the office complex at the Galeria Wroclavia shopping center in Wrocław. Cumulatively, this segment recorded an increase by 5.2% y/y. There was an increase in outdoor lighting sales in this period by 4.9% y/y due to growing demand for illumination lighting. One of ES-SYSTEM’s most impressive projects in this segments is the Wiatraczna roundabout in Warsaw. From the beginning of the year, this segment denoted an increase by 14.9% y/y. As a result of delays in the completion of industrial lighting projects at the end of 2017, sales dropped by 5.9% y/y and by 0.6% y/y in 9 months if this year. Emergency lighting sales in the 3rd quarter of this year decreased by 12.2% y/y, but cumulatively increased by 0.7% y/y. The lighting control segment in the 3rd quarter saw a sales increase by 123.6% y/y, whereas from January to September, an increase by 38% y/y was recorded, resulting from increased interest in designing and implementing complex “smart lighting” installations. The effects can be observed at the Galeria Wroclavia and Galeria Północna shopping centers in Wrocław and Warsaw, as well as the Cosmopolitan apartment building – also located in Warsaw.

The company completed or continued work on the following domestic projects in the 3rd quarter of 2017:

- Galeria Metropolia shopping center – Gdańsk
- Forte furniture factory production hall and offices – Suwałki
- Velux production hall – Gniezno
- Młody Grunwald residential area – Poznań
- Impex Metal S.A. production hall – Konin
- Galeria Północna shopping center – Warsaw
- Galeria Arkadia shopping center, modernization – Warsaw
- Artico office complex – Warsaw
- Spedimex logistics warehouse – Łódź
- Crosspoint office complex, stage 3 – Łódź
- Office complex by the Galeria Wroclavia shopping center – Wrocław
- Makro warehouse – Mirków
- Lear factory logistics center – Tychy

ES-SYSTEM STRENGTHENS ITS POSITION ON EU MARKETS AND IN THE MIDDLE EAST

Foreign sales in the 3rd quarter of this year came in at around 7.9 million PLN, i.e. denoted a decrease by 7.2% y/y. Cumulatively, sales amounted to 31.1 million PLN, which means an increase by nearly 18% compared to the corresponding period in 2016. Export sales in Q1-Q3 of this year constituted 22.8% of total sales, whereas in the corresponding period of 2016, it constituted 20.7%.

“In 2017, we fortified our position on the European Union market, where sales amounted to 19.3 million PLN, which represents a 5% increase y/y. The biggest percentage increase – 68% y/y, reaching 6.8 million PLN, was recorded in sales to Asia and the Middle East. This is the effect of the completion of several large projects acquired thanks to several factors, including the participation in lighting fairs in 2016,” explained the president of ES-SYSTEM.

By segment, the sales structure abroad shows ES-SYSTEM’s strong position in architectural and emergency lighting as well as lighting control, where the company has recorded dynamic increases in the 3rd quarter of 2017.

The company completed or continued the following export projects in the 3rd quarter of 2017:

- Europa Passage shopping center – Hamburg, Germany
- Löhr-Center shopping center – Koblenz, Germany
- Amette, school complex – Saint Denis, France
- Thales company headquarters/office building – Paris, France
- Accare school – Groningen, Netherlands
- Sports center – Liepāja, Latvia
- New Giza Sporting Club – Egypt
- DFAT Office – Yangon, Myanmar (Burma)
- GTG office – Banja Luka, Bosnia and Hercegovina
- Saveplant DOO Kula warehouse – Belgrade, Serbia
- Neregelia warehouse – Belgrade, Serbia
- Health Centers – Nikisic, Kolasin and Adrijevic, Montenegro

INNOVATIVE LED SOLUTIONS AID SALES

LED solution sales after the first three quarters of 2017 accounted for 70.2% of the company’s total sales revenue, i.e. 95.5 million PLN, compared to the 61.2% share, i.e. 78.2 million PLN in Q1-Q3 2016. Cumulatively, the Group recorded an increase in the share of domestic LED product sales, reaching 69.5% compared to 58% in the corresponding period in the previous year. The percentage share of export LED product sales decreased to 72.9% compared to 74.4% in the same period in 2016. In spite of the decrease in the share of LED product sales, the value of these sales increased by 22% y/y.

....AND THE COMPANY’S PROFITS

The operating profit in the 3rd quarter of 2017 amounted to 0.4 million PLN. Cumulatively, the Group recorded an EBIT of 4.6 million as an effect of the higher margin on sales, in comparison to 0.95 million PLN in the corresponding period in 2016. The EBIT margin at the end of September of this year amounted to 3.4%. Cumulatively after three quarters of this year, the result on other operating activity came in at 0.2 million PLN, compared to the loss of 1.7 million PLN in 2016. The positive result on other operating activities is due to the reversal of provisions for receivables and lower write-offs on inventories and receivables.

Cumulatively in Q1-Q3 of this year, the group recorded a net profit of 4.8 million PLN compared to the 1.3 million PLN profit in the corresponding period of 2016.

PROSPECTS IN 2017

The positive prospects in the industry are confirmed by the Group’s order portfolio, which is currently fuller than in the corresponding period last year. Based on sales generated in the three quarters of 2017, the market outlook and sales assumptions, the Management Board hopes that the 4th quarter of this year will bring a confirmation of the good market situation in the industry, which will keep the company’s sales trend up throughout 2017.

The revenue from domestic sales in the 4th quarter of this year will depend on the pace, with which projects will be completed in the last months of the year. Management cannot rule out delays into the coming year. The company expects further development on the domestic market in the same business segments. At the same time, the introduction of the new “Urban Style” collection is planned for the end of 2017 – a collection distinguished by its eye-catching design, complemented with lighting control elements.

ES-SYSTEM hopes to maintain the positive upward trend in export sales throughout 2017.

The Management Board is currently in the process of carrying out several investments which should translate into the company's improved competitive edge in domestic and export endeavors. Capex in Q1-Q3 of this year amounted to 2.3 million PLN. Further investments are planned for Q4 of this year.

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ES-SYSTEM S.A. is the largest Polish company in the lighting sector in the section of professional lighting technology for construction: general, architectural, residential, industrial, specialist and exterior. The Company forms a specialist Capital Group with its own production plants, determining the directions for the lighting branch's development in the areas of innovative technological solutions, energy saving and design. The development strategy of the Group assumes strengthening the position of the national leader in the sector and the dynamic increase in export sales on the EU market and in other highly developed countries.