

Report of the Board of Directors on the activities of the Silvair Group for the first half of the year ended 30 June 2020

Kraków, 30 September 2020

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General information

Silvair is a U.S.-based company with Polish roots developing software for the Internet of Things (IoT). We are the world's first provider of software based on the Bluetooth Mesh technology.



Internet not of 'things' but of data...

What is the Internet of Things? It is a concept whereby objects are able to directly or indirectly collect, process or exchange data via a computer network.

Description of the Silvair Group and its development directions

Silvair, Inc. ("Issuer", "Company") is a company established and operating under the laws of the State of Delaware. The Company was established as a corporation on 30 May 2014. It is entered into the register maintained by the Secretary of the State of Delaware under entry no. 5543093 (Delaware Corporate Number) and has been established for an indefinite period. The Company is the parent entity of the Company's group, as described in the subsequent parts of this report.

Silvair, Inc. develops software related to the so-called Internet of Things (IoT).

The Company's strategic goal is to achieve a leading position on the market of suppliers of modern technological solutions related to the Internet of Things. The Group's offer includes, among others, wireless lighting control solutions (*Lighting Control*), including firmware for lighting components that is based on the Bluetooth Mesh standard, as well as tools for commissioning and managing wireless lighting control systems. Silvair is also working on tools that allow the analysis and use of data generated by lighting infrastructure - including both operational data related to the current functioning of the installation (*Connected Lighting*), as well as data generated by sensors that are part of the lighting infrastructure (*Building Intelligence*). The said tools allow the provision of innovative services that can be offered, among others, in a subscription model. The Company's business and marketing activities cover the global market, and in particular the markets of North America (with particular emphasis on the states of California and New York) and Western Europe (mainly Great Britain, Germany, and Benelux countries). Silvair solutions are regularly presented at major lighting trade fairs and conferences in various parts of the world.

Operating activities of the Silvair Group

Key events and achievements of the Silvair Group in the first half of 2020

COVID-19 coronavirus pandemic

At the end of 2019, news from China regarding the COVID-19 coronavirus emerged for the first time, and in the first quarter of 2020, the virus spread practically all over the world. From the very beginning, the Board has been monitoring the situation closely, looking for ways to minimize the impact of the pandemic on the Group's operations.

In March this year, in connection with the COVID-19 coronavirus pandemic, the Parent Company's Board identified the risk of sales disruptions caused by interruption to lighting component supply chains of the partners with whom the Group cooperates, as well as the risk of postponing lighting infrastructure modernization investments by customers due to widespread lockdown. In connection with the coronavirus pandemic, the Board also noted major difficulties with access to capital which – at this stage of commercialization of the Group's products – is an important source of financing of its day-to-day activity.

Consequently, the Parent Company's Board has made a pertinent revision of the 2020 sales assumptions. At the same time, in connection with the reduced sales activity, the Board has made a decision to decrease the operating expenses, significantly reducing headcount at the beginning of April this year and changing the terms of compensation for the Group's key employees and collaborators. As a result of the introduced changes, costs in June 2020 were 33% lower than in March 2020. The Group's operating expenses optimization process was carried out in such a way as not to significantly disrupt the development of products and the execution of contracts with the Group's key partners, while allowing restoration of the full scope of market activity after the pandemic effects pass. Due to the reduced employment in the field of development, the Board has introduced changes to the product map and the schedule for introducing new products to the market. All these changes have been agreed with the partners in terms of obligations resulting from the concluded agreements as well as activities required to be taken by the Group to implement its strategy and maintain its competitive advantage.

Along with the reduction of headcount and the change in remuneration conditions, the Board offered the employees remaining within the Group to join the Option Plan as an equivalent of the reduced remuneration. On 31 March 2020, the Board of Directors of Silvair, Inc. adopted a resolution on increasing the number of shares under the Option Plan from 1,453,000 shares to 2,000,000 shares, and granting options for 523,312 shares to designated employees. The introduction of the Option Plan allowed retaining key employees in the Group and maintaining high motivation across all teams.

Despite the economic stagnation caused by the COVID 19 coronavirus pandemic, in April and May this year the Group managed to negotiate and conclude several contracts with new partners. Along with the gradual lifting of restrictions (mainly the lockdown), the economic situation of the Group also improved. In June, the Group sold over 10,000 firmware licenses, which is the best monthly result since the commencement of commercialization. In the period from June to August, the Group also managed to obtain funds from investors – in the amount of USD 2.1 million – for financing its operations through the issue of convertible bonds ("Convertible Securities").

From January 2020 to the balance sheet date, Silvair, Inc. acquired USD 700,000 from the issue of Convertible Securities. In the period from July 2020 to August 2020, the Company acquired further USD 1.9 million. From the date of approval of the issue (i.e. 8 August 2020) to the date of preparation of this report, the Company has issued Convertible Securities with a total nominal value of USD 5.512 million. The total amount of funds obtained from the issue of Convertible Securities will allow to finance the Group's operations over the next 12 months.

Conclusion of an agreement with ASI Bridge Alfa Bitspiration Booster

On 7 January 2020, Silvair, Inc. concluded a dispositive agreement with ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. (hereinafter: ASI Bridge), which transfers the ownership of shares in Sway sp. z o.o. (a company from the Silvair Group). Under this agreement, the Company acquired 6,200 shares in Sway sp. z o.o., and thus became its shareholder. As payment for the above shares, the Company transferred - to ASI Bridge - a Bond issued as part of the Series III Bonds issue with a value of USD 441,000. As part of the Company's IPO, ASI Bridge acquired 91,722 common shares of the Company as a result of the conversion of the amount due arising from the Bond. The subject agreement is a result of the implementation of ASI Bridge obligations resulting from the Support Agreement (the entrustment of a grant) concluded between NCBiR and ASI Bridge on 28 March 2018 in accordance with the project implemented under the Smart Development Operational Program 2014-2020, i.e. a project - related to the Internet of Things (IoT) industry - entitled: "Identification of the topology of lighting fixtures layout by the way of directional measurement of lighting intensity", as well as the investment agreement concluded by SWAY sp. z o.o. and ASI Bridge as part of the above project. As a result of the transfer of shares, the Group holds 100% of shares in Sway Sp. z o.o.

Conclusion of an agreement with F2VS Technologies

On 21 January 2020, Silvair, Inc. entered into a license agreement with F2VS Technologies, Inc. with its registered office in the U.S. (hereinafter: F2VS), pursuant to which the Company and its subsidiaries may use certain F2VS technological solutions covered by patent protection in their products and services during the term of such agreement. The concluded agreement constitutes a settlement based on which F2VS dismissed its complaint in the case brought against Silvair.

Notifications on the change of shares in the total number of votes at the General Meeting of Silvair, Inc.

On 27 January and 28 April 2020, Silvair, Inc. informed that it had received - from Ipopema Towarzystwo Funduszy Inwestycyjnych S.A. - notifications on the change of share in the total number of votes at the Company's General Meeting by investment funds managed by Ipopema Towarzystwo Funduszy Inwestycyjnych S.A. The content of the notifications was published by the Company in Current Reports No. 1/2020 and No. 12/2020.

Changes in the Board of Directors of Silvair, Inc.

On 4 February, Silvair, Inc. received information from Marek Kapturkiewicz about his resignation from the function of a member of the Board of Directors, as well as from the function of a member of the Company's Audit Committee. At the same time, the Company appointed Christopher Morawski as a non-

executive director, member of the Board of Directors, and member of the Company's Audit Committee. The Issuer informed about this change in Current Report No. 3/2020 of 4 February 2020.

Christopher Morawski studied at McGill University in Montreal, Canada, where in 1981 he graduated as Bachelor of Mechanical Engineering. Between 1981 and 1993, he worked as a Project Engineer at Pratt&Whitney (Canada) and Principal Design Engineer at McDonnell Douglas Aircraft Company (now Boeing) in Long Beach, California, USA, where he was responsible for technical specification and standardization of engine installations in passenger aircrafts. In the years 1995-2019, he was the president and independent Director of Nitrex USA Holding. From 2014 to the present, he has been the owner and director of Astantis, LLC in Nevada (USA). From 1984 until now, he has been a shareholder and member of the management board at Nitrex Metal, Inc. based in Canada, where he is responsible, among others, for developing and implementing the concept of the company's expansion on the American, Chinese and European markets. His activities focus in particular on strategic product development, market analysis and the company's financing modeling. He has managed numerous projects with regard to the establishment of subsidiaries and international limited company restructuring, including acquisitions and mergers, which resulted in the global expansion of the Nitrex group. One of his key competences is also managing the operating and financial segments of enterprises, including communication with investors and shareholders. Currently, Christopher Morawski is a member of the management board at Nitrex Metal Inc., where, taking advantage of many years of experience in the field of international capital and financial transactions, he is a strategic advisor for the company's mergers & acquisitions.

Patent dispute with JSDQ

On 13 February 2020, JSDQ – based on the alleged infringement of JSDQ patents by the Company – made a proposal to conclude a license agreement with the Company, the scope of which grants the Company the right to use JSDQ technological solutions covered by certain patents. Based on the facts, the Company is of the opinion that its products and services do not infringe JSDQ patents. In the Company's opinion, this case is an example of the so-called patent trolling. Nonetheless, considering the time and potential costs of the litigation in the case, if any, or the necessity to enter into such a license agreement, the Company has made a decision to recognize a provision. On 10 September 2020, the Company concluded a "Release and license agreement" with JSDQ for the amount of USD 3.5 thousand. Under this agreement, JSDQ waived its claims regarding potential infringements of its patents by the Company. JSDQ has also granted a license to the Company and its subsidiaries for the use of specific JSDQ technological solutions covered by patent protection in the Company's products and services. In connection with the above, the previously established provision for this purpose has been released.

Signing of an agreement with General Luminaire LC

On 18 February 2020, Silvair, Inc. concluded an agreement with General Luminaire LC based in Shanghai, China, for the supply, licensing and provision of services, on the basis of which the Company undertook to provide Silvair Firmware with a complete set of tools for its implementation on the production line. Silvair Sp. z o.o. also undertook to grant a license for the use of the Firmware, and to provide related services. Established in 1956, General Luminaire is one of the leading architectural

lighting companies in China. The company offers ODM and OEM services, and deals with the design, testing, production, prototyping, assembly of accessories, etc.

Information on transactions concerning shares in Silvair, Inc.

On 28 February, 29 February, 2 March, 3 March, 15 April, 17 April and 22 April 2020, Silvair, Inc. received – from Christopher Morawski, a member of the Company's Board of Directors – notifications on transactions relating to shares which are referred to in Article 19 Section 1 of the MAR Regulation. The content of notifications was made public by the Company in Current Reports No. 4/2020, 5/2020, 6/2020, 7/2020, 9/2020, 10/2020, and 11/2020.

On 10 June and 1 July 2020, Silvair, Inc. received – from Rafał Han, a member of the Board of Directors and the Company's CEO – notifications on transactions relating to shares which are referred to in Article 19 Section 1 of the MAR Regulation. The content of notifications was made public by the Company in Current Reports No. 13/2020 and 15/2020.

Update of information regarding the issue of securities by Silvair, Inc.

On 4 March 2020, as part of the issue of Convertible Securities approved by the Board of Directors, the Company issued Convertible Securities with a par value of USD 0.5 million. The content of the notification was made public by the Company in Current Report No. 8/2020.

Change of the stock option plan

On 31 March 2020, the Board of Directors of Silvair, Inc. adopted a resolution on increasing the number of shares under the Option Plan from 1,453,000 shares to 2,000,000 shares, and granting options for 523,312 shares to designated employees. The options will be exercisable from 1 January 2021. The change is a direct result of the Board's decision to reduce the Group's operating costs - in connection with the coronavirus pandemic and its economic impact – by i.a. reducing employment and changing remuneration conditions for the Group's key employees and associates.

Signing of an agreement with EmCom Technology, Inc.

On 7 April 2020, Silvair, Inc. entered into agreement with EmCom Technology, Inc. based in Taiwan for the supply, licensing and provision of services, on the basis of which the Company undertook to provide Silvair Firmware with a complete set of tools for its implementation on the production line. Silvair Sp. z o.o. also undertook to grant a license for the use of the Firmware, and to provide related services. EmCom supplies sensor devices to the leading lighting manufacturers in Europe, mainly in Germany, Great Britain and Switzerland. As part of the agreement with Silvair, the company plans to produce the world's first certified Bluetooth Mesh / DALI 2 sensors.

Signing of an agreement with Feilo Sylvania International Group Kft.

On 23 April 2020, Silvair, Sp. z o. o. entered into agreement with Feilo Sylvania International Group Kft based in Budapest, Hungary, for the sale of Silvair Commissioning (part of the Silvair platform), which covers the provision of Bluetooth Mesh-based tools for configuration of a smart lighting network in the Lighting Control as a Service model (LCaaS). Feilo Sylvania is a leading brand of the Feilo Sylvania Group which has innovation and solution centers in 25 countries, and conducts business activities in over 45

markets around the world. As part of the signed agreement, Sylvania is expanding its portfolio with luminaires that use the Bluetooth Mesh technology to connect with other lighting products and devices compliant with the new standard.

Signing of an agreement with LSI Industries, Inc.

On 4 June 2020, Silvair, Inc. signed an agreement with LSI Industries, Inc. based in Cincinnati, USA, for the sale of Silvair Commissioning (part of the Silvair platform), which covers the provision of Bluetooth Mesh-based tools for configuration of a smart lighting network in the Lighting Control as a Service model (LCaaS). LSI Industries is a leading American manufacturer of lighting solutions, listed on the American NASDAQ stock exchange. As part of the cooperation established with Silvair, LSI will launch a product called AirLink Blue - a wireless solution based on the Bluetooth Mesh standard for outdoor lighting control.

Selection of the Auditor

On 22 June 2020, the Company's Board of Directors adopted a resolution on the selection of Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa – with its registered office in Poznań (postcode: 61-131) at ul. Abpa Antoniego Baraniaka 88E, entered under the number KRS 407558 to the Register of Entrepreneurs kept by the District Court Poznań - Nowe Miasto and Wilda in Poznań, 8th Commercial Division of the National Court Register, with the following tax identification number (NIP): 782-25-45-999, and the following audit company number: 4055 ("Grant Thornton") – as an auditing company to audit the Company's financial statements.

Grant Thornton will perform the following: an audit of the Company's annual statements (standalone and consolidated) for 2020 and 2021, and a review of the Company's consolidated financial statements for the first half of 2020 and 2021. In the previous years, Grant Thornton provided the Company with audit services for the Company's annual statements (standalone and consolidated) for 2018 and 2019, and with the review of the Company's consolidated financial statements for the first half of 2019.

Patents

In the period from 1 January 2020 to the date of preparation of this report, the United States Patent and Trademark Office covered 4 new solutions submitted by Silvair with patent protection. In total, the number of innovative solutions covered by patent protection has increased to 17.

Significant market successes and implementations of products based on Silvair technology

In May 2020, solutions based on Silvair technology were implemented in the warehouse, production and office spaces of one of the largest suppliers of bottled water in the US (Crystal Water). Pentalux is responsible for the implementation. Over 550 luminaires were installed across an area of nearly 14,000 square meters. The luminaires were additionally equipped with control components and motion sensors based on the Bluetooth Mesh standard, which were produced by various manufacturers. The applied solution enabled an additional 30% reduction in energy consumption. The project originally assumed savings of USD 80,000 as a result of replacing obsolete lighting with LED lamps, but with Silvair technology, the estimates were increased to annual savings of USD 110,000, which translates into savings of USD 45 per each lighting point.

The American company LED Green Light used Silvair technology to modernize lighting in the first implementations at Pioneer Groceries grocery chain in the USA. LED Green Light was responsible for the replacement of light sources and the installation of a lighting control system in selected store spaces of Pioneer supermarkets. By reducing the lamps' output between 10 p.m. and 5 a.m., annual savings of almost USD 5,000 were achieved. Pioneer stores operate around the clock, therefore, from the point of view of the owner of these facilities, a short duration of the lighting modernization project was particularly important. Thanks to the use of Silvair digital tools, the implementation of the system on site took only a few hours in each of the stores.

Material events after the end of the reporting period

Silvair's monthly record of Firmware license sales

In the first half of 2020, Silvair sold over 30,000 licenses for firmware for lighting components, including a record 12,000 in June 2020 alone. This is the highest monthly result since the beginning of the Group's sales. These results confirm a steady increase in interest in the Bluetooth Mesh technology worldwide since the publication of the standard.

Update of information on the issue of securities by Silvair, Inc.

On 13 July 2020, as part of the issue of Convertible Securities approved by the Board of Directors, the Company issued Convertible Securities with a par value of USD 0.3 million. The content of the notification was made public by the Company in its Current Report No. 16/2020.

On 10 August 2020, the Board of Directors adopted resolutions on significant changes to the terms of the issue of the Convertible Securities ("Revised Convertible Securities") issued pursuant to the decision of the Company's Board of Directors of 8 August 2019. The content of the adopted resolution was made public by the Company in Current Report No. 17/2020. The terms of the Revised Convertible Securities provide that:

1. The total par value of liabilities that the Company may incur under the Revised Convertible Securities is increased from USD 5.5 million to USD 6.0 million;
2. The Maturity Date of the Revised Convertible Securities is changed so that the holders of the Revised Convertible Securities have the right to request redemption of the Revised Convertible Securities and payment of the principal amount with interest accrued and unpaid at any time after 31 December 2020, 2021, or 2022, respectively, depending on the terms of issue and the date of issue of individual Revised Convertible Securities
3. The conversion mechanism is modified in such a way that the Conversion Amount will be converted into common shares of the new issue of the Company only in the event of: (i) Change of Control; (ii) or on 15 December 2020, 2021, or 2022 (depending on the terms and date of issue of the relevant Revised Convertible Security), whereby the conversion will not result in a determination that the Company will issue within the preceding 12 months: (i) 20% of the number of the Company's shares admitted to trading on the regulated market operated by the Warsaw Stock Exchange on a date falling 12 months before the conversion, nor (ii) shares in the amount specified in the Revised Convertible Securities, i.e. 1,073,757 shares in 2020, 1,168,928

shares in 2021 and 1,423,178 shares in 2022, depending on whichever number of shares is lower.

4. The Revised Convertible Securities will be converted into newly issued common stock of the Company at a fixed price of USD 1.65 ("Conversion Price"). In particular, as a result of the Conversion, the Company will issue its common shares to the holders of the Revised Convertible Securities in the number equal to the quotient of the Conversion Amount and the Conversion Price.

On 28 August 2020, as part of the change of the terms of the issue of Convertible Securities adopted by the Board of Directors, the Company issued Revised Convertible Securities with a par value of USD 1.8 million. The content of the notification was made public by the Company in Current Report No. 20/2020. By the date of preparation of this report, the Company has issued Revised Convertible Securities with a total par value of USD 5.512 million.

The Company expects that as a result of the Conversion of the Revised Convertible Securities, it will issue: (i) 1,073,757 common shares by the end of 2020; (ii) 1,168,928 common shares by the end of 2021; and (iii) 1,423,178 common shares by the end of 2022.

Signing of an agreement with Lunav AS

On 6 August 2020, Silvair, Sp. z o.o. concluded an agreement with Lunav AS based in Oslo, Norway, for the supply, licensing and provision of services, on the basis of which the Company undertook to provide Silvair Firmware with a complete set of tools for its implementation on the production line. Silvair Sp. z o.o. also undertook to grant a license for the use of the Firmware and to provide related services. Lunav focuses on implementing lighting solutions in commercial buildings and providing access to innovative services for all tenants and users.

Notifications on the change of shares in the total number of votes at the general meeting of Silvair, Inc.

On 14 August 2020, Silvair, Inc. informed that it had received – from Christopher Morawski, a member of the Company's Board of Directors – a notification regarding financial instruments concerning the stock in the share capital of the Company. The content of the notification was made public by the Company in Current Report No. 18/2020.

On 28 August 2020, Silvair, Inc. informed that it had received – from Krzysztof Januszkiewicz – a notification regarding financial instruments concerning the stock in the share capital of the Company. The content of the notification was made public by the Company in Current Report No. 19/2020.

On 1 September 2020, Silvair, Inc. informed that it had received – from Rafał Han, member of the Board of Directors and CEO of the Company – a notification regarding financial instruments concerning the stock in the share capital of the Company. The content of the notification was made public by the Company in Current Report No. 21/2020.

Silvair awarded for its contribution to the development of Bluetooth technology

Silvair has received an award for its contribution to the development of Bluetooth technology as part of the annual Bluetooth SIG (Special Interest Group) awards. Each year, Bluetooth SIG rewards the hard work and commitment of its working groups, committee members and associates who have been recognized by their colleagues as outstanding contributors to the development of Bluetooth technology. Since 2015, the Silvair team has been awarded as many as 15 times for their contribution and work on the Bluetooth standard, including the development of the Bluetooth Mesh technology. This year, Silvair employees – i.e. Pierguiseppe Di Marco and Piotr Winiarczyk – were again awarded as outstanding knowledge contributors to the development of the standard.

Signing of an agreement with BridgeLux

On 9 September 2020, Silvair, Inc. concluded an agreement with BridgeLux, Inc. based in Fremont, USA, for the supply, licensing and provision of services, on the basis of which the Company undertook to provide Silvair Firmware along with a complete set of tools for its implementation on the production line. Silvair also undertook to grant a license for the use of the Firmware and to provide related services.

Board of Directors

Rafal Han, Chief Executive Officer (CEO)

Co-founder of Silvair, Chief Executive Officer. Experienced entrepreneur. For a dozen or so years he was managing his own businesses operating in the area of marketing and advertising. In his companies he was responsible for, among others, global marketing strategies and negotiations with business partners from the US and Europe. He successfully co-founded numerous start-ups (including Futbolowo.pl, Estimote, Duckie Deck, ciufcia.pl) in Poland and the Silicone Valley. For nearly 5 years, he has devoted his professional career exclusively to Silvair.

Szymon Słupik, Chief Technology Officer (CTO)

Co-founder of Silvair, President of the Board of Directors. A talented individual, Chief Technology Officer and engineer appreciated in the Silicon Valley. He graduated from the AGH University of Science and Technology in Kraków with a degree in Electronics. Since 2016, he has served as Chairman of the Bluetooth mesh working group which includes 150 leading global technology companies. In 1992-2004, he was the founder and vice-president of CDN S.A., a company dealing with ERP systems, where he was responsible for the strategy of technological development and the software production department. Later on he occupied managerial positions in Wind Mobile (currently Ailleron).

Adam Gembala, Chief Financial Officer (CFO)

Co-founder of Silvair, Vice-President of the Board of Directors, Chief Financial Officer. Graduate of the Kraków University of Economics. He worked as a broker and a manager of equity and fixed income funds. He used to serve as CFO, president and board member at companies operating in, among others, the fuel, TMT and real estate sectors.

Paweł Szymański, Non-executive Director

He graduated from the Warsaw School of Economics. A securities broker holding Polish, British and U.S. licenses. Associated with such institutions as Wood&Company, Schroder Salomon Smith Barney, Citigroup, Dom Maklerski Banku Handlowego. He served as a member of the management board of such companies as PKN Orlen, CTL Logistics, ICENTIS, Ruch, Marvipol, Netia, ABC Data. Currently, he is the President of the Management Board of Krosno Glass and Member of the Supervisory Board of Alior Bank.

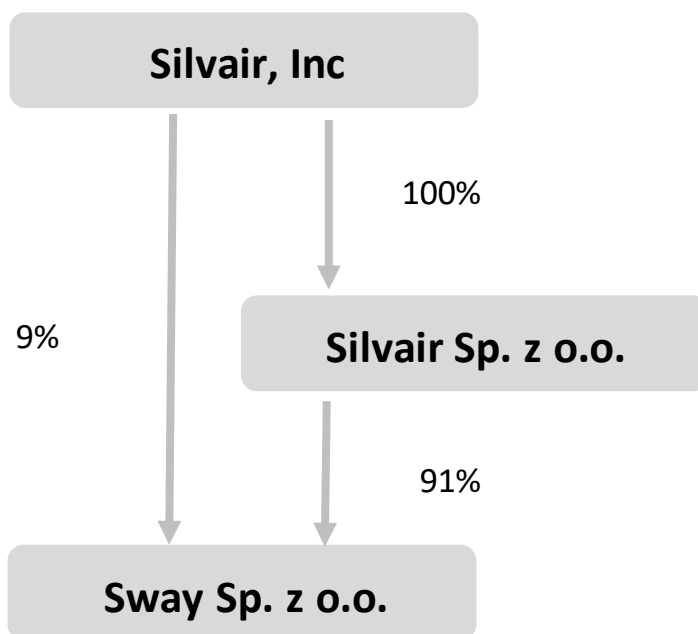
Christopher Morawski, Non-executive Director

A graduate of the McGill University in Montreal. An experienced manager with many years of experience in the field of international capital and financial transactions, strategic product development, market analysis and modeling of company financing. In the past, he dealt with technical specification and standardization of engine installations in passenger aircrafts. In the years 1995-2019, he was the president and independent director of Nitrex USA Holding. From 2014 to the present, he has been the owner and director of Astantis, LLC. in Nevada (USA). From 1984 to today, he has been a shareholder and member of the board of Nitrex Metal, Inc. based in Canada, where he is responsible, among others, for developing and implementing the concept of the company's expansion on the American, Chinese and European markets.

Name of the member of the Board of Directors	Function	Original date of assuming the function of the member of the Board of Directors
Rafał Han	Chief Executive Officer	30 May 2014
Szymon Słupik	Chief Technology Officer, President of the Board of Directors	30 May 2014
Adam Gembala	Chief Financial Officer, Vice-President of the Board of Directors, Secretary and Treasurer	30 May 2014
Paweł Szymański	Non-executive Director	25 May 2018
Chris Morawski	Non-executive Director	7 February 2020

Structure of the Silvair Group

The Group comprises Silvair, Inc., which is the parent company, and two subsidiaries: Silvair Sp. z o.o and Sway Sp. z o.o (“Subsidiaries”), which are consolidated by the Company. Presented below is the structure of the Group as at 30 June 2020, showing the Company’s percentage share in the share capital of each of the Subsidiaries, resulting from the number of shares held in them.



Silvair, Inc. is the Group’s parent company preparing consolidated financial statements. As at 30 June 2020, consolidation encompasses Silvair, Inc. and two subsidiaries: Silvair Sp. z o.o. and Sway Sp. z o.o.

Silvair sp. z o.o.

The Company holds directly 100% of shares in Silvair sp. z o.o, which represents 100% of the total votes at the shareholder meeting.

Sway sp. z o.o.

The Company holds directly 9% of shares and indirectly 91% of shares in Sway sp. z o.o, which represents 100% of the total votes at the shareholder meeting.

In the presented period, there were no changes in the organization of the Issuer's Group. In particular, there was no merger with another entity, and no loss of control over any subsidiary or over the Group's long-term investments. There was no division, restructuring or abandonment of part of the Company’s operations.

After the end of the reporting period, there were no changes in the structure of the Group.

Operating segments

The Group focuses its activities on three main market segments:

- Lighting control (*Lighting Control*)
- Smart lighting services (*Connected Lighting*)
- Smart building management (*Building Intelligence*)

Lighting Control

In the lighting control segment, the supply chain begins with manufacturers of lighting components such as drivers, controllers, sensors, etc. These entities supply their products directly to luminaire manufacturers, although distribution channels may also include wholesale networks and energy service companies (ESCOs). Luminaire manufacturers specialize in producing structural components of luminaires in which lighting components from other suppliers are then placed and connected. Providers of lighting control solutions and complete lighting control systems are the next link in the supply chain. They acquire components or complete luminaires directly from the above-mentioned suppliers, and then integrate individual components with each other, while also implementing lighting control logic. Ready-to-use solutions and systems are usually distributed through a network of own vendors who cooperate closely with enterprises responsible for design specification. The buyers of lighting control systems primarily include property owners and property managers. They usually do not choose specific lighting solutions for their buildings, relying in this regard on the knowledge and experience of companies specializing in providing complete lighting control solutions. It should be noted that the activities of many entities go beyond the framework defined above, which often results in a significant shortening of the above-mentioned supply chain. For example, some companies can produce both luminaires and components for these luminaires. It also happens that suppliers of complete lighting control systems independently produce components and/or luminaires used in the solutions offered by them.

In the Lighting Control segment, Silvair Group delivers essentially two products to the market:

Silvair Lighting Firmware is firmware based on the global Bluetooth Mesh standard. After integration with a lighting component, it enables wireless communication with other devices using the Bluetooth Mesh technology. This, in turn, opens up multiple new possibilities with regard to lighting control, monitoring of the lighting infrastructure operation, and the use of data generated by lighting infrastructure. A component with installed firmware allows e.g. autonomous control of light intensity and color temperature, as well as the implementation of advanced scenarios for intelligent lighting control, such as automatic occupancy-based control (occupancy sensing) or control based on natural light availability (daylight harvesting). Such scenarios can be combined with each other to maximize energy efficiencies. In the case of smart lighting networks, these and other advanced lighting control strategies can be freely configured and optimized using intuitive software - e.g. an application installed on a mobile phone or tablet. The software provided by Silvair is designed in such a way that its operation does not require lighting control expertise, as is the case with traditional cable systems. Silvair Lighting Firmware is offered to lighting component manufacturers in a one-time payment model for each activated firmware license.

A set of digital tools (Silvair Commissioning) for commissioning, configuration and management of smart lighting networks based on the Bluetooth Mesh standard. It includes a web application that allows designing a lighting control system and defining the desired lighting control scenarios before visiting the building where the project is to be implemented. The configuration process is finalized on-site using a mobile application. This division simplifies the work of an installer while minimizing the costs of commissioning. The tools are designed in such a way as to simplify and accelerate the commissioning process as much as possible. Full automation of processes related to the establishment of a smart network and a ready-to-use library of lighting scenarios allow easy implementation of advanced, energy-efficient lighting control strategies while also enabling flexible adjustment of the system operation to users' needs. Also in this case, a one-time payment model is used - for each smart component commissioned and configured using the tools provided by Silvair.

Smart lighting services (Connected Lighting)

Connected Lighting is part of the Internet of Things. This relatively young market segment has appeared as a result of the emergence of wireless lighting control technologies and the connection of lighting infrastructure with the Internet. The providers of innovative smart lighting services are companies that offer software solutions allowing utilization of the potential of wireless control systems with regard to the use of data generated by smart components. Appropriate aggregation and analysis of this data allows the provision of services that significantly increase the reliability of lighting installations, while enabling more flexible control over their operation. The customers of these companies are usually suppliers of complete control systems who increasingly often decide to provide additional services that go beyond the traditionally understood definition of lighting control. This allows them to increase the value of offered solutions and, as a consequence, improve their competitive advantage. End users are property owners and managers who can use the innovative services to e.g. optimize the costs of electricity and increase the satisfaction of building occupants. In the Connected Lighting Services segment, the Group plans to provide services related to the provision of digital tools for, among others, lighting infrastructure diagnostics, emergency lighting test automation, monitoring of electricity consumption, as well as remote control and configuration of lighting installations. These tools will be offered primarily to suppliers of complete lighting control systems and energy service companies (ESCOs) in a subscription model.

Smart building management (Building Intelligence)

The smart building management segment includes entities that provide infrastructure and / or software solutions that allow property owners and managers to make more efficient use of commercial spaces, and to streamline processes occurring inside and outside buildings. For a long time, the provision of such services required implementing a dedicated infrastructure, e.g. a network of cameras or monitoring sensors. However, the technological progress that has taken place over recent years in the area of wireless communication enables many of these services to be provided today via smart lighting network infrastructure.

Silvair Building Intelligence Services is a package of smart building management services that can be provided using digital tools developed by the Group. Based on the analysis of data generated by occupancy sensors, which are an integral part of responsive and energy-efficient lighting control systems, these tools allow obtaining detailed information on processes occurring within the building. The provided services are not directly related to the functioning of the lighting network, however, they allow owners and managers of commercial buildings to use space more efficiently while increasing the productivity of their occupants. The Group plans to develop a wide range of tools enabling the provision of innovative services such as monitoring of environmental conditions, occupancy monitoring, indoor navigation, or asset tracking. These solutions will be offered primarily to owners and managers of commercial buildings in a subscription model.

Transactions with related entities executed on terms other than an arm's length basis

The description of transactions executed between related entities is provided in Note 38 to the Interim Consolidated Financial Statements of the Silvair Group for H1, 2020. All transactions with related entities were executed on an arm's length basis.

Characteristics of the market on which the Group operates

Factors facilitating the development of the smart lighting market

Dynamic development of the LED lighting market

Over the past decade, the LED technology has dominated the lighting market. Widely used in new construction, it is quickly replacing obsolete solutions also in existing buildings. It is estimated that in 2020, the share of LEDs in the global lighting market will amount to 61%. A further increase of this share is expected in the coming years due to the fact that it is undoubtedly the most effective of the currently available lighting technologies, which at the same time offers incomparably more possibilities with regard to lighting control. What guarantees a further increase in the share of the LED technology in the global market is not only its high utility value compared to other technologies (e.g. higher quality of emitted light, longer lifetime, lower electricity consumption), but also the fact that it is favored by legislative bodies - which is a direct consequence of higher energy efficiency of LED products. LEDs emit negligible amounts of heat, while e.g. traditional incandescent lamps release up to 90% of their energy in this form. For compact fluorescent lamps, this ratio amounts to around 80%. As a result, we can observe a long-lasting trend of favoring LED technologies by governments of individual countries, as well as political and economic unions. For example, already in September 2009 the European Union introduced a ban on the sale of traditional, energy-intensive tungsten filament bulbs with a power rating of 100 W or more. Regulations from subsequent years eliminated other conventional light bulbs from the market, while tightening the energy standards for compact fluorescent lamps. In the second half of the last decade, the European Commission tightened regulations also on halogen lamps, eventually banning their production and sale in September 2018. EU regulations in this regard are among the most restrictive, but similar resolutions aimed at increasing the energy efficiency of lighting products have been adopted in recent years almost worldwide, including in countries with a lower degree of economic development.

Increasing the energy efficiency of buildings

The United Nations Environment Program, which was established to carry out environmental protection activities and constantly monitor environmental condition, estimates that buildings consume around 40% of global energy production. Rapid demographic growth in developing countries, dynamic urbanization processes, and an increasing amount of time spent by humans inside buildings - these are just some of the factors contributing to the continuous expansion of built-up infrastructure around the world, and to the dynamic increase in energy consumption over recent decades. The growing energy needs of the modern world, increasingly limited resources of fossil fuels, as well as the negative environmental impact of using these fuels for energy production have become the driving force behind the global pursuit for improvement in the energy efficiency of built-up infrastructure. This was reflected in the emergence of a completely new category of services provided by energy service companies (ESCOs). In accordance with Directive 2006/32/EC of 5 April 2006 on energy end-use efficiency and energy services, these are companies providing energy services or other energy efficiency improvement measures in industrial, commercial and public spaces.

The potential for energy savings in the segment of built-up infrastructure is very large considering how much of the world's energy production is consumed by buildings. Technological progress in the area of key building infrastructure enables increasingly rational energy management, which is reflected in construction trends observed especially in highly developed countries. One example is the zero-energy

building concept which describes a facility with zero net energy consumption and zero carbon dioxide emissions per year. These trends are justified not only by environmental motives, but also purely economic ones – a more rational management of energy resources translates directly into cost reduction, although a return on modernization investments is not always possible in a short period of time. Sustainable buildings are usually also more occupant-friendly, which in turn leads to higher productivity and satisfaction. At the same time, it is worth noting that the vast majority of existing buildings use solutions that do not meet current energy efficiency standards applicable to new construction. And in the case of existing buildings, infrastructural upgrades disrupt everyday operations while requiring significant spending. Technologies that can improve energy efficiency without requiring great amounts of labor and resources are therefore particularly desirable.

The International Partnership for Energy Efficiency Cooperation (IPEEC) estimates that lighting is responsible for around 15% of global electricity consumption and around 6% of global carbon dioxide emissions - twice as much as emissions generated by global air traffic. And while the widespread adoption of the LED technology has significantly improved the energy efficiency of lighting installations, lighting still remains one of the most energy-consuming building systems. At the same time, the modernization of the lighting system is incomparably easier and less expensive than the modernization of e.g. heating, ventilation or air-conditioning systems. An analysis of the activities of ESCOs conducted in the United States in 2000 showed that as many as 87% of projects carried out by such entities focused on lighting ("Light's Labour's Lost: Policies for Energy-Efficient Lighting", p. 380, International Energy Agency).

It should also be mentioned that, according to the estimates of the European Commission, commercial buildings are on average about 40% more energy-intensive than residential buildings (on average 250 kWh/m² compared to 180 kWh/m²). The share of lighting in total energy consumption is also significantly higher in the commercial segment. This means that in commercial spaces, the possibilities for improving the energy efficiency of lighting are much greater - especially through the implementation of advanced lighting control strategies whose effectiveness in reducing energy consumption is proven and indisputable.

Legal regulations

The importance of problems related to the growing greenhouse gas emissions and buildings' low energy efficiency has led legislators to introduce a number of legal regulations aimed at optimizing energy consumption in this sector of the economy. On the one hand, these include already mentioned regulations regarding energy efficiency of e.g. lighting components. On the other hand, there is a growing trend of introducing regulations that oblige managers of commercial spaces to implement decisive actions towards a more rational use of available resources in built-up environment. In developed countries, they have been in place already for quite a long time. However, over recent years, increasingly stringent requirements have been introduced particularly for commercial buildings.

Energy codes are an example of this type of legislative trend. They impose specific requirements on building owners regarding the operation of key building infrastructure, including the lighting system. In the case of lighting, these requirements mainly relate to the implementation of a wide spectrum of advanced lighting control strategies to reduce lighting operation wherever lighting is not needed at a

given moment. For example, energy codes may impose the obligation to implement automatic occupancy-based controls (occupancy sensing) in certain types of spaces (e.g. toilets, staircases), or the obligation to automatically control the intensity of artificial light based on natural light availability (daylight harvesting) e.g. in office rooms. In the United States, these requirements vary from state to state, although most of the applicable energy codes are based on one of two national standards for the energy efficiency of commercial buildings. These are:

- ASHRAE 90.1 - an energy standard published by the American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) in cooperation with the Illuminating Engineering Society (IES). It includes requirements for different types of buildings, with the exception of low-rise residential architecture. It is designed as a model energy code which can be adopted by individual jurisdictions in full or only to some extent. The standard is updated every three years. In 2018, the US Department of Energy recognized ASHRAE 90.1-2016 as a national reference standard, while obliging all states to introduce energy codes not less stringent than ASHRAE 90.1-2016 by February 2020.
- IECC - International Energy Conservation Code – an energy standard published for the first time by the International Code Council in 2000. It is a model energy code for commercial and residential buildings. Similarly to ASHRAE 90.1, it is updated every three years. IECC mentions ASHRAE 90.1 as an alternative energy efficiency standard, allowing building designers to decide which of these two standards they want to adhere to.

In addition, some of the states have decided to introduce their own energy codes. One example is California which was the first state to introduce minimum energy efficiency standards as early as in 1974. This is also where America's first energy regulation commission - California Energy Commission - was established. Currently, every three years the body publishes the Title 24 standard which is one of the most demanding energy codes as far as lighting control is concerned. It should be mentioned that as a result of these long-term efforts to improve energy efficiency, California today has one of the lowest energy consumption rates per capita.

Over the years, there has been a clear trend of tightening the requirements contained in energy codes, especially the ones relating to commercial facilities. Not only the number of requirements keeps increasing, but also the number of building categories covered by these requirements. In addition, many of the requirements which in previous years related only to new construction, now also apply to modernized buildings.

Similar trends can be observed in other regions of the world. The Energy Performance of Buildings Directive (EPBD) has been in force in the European Union member states since 2002. It contains provisions aiming to increase the energy efficiency of both new and existing buildings. Over the years, these requirements have been systematically tightened, reflecting the EU's ambitious commitments to further reduce greenhouse gas emissions by at least 40% by 2030 compared to 1990. The latest update of the EPBD directive from 2018 puts an emphasis on accelerating the pace of renovation of existing buildings in order to achieve complete decarbonization of the building infrastructure by 2050. Keeping up with the pace of technological progress in the construction industry, this update also introduces a number of new definitions such as "building automation and control system". In addition, it introduces new building evaluation criteria, including e.g. readiness to utilize smart networks.

Support and grant systems

In addition to the mandatory legal requirements described above, there are multiple support, relief and grant systems around the world that aim to encourage building owners and managers to increase the energy efficiency of building installations, including lighting systems. The possibility of obtaining significant tax reliefs or direct subsidies for modernization projects strongly increases their the attractiveness of such retrofits from an economic point of view, contributing to faster adoption of innovative, energy-efficient technologies in the construction sector. In the United States, such programs function on federal, state and local levels. The most attractive subsidies are available for projects implemented in accordance with the stringent requirements of certification programs such as DLC, Energy Star or LEED. They impose stringent requirements relating to the energy efficiency of building installations, while promoting the use of innovative technologies to reduce the energy consumption of buildings. For example, the DLC certification has recently begun to include completely new criteria dedicated to smart lighting systems. This resulted in the arrival of the first rebate programs for projects utilizing wireless control systems to increase the energy efficiency of lighting installations.

The European Union is also eager to finance solutions that promote the use of energy-efficient technologies and best practices in residential and commercial buildings. Additional support is provided through e.g. the European Investment Bank (EIB). Under special conditions, it grants favorable loans for projects that contribute to achieving the EU's energy and climate goals. In addition, the EU spends significant funds to support research and innovation in this regard. One example is the recently completed Horizon 2020 program. With a budget of EUR 80 billion, it was the largest EU-funded research and innovation project to date. The issues of energy efficiency, climate protection, and protection of natural resources were among its priorities.

According to estimates, achieving the EU's climate and energy targets requires that the current pace of existing building modernization is at least doubled. For this reason, at the beginning of 2020 the European Commission announced intention to trigger a new "wave of renovation" as part of the European Green Deal, a new strategy for economic growth and reduction of emissions. To trigger a new wave of renovation, the Commission will launch an open platform bringing together the housing and construction sectors, architects, engineers, as well as local government in order to create innovative financing options and promote energy efficient construction investments.

Smart lighting market barriers

Lack of standardization and interoperability

Over the past decade, the main roadblock to adoption of smart lighting technologies has been the lack of standardization with regard solutions available on the market. Suppliers have offered "closed" proprietary systems based on various, often additionally modified technologies. Due to the lack of a global standard, smart lighting components from different manufacturers could not operate with each other, while customers who decided to implement a "closed" lighting control system had to face a significant business risk. Product line discontinuation or a bankruptcy of a system supplier deprived them of the necessary technological support (cloud infrastructure, software updates eliminating potential bugs, availability of components for faulty device replacement, etc.). Same risks applied to the

manufacturers of lighting components who used the services of third party companies supplying a wireless communication technology for their products. A potential bankruptcy of a supplier of proprietary wireless solutions leaves both the manufacturer and its customers without the technological support that is necessary to continue using products based on these solutions. Since lighting companies have never dealt with software development and do not have the necessary resources and technological know-how, the above risks prevented them from entering the market of wireless solutions. The only effective method to solve the above problems is the widespread adoption of a global, open and transparent wireless communication standard for lighting applications.

The problem of lack of standardization and interoperability relates not only the wireless communication technology itself, but also e.g. to software interfaces and formats of data generated by smart devices. The latter issue seems particularly important for unlocking the full potential of smart lighting solutions. The market is still characterized by strong technological fragmentation, although recently there have been multiple efforts and solutions aimed at introducing a certain degree of standardization. They relate both to the wireless communication technology used in lighting products (e.g. adoption of the Bluetooth Mesh standard), and to the methods of managing the data generated by these devices (e.g. the announcement of the D4i certification program by the DiiA organization). Without further intensification of these efforts, the smart lighting market development will remain hindered, and the potential of smart solutions will remain untapped.

Financial barriers

The widespread adoption of smart lighting technologies requires certain financial expenditure - both from manufacturers (integration of products with a wireless technology, commercialization of new components, etc.) and from customers (replacement of obsolete lighting systems, installation of a sensor network, etc.). Along with technological progress, these solutions are not only becoming more user-friendly, but also more affordable. This enables faster ROI in the case of lighting system modernization projects. However, this does not eliminate the need to bear the costs associated with the implementation of a new technology, education of consumers and distributors, staff training, promotion of new products, etc. Considering that margins in the lighting industry are much lower today than at the beginning of this century, and that the long lifetime and high durability of LED products reduces customers' needs with regard to replacement of worn or defective components, the need to bear the above-mentioned costs by individual industry stakeholders can be a significant barrier to the development of the global smart lighting market.

Lack of knowledge and trust

Before the emergence of smart lighting technologies, the lighting industry had been functioning in accordance with decades-long paradigms. Wireless control solutions introduce a number of significant changes, both from the perspective of technological processes and business activities. At the same time, they require all market participants to adopt completely new solutions and tools. And while they are often easier to use than in the case of traditional control systems, the need to switch to a completely new technology and abandon old habits can cause natural reluctance among some of the industry stakeholders. This might be further strengthened by the fact that the first generations of smart lighting solutions failed to meet the high expectations of lighting industry professionals. In addition to the

already-mentioned problem of lack of standardization, many of the products did not match traditional cable solutions in terms of reliability or scalability in commercial applications. This resulted in the skepticism of a certain part of the market towards wireless solutions. Combined with the lack of adequate knowledge relating to the use of the latest technological achievements, this might constitute a significant barrier to the widespread adoption of smart lighting technologies.

Adoption of the Bluetooth Mesh standard

The Bluetooth Mesh standard was published in July 2017. According to various commentators, market adoption is gaining momentum. However, it must be remembered that it's a multi-stage process that requires involvement of different stakeholders representing individual links in the supply chains of the technology and lighting industries. Each of these stages takes time required for product development and commercialization, product promotion on the market, contracting and implementing projects, etc. In spite of this, a wide range of qualified Bluetooth Mesh devices is already available on the market. Multiple case study publications have also emerged, presenting commercial implementations based on this global wireless communication standard. In this context, it is worth mentioning the following facts:

- Almost 3 years after the adoption, no security vulnerabilities have been detected in the Bluetooth Mesh protocol. The solid architecture of the standard has been verified and confirmed by independent scientific centers.
- Device manufacturers point out that the quality of the standard is very high. They are often surprised with the wide range of issues addressed by the Bluetooth Mesh technology. Such a wide scope and maturity of version 1.0 were not expected by the market which traditionally assumed that the first version of the standard would be incomplete and of low quality. As a result, manufacturers were not prepared for rapid implementation of the Bluetooth Mesh technology in their products.
- Bluetooth Mesh is a sophisticated protocol with a high degree of complexity. This results from the complex nature of the problems addressed by the standard, such as scalability or security. These problems cannot be solved by simple mechanisms. On the other hand, the high degree of complexity means that only a small group of firmware providers (including Silvair) is able today to provide high-quality qualified Bluetooth Mesh firmware. The investment in implementing the Bluetooth Mesh technology also exceeds the capabilities of those manufacturers who have so far implemented communication firmware on their own. Such a situation is favorable for Silvair, as it opens a wider and more durable market for firmware solutions offered by the Group. This business model has been verified by multiple license agreements concluded so far by the Group's companies.
- Competitors often used to emphasize that Silvair is the only provider of firmware compliant with the Bluetooth Mesh standard. This fact was used by them to argue that Bluetooth Mesh is not an open standard, but a *de facto* proprietary Silvair solution. However, this situation began to change with the advent of the first Bluetooth Mesh compliant devices that are not directly based on the Silvair firmware. This is a good sign for the market, emphasizing the idea of openness and interoperability. Paradoxically, this also results in increased demand for Silvair products, as greater

market diversification among firmware providers results in increased popularity and interest in the Bluetooth Mesh standard itself.

- Entities offering products based on the Bluetooth Mesh technology in a commercially usable form include:
 - Intel - which is responsible for the BlueZ subsystem in Linux, used in most embedded gateway solutions,
 - Katterra - an innovative company supplying prefabricated buildings to the global market,
 - Qualcomm, Silicon Labs, Nordic Semiconductor, ON Semiconductor, STMicroelectronics, Cypress - Bluetooth chipset manufacturers,
 - Mindtree, Packetcraft - companies that license qualified Bluetooth Mesh firmware,
 - Danlers, Steinel, McWong, ERP Power, Osram, Zumtobel, Ledvance, Xiaomi, Hytronik, Murata, Delta Electronics, Leedarson, Fulham - manufacturers of lighting components and building automation solutions,
 - Support for Bluetooth Mesh in the Zephyr system which is developed under the Linux Foundation.
- It is very important that multiple manufacturers perceive the full cross-vendor interoperability of products based on the Bluetooth Mesh standard as a high market value. For example, Osram has repeatedly emphasized open interoperability as one of the key features determining the attractiveness of the Bluetooth Mesh ecosystem.

The problem that the Bluetooth Mesh standard is still facing today is the ambiguous identification of qualified devices based on this technology. On the market, there are many closed, proprietary solutions that use the Bluetooth radio and implement the mesh networking functionality to some extent. These solutions refer to themselves as "mesh" (it is not a reserved term), trying to take advantage of the growing popularity of the official standard. The Bluetooth SIG organization has not yet taken decisive steps to precisely distinguish qualified products based on the official standard. However, increasingly often voices can be heard from the leading companies contributing to the standard development, according to which this state of affairs needs to change.

In conclusion, the market position of the Bluetooth Mesh standard is already very strong and consistently keeps strengthening over time. In the lighting and technology industries, there have been virtually no negative opinions about this technology, while the influx of positive opinions is increasing significantly. Initial friction, which results from the higher-than-expected complexity of the protocol, should be considered the main reason for the slightly slower adoption rate. Today, this effect is not that strong anymore, and the market trend indicates the possibility of significant acceleration.

Silvair's cooperation with standardization bodies

Bluetooth SIG

As part of the Bluetooth SIG organization, we are fully committed to maintaining and developing the Bluetooth Mesh standard, and directing it towards professional / commercial solutions. Our work within

the Bluetooth SIG is also focused on improving the quality of documentation, which reduces entry barriers for new entities. In February 2020, Szymon Stupik was appointed by the Bluetooth SIG Board of Directors as the chair of the Bluetooth Mesh working group - for the fourth consecutive term. The Mesh working group remains the most active among all working groups operating in the Bluetooth SIG, which has been confirmed by multiple awards granted to it within the organization. This activity directly translates to the pace of standard development and the quality of its solutions.

DiiA

Digital Illumination Interface Alliance (DiiA) is an organization supervising the DALI (and DALI-2) standard, which brings together all of the world's leading professional lighting manufacturers. DALI is a mature wired standard that is currently being developed towards integration with wireless technologies. An important milestone was the launch - under DiiA - of the Bluetooth Mesh DALI Gateway project chaired by Silvair. As part of our cooperation with DiiA, our main goal is to make Bluetooth Mesh a fully supported and recommended standard extending the wired DALI system with the possibility of wireless operation.

The Bluetooth Mesh DALI Gateway standard will be supplemented by the Book 20 standard developed under the Zhaga organization. Zhaga standardizes the physical sizes of modules and connectors used in lighting systems. The emerging Book 20 standard will specify a standard expansion socket that can be used by lighting fixtures installed inside buildings. The socket will support the DALI protocol. In practice, this means that wireless sensors and sensor-controllers (in particular those manufactured under the Silvair license) will be able to be easily installed by installers in any lighting fixtures, without the need for manufacturers' involvement / interference.

ANSI C137

The C137 group (Lighting Systems Committee) operating as part of the ANSI organization (American National Standards Institute) brings together professional lighting manufacturers from the U.S. The group C137 has also concluded a cooperation agreement with DiiA. The most important project in which Silvair is involved as a co-author is the project C137.5 - Energy Reporting Requirements for Lighting Devices. The development of the C137.5 standard was proposed by the U.S. Department of Energy in order to streamline the programs supporting the financing of projects aimed at modernizing the lighting infrastructure and increasing building energy efficiency. These programs are a very important factor stimulating lighting retrofit projects, however, according to the U.S. Department of Energy, the current system for distributing co-financing grants is not effective because it does not promote the most energy-efficient systems strongly enough. The Department of Energy hopes that the C137.5 project will allow the introduction of a financing method based on the actual energy consumption of the lighting system, which requires ongoing reporting of the energy consumption level. The use of a mesh network to monitor and report energy consumption becomes an effective requirement, which significantly increases the demand for solutions offered by Silvair.

DLC

DLC (Design Lights Consortium) is an organization that brings together the programs promoting the increase of energy efficiency among energy suppliers in North America. DLC publishes the Networked

Lighting Controls specification (NLC) which is the basis for placing systems that meet specific energy requirements on the official Qualified Product List (QPL). The latest version of the specification – NLC5 – contains requirements for detailed energy consumption reporting by lighting installations. These requirements will be made consistent with the requirements of the ANSI C137.5 standard following its ratification this year. Systems included on the QPL list are entitled to a simplified path to obtaining a grant for their purchase and implementation. Until now, only proprietary systems from few individual manufacturers could be found on the QPL list. Silvair works closely with DLC to enable NLC qualification for components from different manufacturers that make up the complete system. We have obtained DLC's approval for using the Silvair brand as a brand for a system that any component manufacturer can refer to as long as a given component is based on the Silvair firmware. This agreement means the emergence of a fast track for obtaining DLC QPL qualification for our partners. The first applications for DLC qualification have already been submitted.

OneDM

One DM (One Data Model) is an independent working group that brings together potentially competing standardization organizations, in particular Bluetooth SIG, ZigBee, Thread Group, OCF and IETF. Its goal is to develop a universal machine data description language that will be used to publish data models defined by individual standards. This will enable automatic translation of data between standards. We believe this initiative is very important from the perspective of accelerating the adoption of widely defined Internet of Things (IoT) technologies, including the development of innovative services driven by data generated by smart lighting control systems. The goal of our commitment to OneDM is to support the development of the Bluetooth Mesh standard and monitor the activities of other, potentially competitive organizations.

Risk related to our business

The Silvair Group is exposed to a number of risks that may exert an unfavorable effect on its operations, financial and operating standing, brands and reputation. On a regular basis, the Board of Directors reviews the market environment and risk factors to which the Silvair Group is exposed. New projects and contemplated major transactions are subject to thorough scrutiny. If any regulatory amendments are enacted, members of the Group adjust their business accordingly. The following are the primary risks that, if materialized, may exert a significant impact on the Group's business. Besides the factors mentioned in this section, the Group is also exposed to the risks described in Silvair Group's Interim Consolidated Financial Statements for H1, 2020 in Note 33 - Financial risk management objectives and principles.

Risk associated with the COVID-19 coronavirus pandemic

The COVID-19 coronavirus pandemic, which has been spreading globally since the beginning of 2020, carries a number of significant risks not only from the healthcare perspective, but also from the economic and social perspective. Within the scope of the Group's operations, the Board has identified the risk of sales disruptions caused by interruption to lighting component supply chains of the partners with whom the Group cooperates, as well as the risk of postponing lighting infrastructure modernization investments by customers due to widespread lockdown. In connection with the above, the Board has

adequately reviewed sales assumptions for 2020, which will delay the achievement of the profitability threshold by the Group. At the same time, in connection with the reduction of marketing and sales activities, the Board decided to reduce operating costs, i.a. by reducing employment and changing remuneration conditions for key employees and associates of the Group who are necessary to implement the Group's strategy and maintain its competitive advantage. The process of optimizing the Group's operating costs has been planned so as not to disrupt the development of the Group's products and the implementation of contracts with the Group's key partners, while enabling immediate restoration of the scope of market activity after the pandemic effects cease to occur. In the context of these difficulties, the Board's activities related to cost reduction are also aimed at reducing the need for capital financing current operations, and thus accelerating the achievement of break-even point and self-financing by the Group. Despite the implementation of the above-mentioned measures by the Board, and despite the improvement of the Group's economic and financial situation in Q2 and Q3, 2020, the risk of the Company's bankruptcy or liquidation cannot be excluded.

Risk associated with strategic objectives and growth management

The pursuit of the strategy adopted by the Group and the Company depends on the success of its research and development work and correct interpretation of its results, as well as on the effective commercialization of the developed products. The assumptions and conditions of product sales currently under development do not fully guarantee that the decisions taken will allow the strategic objectives to be implemented within the planned scope.

Risk associated with the early stage of the Company's development, absence of meaningful history of operations and of significant revenue

Currently, the Company is at the stage of commercialization of its products but has not yet been involved in significant sales operations. The pace of the Company's development depends on the success and scale of its product sales.

Risk associated with product work and the uptake of the Company's products by the market

Although our first products have already entered the market, we cannot rule out that the current form of our products will require additional unpredicted alterations, and the work will not be completed by the time needed to ensure quick commercialization.

Risk associated with the dissemination of the Bluetooth mesh technology

Commercial success of the Company's products and services depends on the pace and scale of dissemination and commercial implementation of the Bluetooth mesh standard. It cannot be ruled out that Bluetooth mesh will not be a market success.

Risk associated with loss of key members of the management and the team, and with difficulties in attracting employees and collaborators

The quality of the products and services developed by the Company and its position in the smart lighting solutions market depends on the experience and skills of our employees and collaborators. Losing key personnel may have an adverse impact on the Company's operations.

Risk of product concentration

Absence of significantly diversified potential sources of revenues puts the Company in high risk of concentration linked to its orientation to smart lighting industry and development of its product and - in the long run - also other planned services based exclusively on the Bluetooth mesh technology.

Risk associated with the work of development teams

Unplanned discontinuation of cooperation by an entire development team, or a part thereof, may have a significant adverse effect on the development of a solution adopted by the Company, which may create delays or require changes to the Group's development plans.

Risk of failure to attract qualified employees

The Company's operation requires collaboration with new qualified employees, which calls for additional financial expenditure. There is also a risk that the Company will fail to attract employees with adequate experience and professional knowledge, or that newly-hired employees will not meet the Company's expectations.

Risk associated with significant increase in labor costs

The launch of the Company's product sales leads to a significant change in its employment structure. New highly qualified specialists need to join our project teams to be responsible for the development of our products across the world. These will be highly-paid individuals, which will have a significant impact on the growth of operating costs.

Risk of growing costs of operations coupled with the absence of sufficient growth in revenues

In view of the nature and the degree of the Company's development, there is a risk of a significant increase in operating costs needed to implement our strategy, which may be accompanied by a lack of sufficient growth in the Company's revenues to cover its expenses.

Risk associated with research and development work on new products and technological solutions

Our market, based extensively on innovative solutions, demands high capital expenditure on research and development. There is a risk that those activities will not always lead to the creation of a new product, service or solution.

Risk associated with development of competition

It is hard to foresee how quickly the Company's competitors will introduce similar or alternative systems. Therefore it cannot be ruled out that the Company will not be able to use its competitive advantage fully or will not be able to use it at all.

Risk associated with intellectual property protection

It is uncertain that all the actions taken in the area of intellectual property protection will be successful. There is also a risk that competitors will launch - into the market - devices which use the Group's copyright or protected technical solutions.

Risk associated with disclosure of company secrets and other confidential trade information

The achievement of the Company's plans hinges to a high degree on its unique, partly still unpatented technologies. Their protection should be ensured by confidentiality agreements. However, it is uncertain that those agreements will be respected, which may lead to, without limitation, the data being taken over by competitors.

Risk of loss, demand of early repayment or return of various forms of state aid received by the Company

Pursuant to the relevant agreements, the Company may be called to return the state aid it has received. Events cannot be ruled out which may result in an obligation for the Group's companies to return received grants.

Risk associated with breakdowns or break-ins into IT systems

Breakdowns of IT systems or infrastructure may restrict or stop proper operations of the Group, or its ability to offer products and services, temporarily or permanently. IT systems may be susceptible to physical or electronic break-ins and other threats, which may result in, without limitation, the Company's losing access to the information stored in its IT systems or access to such information having been obtained by unauthorized third persons. Such actions may also damage the Company's reputation or lead to substantial expenses.

Risk associated with absence of insurance protection

On 12 December 2018, Silvair sp. z o.o. executed a third party liability insurance contract with AVIVA Towarzystwo Ubezpieczeniowe S.A. The insurance covers third party liability in respect of personal and property damage caused in connection with the possession and use of assets as well as the business run by Silvair sp. z o.o., as specified in the insurance contract, including damage caused by a product or service (including that caused by a rendered and delivered service) and presence of third parties on the premises in connection with the performance of insured professional activities, and in respect of damage resulting from shortcomings in the performance of professional activities in connection with the provision of services specified in the insurance contract. For its part, Silvair, Inc. is in the process of negotiating and selecting the proper option of third party liability insurance for itself. This means that at the moment Silvair, Inc. does not have insurance cover that would protect it against the consequences of any damage incurred by it or claims brought against it.

Risk of damage to the Company's image, claims arising from liability under warranties, guarantees and indemnity claims

Negative information about the Company's products may have an adverse effect on the development of its operations, by reducing the capacity to attract new customers, thus lowering the Company's revenues. In view of the innovative nature of the solutions offered by the Group, it cannot be ruled out that problems and defects will emerge that have not been discovered and eliminated in the course of research and development work.

Risk associated with court and administrative proceedings

The Company's operation gives rise to potential disputes and claims, related to, without limitation, possible client claims regarding the products sold. On the other hand, members of the Group conclude trade agreements that may also give rise to disputes and claims. Such disputes or claims may have an adverse effect on the Company's reputation, deflect the management's and the team's attention away from its core activities, and expose the Company to significant legal costs of court proceedings.

Risk associated with absence of adequate internal control procedures and systems

In view of the development of the Company's operation, as well as a result of other factors, there may be a need to implement or adequately adjust proper procedures and systems of internal control, in order to meet new operational requirements. Misalignment of the internal control procedures and system with the scale of operations, at present and in the future, may lead to a disclosure of company secrets, including innovative solutions, and expose the Company to the risk of claims lodged by its business partners.

Risk associated with the economic and political situation

The efficiency of the Company's business is - and will even more so be in the future - dependent on, without limitation, the rate of economic growth, consumption level, fiscal and monetary policy, inflation and many other macroeconomic parameters having an indirect impact on the commercial real estate sector, considered by the Company as key for the development of its operations in the smart lighting sector, in the countries where the Company distributes its products or provides its services.

Foreign exchange risk

Currency risk arises from the fact that the majority of the Company's ongoing operating expenses are incurred in PLN, while a major or significant part of the expected revenue is or will be denominated in foreign currencies. We expect that the foreign exchange rate fluctuations will have an impact on, without limitation, changes in the value of our revenues and receivables after conversion to PLN.

Risk of legislative changes having an impact on the Company's market

Changes in legal regulations having a direct impact on the modern technologies market may have a significant adverse effect on the Company's operations, for example to the extent they result in higher operating costs, administrative restrictions or new requirements to obtain permits. The volatility of legal system and regulatory environment increases the risk of additional and unexpected expenses, including the costs of aligning the operations with the changing legal environment.

Risk associated with patent trolls

The innovative technologies market is targeted by the so-called patent trolls, i.e. entities purchasing patents exclusively for the purpose of pursuing claims for the patents alleged or actual violations. There is a risk of such claims being lodged against the Issuer, linked to an alleged violation of a patent by the members of the Group.

Risk associated with limited capital and future capital needs

It cannot be ruled out that in the future the Issuer will not have access to new financing in the required amount, on acceptable terms or not at all. This may be due to the Company's situation, including its ability to commercialize its products and services effectively, its ability to compete, as well as by other factors beyond the Company's control.

Risk associated with lost liquidity

The early stage of the Company's development exposes us to a risk of not being able to pay our liabilities at maturity, in particular due to limited access to financing, failure to generate revenue or having generated revenue which is lower than planned, higher costs due to the development of our operations, or other factors. The Group undertakes a number of measures to secure financing for its current and future capital needs. If those measures prove unsuccessful, an insolvency or liquidation of the Company cannot be ruled out.

Risk associated with technological change in the industry and development of new products

Success of the Issuer's business is hinged primarily on its ability to apply state-of-the-art technological solutions in its products and services. A competitive market position cannot be maintained without development work and investment in new products. To achieve a permanently strong market position, the Company will need to be highly active and observe new business and technological trends continuously.

Risk of unexpected trends

There is a risk of new, unexpected trends emerging, which the existing Group's products may fail to address. New products offered by the Group may fail to win market recognition due to a sudden change in trends or emergence of new or unidentified needs of product and services end users.

Risk associated with difficult enforcement of legal liability towards the Company, Directors and Officers

Enforcement of US court judgments based on US third party liability laws, including the federal securities law, from the Company's assets may prove impossible, given that, without limitation, almost all operating assets of the Issuer are located in Poland.

Financial standing of the Silvair Group

Policies applicable to the preparation of the interim condensed financial statements of the Silvair Group

The interim condensed consolidated financial statements have been prepared in accordance with the historical cost principle, except for financial assets measured at fair value through financial result or other comprehensive income, financial assets measured at amortized cost, financial liabilities measured at fair value, and financial assets measured at amortized cost.

The interim condensed consolidated financial statements do not contain all the information that is disclosed in the annual consolidated financial statements prepared in accordance with IFRS. Therefore, they should be read together with the Group's consolidated financial statements for 2019 which were made public on 6 April 2020.

Presentation of the basic economic and financial figures of the Silvair Group

Interim consolidated statement of profit or loss of the Group

Consolidated profit and loss account	1 January 2020 - 30 June 2020	1 January 2019 - 30 June 2019
A. Revenue	129	114
B. Cost of sales	390	395
C. Gross sales result	-261	-281
I. Selling and distribution expenses	305	237
II. General and administrative expenses	680	1 020
D. Net sales result	-1 246	-1 538
I. Other operating income	62	44
II. Other operating expenses	9	24
E. Operating result	-1 193	-1 518
I. Financial income	32	29
II. Financial costs	283	85
F. Result before tax	-1 444	-1 574
I. Income tax	-79	2
current part	10	5
deferred part	-89	-3
G. Profit/(loss) for the period	-1 365	-1 576
Profit/(loss) attributable to:		
shareholders of the parent company	-1 365	-1 557
non-controlling interest	-	-19

Commentary to the results for H1 2020

As in 2019, the Group worked on the development of new products, their promotion, and creation of sales markets. In the first half of 2020, the Group developed cooperation with clients acquired in the previous year and with new clients acquired in the reporting period. The cost of sales includes mainly depreciation of completed development works. The Group incurred a gross loss on sales in the amount of USD -261 thousand due to the still initial stage of generating revenues and, to a large extent, due to the pandemic which limits the possibilities of direct international trade contacts. Despite the pandemic, higher sales revenues were recorded in the first half of 2020 than in the first half of the previous year. Sales revenue is expected to increase in the future as the Group continues to negotiate with potential buyers and conclude new contracts.

Financial results by the Group's operating segments

In the first half of 2019, the Silvair, Inc. Group identified the following 2 operating segments in its business activity:

- Silvair Platform
- Silvair Mesh Stack

In connection with the directions of development and strategy adopted by the Group, the Board made a decision to change the presentation of the operating segments, incorporating the previous Silvair Platform and Silvair Mesh Stack segments into the Lighting Control segment.

The segments have been distinguished taking into account the uniqueness of the Group's activity and its directions of development, as well as the possibility of generating revenues by such segments in the long run. The Group has analyzed whether there is a significant possibility of allocating the costs and assigning assets to the distinguished segments. Currently, the Group distinguishes 3 segments: Lighting Control, Smart Lighting Services, and Smart Building Management. In the reporting period, the Group earned revenues only in the Lighting Control segment. Revenues in the other two segments will be appearing gradually over the coming years.

The revenues from Other activities item includes revenues from former Wi-Home and Proxi segments which are discontinued.

Segment type	Lighting Control	Other activity	Total
Revenues and expenses			
Sales to external customers	129	-	129
Inter-segment sales	-	-	-
Cost of sales	390	-	390

Income and expenses (operating and other operating)	-	-932	-932
EBIT	-261	-932	-1 193
Net financial income (costs)	-	-251	-251
Share in profits of associates	-	-	-
Gross profit	-261	-1 183	-1 444
Income tax (current and deferred)	-	-79	-79
Net profit for the reporting period	-261	-1 262	-1 365
Assets			
Costs of development work	8 396	1 585	9 981
Receivables	71	144	215
Unallocated assets	-	1 352	1 352
Total assets			11 548
Liabilities			
Financial liabilities	-	3 885	3 885
Liabilities from contracts with customers	64	-	64
Unallocated liabilities		1 444	1 444
Total liabilities			5 393
Other information	-	-	-
Depreciation and amortization	390	211	601

In the reporting period covered by this report, the Group's revenues included, among others, the sale of licenses for Silvair Lighting Firmware and the sale of licenses for the use of digital tools for commissioning and managing smart lighting networks (Silvair Commissioning). These revenues are recognized directly on the invoicing date and are disclosed in the Group's statements in the full amount. An additional revenue component is the set of services relating to technical support as part of the sale of the above-mentioned products. The fees for these services are periodic and are usually charged in

advance, annually. A proportional part of these revenues is allocated to revenues for the period, and the remaining part is presented as liabilities from contracts with customers.

Interim consolidated statement of financial position of the Group

	30 June 2020	31 December 2019	30 June 2019
A. Non-current assets	10 818	10 752	10 704
I. Costs of development work	9 981	9 896	9 753
II. Other intangible assets	71	17	16
III. Property, plant and equipment	20	34	44
IV. Right-of-use assets	24	171	250
V. Financial assets	7	7	7
VI. Deferred tax assets	715	627	634
B. Current assets	730	1 637	1 298
I. Inventory	11	9	18
II. Trade receivables	71	48	58
III. Other receivables	144	223	171
IV. Prepayments and accruals	18	61	23
V. Financial assets	-	-	-
VI. Cash and cash equivalents	486	1 296	1 028
Total assets	11 548	12 389	12 002

	30 June 2020	31 December 2019	30 June 2019
A. Equity	6 155	7 653	9 944
Equity attributable to the shareholders of the parent company	6 155	7 573	9 844
I. Share capital	1 153	1 143	1 142
II Capital from revaluation of options	172	375	273
III. Other capital	21 611	21 253	21 181
IV. Minority interest transactions	-365	-445	-445
V. Capital from foreign exchange differences from translation of foreign operations	656	954	1 090
VI. Retained earnings	-15 707	-11 840	-11 840
VII. Financial result of the current period	-1 365	-3 687	-1 557
Equity attributable to non-controlling entities	-	80	100
B. Non-current liabilities	420	484	681
I. Deferred tax liabilities	22	24	26
II. Lease liabilities	-	-	86
III. Other non-current liabilities	-	11	79
IV. Prepayments and accruals	398	449	490
C. Current liabilities	4 973	4 252	1 377
I. Trade liabilities	173	231	225
II. Liabilities from contracts with customers	64	36	41
III. Lease liabilities	32	171	166
IV. Liabilities on bonds convertible to shares	3 735	2 954	-
V. Other current liabilities	481	345	323
VI. Other short-term provisions	75	82	75
VII. Prepayments and accruals	413	433	547
Equity and liabilities	11 548	12 389	12 002

Commentary

In the reporting period, the Group continued its investments in development work, which amounted to USD 1,023 thousand. Expenditures on development work were financed from own funds. The balance sheet total decreased in H1, 2020 by approximately 3.8% compared to H1, 2019. This is attributable primarily to a decrease in current assets, including cash, in relation to the comparable period of last year.

A loss was recorded in the first half of the year but it showed a decreasing trend. The return on equity (ROE) amounted to -22%, compared to -16% in the comparable period, while the return on assets (ROA) changed from -13% to -12%, which shows that the loss is decreasing and the probability of recording positive results in the future is increasing. The ROE and ROA levels were compared to the levels as at 30 June 2019.

The current liquidity ratio, calculated as the ratio of total current assets to total current liabilities, in the analyzed period amounted to 0.15, and dropped from the previous level of 0.94, while the quick liquidity ratio (current assets were adjusted by the level of inventories and prepayments and accruals) amounted to 0.14 compared to 0.93 in the previous period. The financial liquidity ratios were compared to the results as at 30 June 2019.

Consolidated cash flows of the Group

	1 January 2020 - 30 June 2020	1 January 2019 - 30 June 2019
Profit (loss) before tax	-1 444	-1 574
Adjustments for:	1 071	718
1. Depreciation and amortization	554	594
2. Foreign exchange gains (losses)	445	22
3. Interest and profit sharing (dividends)	78	-11
4. Change in provisions	-6	-
5. Change in provisions	-7	23
6. Change in inventories	-2	-5
7. Movement in receivables	56	-69
8. Movement in current liabilities, except for loans and borrowings	208	58
9. Tax paid	-10	5
10. Change in prepayments and accruals	-116	-17
11. Other adjustments resulting from operating activity	-129	118
Net cash from operating activities	-373	-856
Proceeds	6	-
1. Disposal of intangible assets and property, plant and equipment	6	-
2. From financial assets, including:	-	-
in related entities	-	-
in other entities	-	-
Expenditures	1 093	1 343
1. Purchase of intangible assets and property, plant and equipment	70	10

2. Expenditures incurred for development work	1 023	1 333
3. For financial assets, including:	-	-
in other entities	-	-
Net cash from investing activities	-1 088	-1 343
Proceeds	712	67
1. Net proceeds from issuing shares and additional capital contributions	10	38
2. Proceeds from the issue of debt securities	700	-
3. Loans and borrowings drawn	-	-
3. Interest	2	29
Expenditures	62	173
1. Repayment of loans and borrowings	26	75
2. Lease payments	36	80
3. Interest	-	18
Net cash from financing activities	650	-106
Net cash flows	-810	-2 305
Movement in cash	-810	-2 305
- movement in cash on account of foreign exchange differences	-	-
Cash at the beginning of the period	1 296	3 333
Cash and cash equivalents at the end of the period	486	1 028

The Group recorded a decrease in cash by USD 542 thousand in relation to the comparable period. Cash was used to cover the current costs of operations and continuation of development work.

Forecasts of the Silvair Group's results

The Silvair Group did not publish any forecasts of its results for 2020.

Management of financial resources

Both in the reporting period and in the past years, the Silvair Group did not use any external debt instruments (loans and bonds) with a floating interest rate.

Loans and transactions between entities with capital ties

Information on loans and transactions between entities with capital ties is presented in Note 38 to the Interim consolidated financial statements of the Silvair Group.

Shares and shareholding structure

Shareholding structure of Silvair, Inc.

Silvair, Inc. is listed on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

Share capital as at 30 June 2020

The capital of Silvair, Inc. is divided into 11,527,170 shares. The par value of one share is USD 0.1.

Type	Number of shares	Par value (USD '000s)	Share subscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	10 567 170	1 057	20 780	19 723
Preferred Stock ⁽¹⁾	960 000	96	125	29
Total	11 527 170	1 153	20 905	19 752

Shareholding structure as at 30 June 2020

The par value per share is USD 0.1.

Share capital ownership structure	Number of shares	% of shares	Number of votes ⁽¹⁾	% of votes
Szymon Słupik	1 884 711	16.35	3 529 871	21.62
Rafał Han	1 832 656	15.90	3 464 656	21.22
Adam Gembala	1 018 760	8.84	2 145 520	13.14
Ipopema TFI ⁽²⁾	1 381 077	11.98	1 381 077	8.46
Other shareholders holding less than 5% of shares	5 409 966	46.93	5 806 046	35.56
Total	11 527 170	100.00	16 327 170	100.00

⁽¹⁾Pursuant to the Certificate of Incorporation: (i) a holder of one Common Share holds one vote at the Shareholder Meeting; (ii) a holder of one Preferred Founder Share holds as many votes at the Shareholder Meeting as corresponds to the six-fold of the number of Common Shares that a share of the Founders Preferred Stock may be converted into pursuant to the Certificate of Incorporation. The Company's shareholders do not hold any other voting rights than the rights specified above.

⁽²⁾The share of Ipopema TFI SA in accordance with the information sent to the Company on 27 April 2020. Current Report No. 12/2020 Notification of a change in the percentage of all votes at the shareholder meeting of Silvair, Inc.

As at the date of preparation of this report, to the best knowledge of the Silvair, Inc. Board of Directors, the following shareholders hold significant stakes, representing at least 5% of votes, in the Company:

- Szymon Słupik
- Rafał Han
- Adam Gembala
- Ipopema TFI S.A.

On 26 June 2019, in Current Report No. 10/2019, Silvair, Inc. reported that it had started preparations to raise financing for the needs of current operations through issue of new stocks within the limit of authorized capital, convertible notes or other financial instruments ("Securities"). The issue of the Securities is to be carried out in the form of a private placement addressed to non-US institutional investors on the basis of Regulation S ("Regulation S") under the US Securities Act of 1933, as amended, inter alia in Poland ("Transaction"). The Company appointed Trigon Dom Maklerski S.A. with its registered office in Kraków ("Trigon") as its Financial Advisor in connection with the Transaction.

On 8 August 2019, in Current Report No. 15/2019 the Company announced that the Company's Board of Directors adopted a resolution to approve the incurring of a liability up to a total par value of USD 5.5 million in the form of the issue of convertible promissory notes ("Convertible Securities"), and to set the key terms of issue of the Convertible Securities.

As part of the total maximum issue amount approved by the Board of Directors, the issues of Convertible Securities have to be effected in the form of private placements without the registration obligation pursuant to the United States Securities Act of 1933 ("United States Securities Act") and without the obligation to prepare a prospectus or other offering document, in accordance with the Company's capital requirements. The resolution adopted by the Company's Board of Directors does not define the schedule or the deadline for Convertible Securities issues. In accordance with the decision of the Company's Board of Directors, the Convertible Securities bear interest at a fixed interest rate. The holders of Convertible Securities may demand their redemption after elapse of one year from the issue date ("Redemption Date"). In addition, with the consent of the holders of Convertible Securities representing a majority of the outstanding par value of the Convertible Securities, the Company may, according to the terms of the Convertible Securities, repay the liabilities resulting from the Convertible Securities before their Redemption Date. Notwithstanding the foregoing, Convertible Securities are due and payable in the cases defined in the terms of the Convertible Securities, including in particular the submission of a petition for the Company's bankruptcy or petition for application of any remedy pursuant to the federal bankruptcy law and appointment of a commissioner or trustee to manage the Company's assets.

Convertible Securities bear a fixed interest rate. The terms of the Convertible Securities define the mechanism for conversion of claims following from the Convertible Securities, comprising a claim for payment of the par value of the Convertible Securities and accrued interest ("Conversion Amount"), to the Company's common shares of a new issue in the case: (i) the Company effects a new share issue in

one or several related transactions bringing gross receipts for the Company in the amount of at least USD 5.0 million, or (ii) change of control over the Company occurs in accordance with the definition laid down in the terms of the Convertible Securities, including, among others, sale of essentially all assets of the Company, merger, consolidation, capital reorganization or other similar transaction, subject to the specific provisions of the terms of the Convertible Securities ("Change of Control").

As at the balance sheet date, the Company has issued Convertible Securities with the total par value of USD 3.612 million.

On 10 August 2020, the Board of Directors adopted resolutions on significant changes to the terms of the issue of the Convertible Securities ("Revised Convertible Securities") issued pursuant to the decision of the Company's Board of Directors of 8 August 2019. These terms provide that:

- The total par value of liabilities that the Company may incur under the Revised Convertible Securities is increased from USD 5.5 million to USD 6.0 million;
- The Maturity Date of the Revised Convertible Securities is changed so that the holders of the Revised Convertible Securities have the right to request redemption of the Revised Convertible Securities and payment of the principal amount with interest accrued and unpaid at any time after 31 December 2020, 2021, or 2022, respectively, depending on the terms of issue and the date of issue of individual Revised Convertible Securities;
- The conversion mechanism is modified in such a way that the Conversion Amount will be converted into common shares of the new issue of the Company only in the event of: (i) Change of Control; (ii) or on 15 December 2020, 2021, or 2022 (depending on the terms and date of issue of the relevant Revised Convertible Security), whereby the conversion will not result in a determination that the Company will issue within the preceding 12 months: (i) 20% of the number of the Company's shares admitted to trading on the regulated market operated by the Warsaw Stock Exchange on a date falling 12 months before the conversion, nor (ii) shares in the number specified in the Revised Convertible Securities, i.e. 1,073,757 shares in 2020, 1,168,928 shares in 2021 and 1,423,178 shares in 2022, depending on whichever number of shares is lower.
- The Revised Convertible Securities will be converted into newly issued common stock of the Company at a fixed price of USD 1.65 ("Conversion Price"). In particular, as a result of the Conversion, the Company will issue its common shares to the holders of the Revised Convertible Securities in the number equal to the quotient of the Conversion Amount and the Conversion Price.

The Company expects that as a result of the Conversion of the Revised Convertible Securities, it will issue: (i) 1,073,757 common shares by the end of 2020; (ii) 1,168,928 common shares by the end of 2021; and (iii) 1,423,178 common shares by the end of 2022.

By the date of preparation of this report, the Company has issued Revised Convertible Securities with a total par value of USD 5.512 million.

Information about transactions regarding Silvair, Inc.'s shares effected by the managers

In the first half of 2020, Silvair, Inc. received - from Christopher Morawski, a member of the Company's Board of Directors, and from Rafał Han, a member of the Company's Board of Directors and the Company's CEO - notifications on transactions relating to shares which are referred to in Article 19 Section 1 of the MAR Regulation. The content of notifications was made public by the Company in Current Reports No. 4/2020 of 28 February 2020 r., No. 5/2020 of 29 February 2020, No. 6/2020 of 2 March 2020, No. 7/2020 of 3 March 2020, No. 9/2020 of 15 April 2020, No. 10/2020 of 17 April 2020, No. 11/2020 of 22 April 2020, No. 13/2020 of 10 June 2020., and No. 15/2020 of 1 June 2020.

In addition, on 30 June 2020, Rafał Han - a member of the Company's Board of Directors and the Company's CEO - exercised options for Silvair, Inc. shares.

In the first half of 2019, there was no redemption or repayment of non-equity and equity securities.

Silvair, Inc. on the Warsaw Stock Exchange

The IPO of Silvair, Inc. was held on the Warsaw Stock Exchange on 26 July 2018. The Company's shares are listed on the parallel market in the continuous trading system under the abbreviated name "SILVAIR-REGS" and the ticker "SVRS". After the session on 21 June 2019, the shares of Silvair, Inc. were included in the WIGTech index. The index comprised 42 companies.

Basic information about the stock:

Name	Silvair, Inc.
Short name	SILVAIR-REGS
Ticker	SVRS
ISIN	USU827061099
Free float	43.65%
First listing	26 July 2018
Number of shares	11 527 170
Segment	Small company (capitalization in the range of EUR 5-50 million)
Sector groups	Information technology
Indices	InvestorMS, WIG-INFORMATYKA, WIG, WIGTech

The Company keeps an investor relations website in both Polish and English at:

<https://silvair.com/pl/relacje-inwestorskie/o-firmie/>

Other information on the shares and shareholders

Shares of the Issuer or rights thereto held by members of management or supervisory bodies of the Issuer as at the date of submission of the report for H1, 2020 with indication of changes in shareholding after the balance sheet date, separately for each of these persons:

First and last name	Number of shares as at 30 June 2020	% of shares	Number of votes	% of votes
Szymon Słupik	1 884 711	16.35	3 529 871	21.62
Rafał Han	1 832 656	15.90	3 464 656	21.22
Adam Gembala	1 018 760	8.84	2 145 520	13.14
Christopher Morawski	442 770	3.84	442 770	2.71

First and last name	Number of shares as at 30 Sep. 2020	% of shares	Number of votes	% of votes
Szymon Słupik	1 884 711	16.35	3 529 871	21.62
Rafał Han	1 832 656	15.90	3 464 656	21.22
Adam Gembala	1 018 760	8.84	2 145 520	13.14
Christopher Morawski	442 770	3.84	442 770	2.71

First and last name	Number of shares as at 30 June 2020	Change	Number of shares as at 30 September 2020
Szymon Słupik	1 884 711	-	1 884 711
Rafał Han	1 832 656	-	1 832 656
Adam Gembala	1 018 760	-	1 018 760
Christopher Morawski	442 770	-	442 770

Corporate governance

Corporate governance principles applicable to Silvair, Inc.

In the first half of 2020, Silvair, Inc. was subject to the corporate governance rules described in the “Code of Best Practices for WSE Listed Companies 2016” adopted by the Supervisory Board of the Warsaw Stock Exchange by way of Resolution No. 26/1413/2015 of 13 October 2015, which entered into force on 1 January 2016. Information on the corporate governance principles adopted by the Company has been published on the following website:

<https://silvair.com/pl/relacje-inwestorskie/lad-korporacyjny/>

The Board of Directors of Silvair, Inc. hereby represents that in the first half of 2020, Silvair, Inc. and its corporate authorities abided by the corporate governance principles contained in the document “Code of Best Practices for WSE Listed Companies 2016” with the exclusions described in section 2 below and in accordance with “Information on the status of the company’s application of the recommendations and rules laid down in the Code of Best Practices for WSE Listed Companies 2016”, as published on the website of Silvair, Inc.

Corporate governance principles that were not applied by the Issuer in H1, 2020

In 2018, Silvair, Inc. chose not to apply 2 recommendations contained in the “Code of Best Practices for WSE Listed Companies 2016”, namely VI.R.1. and VI.R.2., and 7 detailed principles, namely I.Z.1.19., IV.Z.4., IV.Z.13., IV.Z.15., V.Z.6., VI.Z.2. and VI.Z.3.

Described below are the reasons for the departure from the said recommendations and detailed principles:

- **Remuneration – recommendations:**

VI.R.1. The remuneration of members of the company’s governing bodies and key managers should follow the approved remuneration policy.

This principle is not applied.

Company’s explanation: The Company conducts work aimed at implementing a remuneration policy.

VI.R.2. The remuneration policy should be closely tied to the company’s strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

This principle is not applied.

Company’s explanation: See the comment regarding recommendation VI.R.1.

- **Disclosure policy and investor communications – detailed principles:**

I.Z.1.19. Shareholders’ questions asked to the management board pursuant to Article 428 § 1 or § 6 of the Commercial Companies Code together with answers of the management board to those questions, or a detailed explanation of the reasons why no answer is provided, pursuant to principle IV.Z.13

This principle is not applied.

Company's explanation: The Company has been established and operates under the laws of the State of Delaware. Accordingly, the provisions of the Commercial Companies Code are not applicable to it. However, if shareholders have any questions regarding the Company, the Company will consider the possibility of answering such questions, subject to the applicable laws.

- **General meeting, shareholder relations – detailed principles:**

IV.Z.4. If the management board becomes aware a general meeting being convened pursuant to Article 399 § 2 – 4 of the Commercial Company Code, the management board should immediately take steps which it is required to take in order to organize and conduct the general meeting. The foregoing applies also where a general meeting is convened under authority granted by the registration court according to Article 400 § 3 of the Commercial Company Code.

This principle is not applied.

Company's explanation: The Company has been established and operates under the laws of the State of Delaware, hence the provisions of the Commercial Companies Code are not applicable to it.

IV.Z.13. If a shareholder requests information about the company, the management board of the company should provide an answer to the shareholder's request within 30 days or inform the shareholder of its refusal to provide such information where the management board has made such decision pursuant to Article 428 § 2 or § 3 of the Commercial Company Code.

This principle is not applied.

Company's explanation: The Company has been established and operates under the laws of the State of Delaware. Accordingly, the provisions of the Commercial Companies Code are not applicable to it. However, if shareholders have any questions regarding the Company, the Company will consider the possibility of answering such questions, subject to the applicable laws.

IV.Z.15. A resolution of the general meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting the price, or authorize the competent governing body to set the price prior to the subscription right record date within the timeframe necessary for investors to make decisions.

This principle is not applied.

Company's explanation: In accordance with the laws of the State of Delaware, existing shareholders are not entitled to the statutory subscription rights to any shares of a new issue.

- **Conflict of interest, related party transactions – detailed principles:**

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the

management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

This principle is not applied.

Company's explanation: To date, the Company has not defined in its internal regulations any criteria or circumstances under which a conflict of interest may arise in the Company, or the rules of conduct applicable to a situation where a conflict of interest has arisen or may arise. The Company intends to implement such regulations. Efforts in this area are currently underway.

- **Remuneration – detailed principles:**

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

This principle is not applied.

Company's explanation: Options granted under the stock plan established in the Company (2016 Stock Plan) provide for the possibility of their partial exercise prior to the elapse of 2 years after such options were granted. Specifically, within 2 years of the granting of such options, as a result of a partial exercise of options, a maximum of 50% of the Company's shares granted in the form of such options may be subscribed for.

VI.Z.3. The remuneration of members of the supervisory board should not be linked to options or other derivatives or any other variable components, and neither should it be linked to the company's results.

This principle is not applied.

Company's explanation: The Company currently has no supervisory board in place within the meaning of Polish law.

Description of the primary attributes of the internal control and risk management systems used in Silvair, Inc. in respect of the process of preparing standalone and consolidated financial statements

Risk management in the process of preparation of standalone and consolidated financial statements of the Silvair Group is effected at the initial stage by identification and assessment of risks and then by taking appropriate actions to eliminate or at least reduce the extent of such identified risks.

The consolidated financial statements of the Silvair Group have been prepared in accordance with International Financial Reporting Standards (IFRS) on the basis of the standalone financial statements of the parent company Silvair, Inc. and consolidation packages from its subsidiaries.

Subsidiaries of Silvair, Inc. keep their accounting ledgers and prepare their financial statements in compliance with the Accounting Act. Silvair, Inc. keeps its accounting records in compliance with local accounting standards, while reporting packages forming the basis for the preparation of the Silvair Group's consolidated financial statements are adequately adjusted to ensure their compliance with IFRS

standards applied by the Silvair Group. However, it should be noted that, in principle, U.S. regulations do not require Silvair, Inc. to prepare financial statements within the meaning of the Polish Accounting Act.

The Company has introduced a financial statements approval process. Standalone financial statements of Silvair, Inc. and consolidated financial statements of the Silvair Group covering quarterly, semi-annual and annual periods are approved prior to publication by the management boards of the respective companies and by the Silvair, Inc. Board of Directors.

Furthermore, the risk control and management process is effected by subjecting financial statements to verification by an independent statutory auditor. Annual financial statements of Silvair, Inc. and annual consolidated financial statements of the Silvair Group are verified by the audit firm that issues audit reports. In turn, semi-annual consolidated financial statements are subjected to reviews on the basis of which review reports are issued. Information on the audit firm selected to audit and review of financial statements prepared by the Group and its members is presented in the section *Entity authorized to audit financial statements* of this Report of the Board of Directors on the activities of the Silvair Group and Silvair, Inc.

Silvair, Inc. shareholders holding significant stakes

To the Company's best knowledge, as at the date of this report, shareholders holding significant stakes (at least 5%) in the Company are the entities listed in section *Shareholding structure of Silvair, Inc.* of this Report of the Board of Directors on the activities of the Silvair Group and Silvair, Inc.

Holders of securities with special control rights in the Company

The Company's founders (i.e. Rafał Han, Adam Gembala, Szymon Słupik, Maciej Witaliński) are holders of the Founders Preferred Stock giving them preferred voting rights. The holder of one share of the Founders Preferred Stock holds as many votes at the Shareholder Meeting as corresponds to the six-fold of the number of Common Stock that a Preferred Founder Share may be converted into pursuant to the Certificate of Incorporation.

Indication of any limitations in exercising the right of vote, such as restrictions on exercising the right of vote by owners of a specific percentage or number of votes, time limits for exercising a right of vote, or provisions according to which equity rights vested in securities are separate from the ownership of those securities

In connection with the admission to trade and floating of the Company's stock on the parallel market of the Warsaw Stock Exchange ("WSE") (such stock hereinafter: "**Admitted Stock**"), the Admitted Stock was turned into book-entry form by Cede & Co., an authorized representative of the Depository Trust Company based in New York ("DTC"), forming the primary deposit of the Company's stock. In turn, the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) is the secondary deposit of the Company's stock. The exercise of voting rights attaching to the Admitted Stock is governed by the internal regulations and practices applicable to participants of the DTC system.

All restrictions on the transfer of ownership title to the issuer's securities

The Admitted Stock is ticked as "REGS" and "S" and its quotations are marked with the ordinal number "18" ("trading in the issuer's stock is subject to restrictions resulting from the provisions of U.S. securities law"). The Admitted Stock is subject to certain trade restrictions arising from the applicable provisions of U.S. law.

General information on the type and extent of restrictions on trading in the Admitted Stock arising from the provisions of US securities law is available from the WSE website: <https://www.gpw.pl/regulacja-s>

Moreover, in connection with its IPO, the Company entered into agreements relating to the contractual restrictions on the marketability of its stock. The period of such contractual restrictions on the marketability of the Company's stock was 365 or 180 calendar days from the date of the first listing of the Issuer's stock on the WSE.

Description of the rules for appointing and dismissing managers and their powers, in particular the right to make decisions on issuing or redeeming shares

In contrast to joint-stock companies established in Poland, in which separate management and supervisory bodies exist, namely the management board and the supervisory board, the Company has a single Board of Directors. The Board of Directors operates on the basis of DGCL, the Certificate of Incorporation and the Articles of Association. As at the Prospectus Date, certain members of the Board of Directors also acted as members of Management.

- **Board of Directors**

As at the date of preparation of this Report, the Board of Directors was composed of 5 persons appointed by the Shareholder Meeting for a term of office running until the date of the next Ordinary Shareholder Meeting.

On 4 February 2020, Silvair, Inc. received information from Marek Kapturkiewicz about his resignation from the function of a member of the Board of Directors, as well as from the function of a member of the Company's Audit Committee. At the same time, the Company appointed Christopher Morawski as a non-executive director, member of the Board of Directors, and member of the Company's Audit Committee.

In accordance with the provisions of the Articles of Association, as a rule, Directors are appointed by the Ordinary Shareholder Meeting for a term of office running until the date of the next Ordinary Shareholder Meeting, with each Director being required to discharge his/her function until the selection and appointment of his/her successor or until his/her earlier resignation or dismissal, which means that in the absence of the Ordinary Shareholder Meeting, the Directors continue to discharge their functions. The Company's Directors are appointed by the Ordinary Shareholder Meeting, although vacancies in the Board of Directors, including vacancies resulting from an increase in the number of its members, are filled by a majority of votes cast by acting Directors.

The number of Directors constituting the Board of Directors may be changed by way of a resolution of the Board of Directors or shareholders, subject to the provisions of the Certificate of Incorporation and the Articles of Association. A decrease in the approved number of Directors may not result in the

removal of a Director before the expiration of his/her term of office. There is no obligation to elect Directors by way of a written ballot.

In accordance with the Articles of Association, the Company may also, at the discretion of the Board of Directors, elect the President of the Board of Directors who will not be considered a member of the Company's management.

In accordance with the provisions of the Articles of Association, subject to the provisions of DGCL and all limitations arising from the provisions of the Certificate of Incorporation or the Articles of Association pertaining to actions that must be approved by shareholders or votes attaching to the Company's issued stock, the Board of Directors manages the business and dealings of the Company.

The Board of Directors, unless the Certificate of Incorporation or the Articles of Association provide otherwise, may authorize a member of Management or an agent to execute a contract or sign a document for and on behalf of the Company, and such authorization may be of a general or specific nature. Unless an authorization is issued or the action in question is ratified by the Board of Directors or lies within the power of attorney granted to a member of Management, no member of Management, agent or employee is authorized to accept obligations on behalf of the Company under contract or agreement, or to make any other commitments for any purpose or amount.

Scheduled meetings of the Board of Directors may be held without the need to receive a notice of the date and place set by the Board of Directors.

An extraordinary meeting of the Board of Directors may be convened for any purpose and at any time by the President of the Board of Directors, the Chief Executive Officer, the Chairperson, the Secretary or two Directors. Unless the Certificate of Incorporation or the Articles of Association contain restrictions in this respect, any action that is required or may be taken at a meeting of the Board of Directors or by any committee of the Board of Directors may be taken without a meeting if all members of the Board of Directors or of the committee, as the case may be, have expressed their consent to such action. At all meetings of the Board of Directors, the majority of the total number of Directors forms the quorum required for making valid decisions. The Company's Board of Directors may convene meetings, both ordinary and extraordinary, in the territory of the State of Delaware or elsewhere. Each Director has the right to inspect the Company's share register, the list of shareholders and other records and documents for purposes reasonably related to the function discharged by such Director. The exclusive power to decide whether a Director is entitled to effect an inspection is vested with the Chancellor's Court. The Court may, by way of an expedited procedure, order the Company to permit the Director to inspect all records and registers, the share register and the list of shareholders as well as to make copies of or extracts from such documents. The Court may, at its discretion, impose restrictions or conditions on such inspection, or grant other or further remedies that it may consider fair and appropriate.

In accordance with the Articles of Association, unless other restrictions follow from the Certificate of Incorporation, the Company may extend loans or grant guarantees for liabilities or support members of Management or other employees of the Company or its subsidiaries, including a member of Management or an employee who is a Director of the Company or its subsidiary, whenever in the opinion of the Directors extending such loan, guarantee or support may be reasonably beneficial for the Company.

A loan, guarantee or other type of support may be provided with or without interest and may be unsecured or secured in a manner approved by the Board of Directors, in particular by a pledge on the Company's stock. This provision may not be construed as challenging or restricting the effectiveness of a guarantee or surety provided by the Company under common law or statute.

The Board of Directors may establish one or more committees by appointing one or more Directors to serve in each committee. The Board of Directors may select one or more Directors as substitute members of a committee. Such substitute members will be authorized to replace any Director absent or denied the relevant rights at a meeting of the committee. As at the date of this Report, the Audit Committee was operating at the company.

- **Members of Management**

Members of Management are the President and the Secretary. The Company may also, at the discretion of the Board of Directors, have a Chief Executive Officer, a Chief Financial Officer, a Treasurer, one or more Vice-Presidents, one or more Deputy Secretaries, and one or more Deputy Treasurers. One person may discharge any number of functions in Management.

Members of Management are appointed by the Board of Directors (with the exceptions described below), subject to the powers (if any) of the relevant member of Management arising from his/her employment contract. The Board of Directors may appoint or authorize the Chief Executive Officer or the President to appoint other members of Management and attorneys-in-fact that may be required by the Company's business. The term of office and the rights and obligations of each such person are provided for in the Articles of Association or determined by the Board of Directors. A vacancy in Management is filled by the Board of Directors.

Subject to the powers (if any) of a member of Management following from his/her employment contract, any member of Management may be dismissed, with or without cause, by a majority of votes of members of the Board of Directors cast at an ordinary or extraordinary meeting of the Board of Directors or, except when a member of Management elected by the Board of Directors is concerned, by any member of Management who has been duly authorized by the Board of Directors to dismiss the said member of Management.

A member of Management may resign from his/her function at any time by submitting a written notice of termination to the Company. Such resignation becomes effective as of the date of receipt of the notice of termination or as of a later date specified therein. Unless a notice of termination provides otherwise, the effectiveness of such resignation is not contingent on its acceptance. No resignation affects the Company's powers (if any) vested in it under the contract executed between it and the relevant member of Management.

As at 30 June 2020, the following persons served as members of Management:

- **Rafał Han** – Chief Executive Officer
- **Szymon Słupik** – Chief Technology Officer, President of the Board of Directors
- **Adam Gembala** – Chief Financial Officer, Vice-President of the Board of Directors, Treasurer, Secretary

In the first half of 2020, no changes were made to the composition or functions entrusted to members of Management.

Description of how the members of the Management operate:

Chief Executive Officer (CEO)

Subject to the (possible) supervisory rights the Board of Directors may confer on its President (if appointed), the Chief Executive Officer (if appointed), while being subject to the control of the Board of Directors, exercises overall supervision, management and control of the business of the Company and the members of Management, and holds the overall rights and duties for management that customarily accompany serving in the capacity of Chief Executive Officer, as well as the other rights and duties that may be assigned to him or her by the Board of Directors or the Articles of Association. The person serving in the capacity of Chief Executive Officer acts as the President of the Board of Directors if no other person serves in that capacity.

President of the Board of Directors

Subject to the (possible) supervisory rights the Board of Directors may confer on its President (if appointed) or the Chief Executive Officer, the President exercises overall supervision, management and control of the business of the Company and the other members of Management. The President also holds the overall rights and duties for management that customarily accompany serving in this capacity, as well as other rights and duties that may be assigned to him or her by the Board of Directors or the Articles of Association. The person serving in the capacity of President acts as the Chief Executive Officer, Secretary or Treasurer of the Company if no other person serves in that capacity.

Vice-President of the Board of Directors

In the event of absence or indisposition of the Chief Executive Officer and the President, the Vice-Presidents (if appointed) shall discharge all duties according to the hierarchy prescribed by the Board of Directors, while if the Board of Directors fails to prescribe their hierarchy, the Vice-President designated by the Board of Directors shall do so. While acting in this capacity, the Vice-Presidents hold all the rights vested in the President and are subject to all the limitations imposed on the President. The Vice-Presidents also hold other rights and perform other duties which may be assigned to them by the Board of Directors, the Articles of Association, or the President of the Board of Directors.

Secretary

The Secretary keeps, or orders the keeping of, the books of minutes of all meetings and shareholder meetings and activities undertaken by the Directors, committees of the Directors and shareholders in the main seat of the Management or in some other venue designated by the Board of Directors. The minutes state the time and place of holding every meeting, the names of the participants in meetings of the Board of Directors or in meetings of committees, the number of shares in attendance or represented at shareholder meetings, and the course of proceedings thereof. The Secretary keeps, or orders the keeping of, the share book or a duplicate copy of the share book containing the information prescribed by the Articles of Association in the main seat of the Management or in the office of the Company's transfer agent or the entity keeping its register in accordance with the provisions of the resolution

adopted by the Board of Directors. The Secretary conveys, or orders the conveyance of, notices of all Shareholder Meetings and meetings of the Board of Directors, as required by law or the provisions of the Articles of Association. He or she also holds the other rights and performs other duties which may be assigned to him or her by the Board of Directors or the Articles of Association.

Chief Financial Officer

The Chief Financial Officer keeps, or orders the keeping of, the pertinent and accurate accounting ledgers and bookkeeping records of the Company's assets and business transactions, including accounts of assets, liabilities, proceeds, expenses, profits, losses, equity, retained earnings and shares. The accounting ledgers are available to the members of the Board of Directors to review at all reasonable times. At the request of the Chief Executive Officer, President or the Board of Directors, the Chief Financial Officer presents to them a report on all the transactions he or she executes in the capacity of Chief Financial Officer, and on the Company's financial position.

The Chief Financial Officer holds the overall rights and duties that customarily accompany serving in the capacity of the Chief Financial Officer, as well as other rights and duties which may be assigned to him or her by the Board of Directors or the Articles of Association. The person serving in the capacity of Chief Financial Officer acts as the Treasurer if no other person serves in that capacity. Subject to the (possible) supervisory rights the Board of Directors may confer on some other member of Management, the Chief Financial Officer supervises and assigns duties to the Treasurer provided that some other person besides him or her is discharging the duties of Treasurer.

Treasurer

The Treasurer keeps, or orders the keeping of, the pertinent ledgers and records of all the Company's bank accounts, deposit accounts, cash accounts or other investment accounts. The accounting ledgers are available to the members of the Board of Directors to review at all reasonable times. The Treasurer makes deposits with the custodians designated by the Board of Directors.

At the instructions of the Board of Directors, the Treasurer orders the depositing of all cash and other valuables on behalf and for the account of the Company and disburses the Company's funds. Moreover, the Treasurer conveys a report of all the transactions he or she executes as the Treasurer to the Chief Financial Officer, Chief Executive Officer and President of the Board of Directors at their request. The Treasurer holds the overall rights and duties that customarily accompany serving in the capacity of the company's Treasurer, as well as other rights and duties which may be assigned to him or her by the Board of Directors or the Articles of Association. The person serving in the capacity of Treasurer acts as the Chief Financial Officer if no other person serves in that capacity.

Exercising rights attached to shares in other companies

The President of the Board of Directors, each Vice-President, Chief Executive Officer, Chief Financial Officer, Secretary, deputy Secretary or other person authorized by the Board of Directors or Chief Executive Officer, President or Vice-President is authorized to vote and exercise on behalf of the Company any and all rights attached to shares in another company held by the Company. The authorization granted pursuant to the Articles of Association may be used directly by the

aforementioned person or other person authorized by the proxy or pursuant to a power-of-attorney granted by a person authorized to do so.

Rights and duties of members of Management

In addition to the rights and duties described above, all members of Management have the rights and perform duties with regard to managing the Company's operations assigned to them by the Board of Directors or shareholders.

Pursuant to § 141(h) DGCL, the Board of Directors is authorized to set the remuneration for members of the Board of Directors, subject to the fiduciary duties with regard to the Company, comprising the duty of care and the duty of loyalty. The Board of Directors is obligated to set the Directors' remuneration in accordance with the Company's interests.

The provisions of the Articles of Association confirm the above provisions of DGCL. The remuneration received for discharging the function of Director does not prevent the Director from discharging other functions in the Company and receiving remuneration for it.

As at the date of preparation of the Report, in addition to the rules for setting the remuneration of members of the Board of Directors described above or following from the provisions of applicable laws, in the Company there are no other principles in place in accordance with which the remuneration for members of the Board of Directors is set. The Company will consider implementing a policy for setting the remuneration for members of the Board of Directors in the future, as the scale of the Company's business increases, taking into account market standards and respecting the interests of the Company's stakeholders.

Description of rules of changing the issuer's bylaws or company deed

The Company's Certificate of Incorporation may be amended in a manner permitted by relevant provisions of law. Pursuant to the Delaware General Corporate Law, amendment or repealing of the Certificate of Incorporation requires a majority of votes attached to Common Shares and Founders Preferred Stock.

Operating principles of the shareholder meeting and its key powers, and a description of shareholders' rights and how they are exercised, in particular the rules arising from the shareholder meeting bylaws, if any, unless information in this regard ensues directly from the provisions of law

At the Ordinary Shareholder Meeting shareholders elect members of the Board of Directors and review all other matters duly included in the Shareholder Meeting agenda. An Extraordinary Shareholder Meeting may be convened for any purpose. An Extraordinary Shareholder Meeting may review only matters specified in the notice convening it.

The shareholders' consent is required, with certain exceptions, for a number of key matters, including but not limited to: (i) election of Directors (however in certain circumstances the Board of Directors may appoint a Director, filling a vacancy in the Board of Directors); (ii) amendment of the Certificate of Incorporation; (iii) merger with another company; (iv) sale of all or substantially all assets of the

Company; (v) introduction or material amendment of certain employee stock or stock option plans or other plans for rewarding employees in the form of participation in the share capital; (vi) issue or potential issue of stock resulting in change of control over the Company. DGCL requires approval of amendments of the Certificate of Incorporation by the Board of Directors and a vote in favor of the proposed amendment by shareholders representing a majority of outstanding voting shares.

Pursuant to § 228 DGCL, unless the Certificate of Incorporation stipulates otherwise, any and all acts whose performance requires an ordinary or extraordinary shareholder meeting of the Company or any and all acts which may be performed at an ordinary or extraordinary shareholder meeting may be performed without convening the meeting, without prior notice and without the necessity to vote if the consent granted in writing and specifying the acts that are expected to be performed in such manner is (a) signed by the holders of the Company's outstanding shares holding at least the minimum number of votes which would be required to approve or perform such act at the meeting at which the holders of all voting shares would be present and would vote, and (b) delivered to the Company in accordance with the provisions of § 228(a) DGCL.

DGCL requires that the notice of an ordinary or extraordinary shareholder meeting be given at least 10 days (or at least 20 days in the case of meetings pertaining to certain matters, such as voting on the merger or sale of all or substantially all assets of the Company) and no more than 60 days before the date of the shareholder meeting. It is mandatory to notify all shareholders holding voting rights on the record date, unless DGCL stipulates otherwise.

In accordance with DGCL, if within 30 days of the date set for the ordinary shareholder meeting, the Ordinary Shareholder Meeting is not held and relevant acts are not performed with the written consent of the shareholders entitled to elect the Company's directors, or if the date of the ordinary shareholder meeting is not set within 13 months of the date of the previous Ordinary Shareholder Meeting or performance of relevant acts without convening it with the written consent of the shareholders entitled to elect directors, each Company shareholder entitled to vote at the Ordinary Shareholder Meeting has the right to file a motion to a Delaware court (Chancery Court) for a court order to immediately convene the Ordinary Shareholder Meeting.

An Extraordinary Shareholder Meeting may be convened at any time by the Board of Directors, President of the Board of Directors, Chief Executive Officer, Chairman or one or more shareholders holding shares entitling them in total to exercise no less than 10% votes at such meeting. If the Extraordinary General Meeting is convened by a person or persons other than the Board of Directors, President of the Board of Directors, Chief Executive Officer or Chairman, the motion for convening the meeting must be in writing, define the date of such Extraordinary Shareholder Meeting, and generally present the issues to be included in its agenda.

The exercise of voting rights attaching to the Admitted Stock is governed by the internal regulations and practices applicable to participants of the DTC system.

Shareholder Meetings may be held at any place, in or out of the state of Delaware, which may be defined in the certificate of incorporation or articles of association, and if it is not defined, they are held in a place specified by the Board of Directors. Unless the Board of Directors specifies a different place, the Shareholder Meeting is held in the Company's registered office.

To determine the group of shareholders entitled to receive a notice of the Shareholder Meeting or its deferral, or to give written consent to the Company to take actions without convening the Shareholder Meeting, the Board of Directors may set the record date falling no earlier than the date of adoption by the Board of Directors of a resolution setting such date and, unless the provisions of law stipulate otherwise, no earlier than 60 days and no later than 10 days before the date of such Shareholder Meeting. Unless the Board of Directors sets, at the time of setting the record date, a later date of determining the group of shareholders entitled to exercise voting rights at the given Shareholder Meeting, falling no later than on the Shareholder Meeting date, the date of determining the group of shareholders entitled to receive the notice of the Shareholder Meeting will be at the same time the date of determining the group of shareholders entitled to exercise voting rights at the given Shareholder Meeting. If the record date is not set, the record date will be the end of business on the business day directly preceding the date of delivery of the notice, and in the case the notice is waived, the end of business on the business day directly preceding the date of holding the meeting.

In accordance with the Articles of Association, the quorum at the Shareholder Meeting means the holders of one third of outstanding shares with voting rights, present in person or represented by proxy. Subject to contrary provisions of law, each common share in the Company entitles its holder to cast one vote in each matter correctly submitted for resolution by the Company's shareholders by ballot; however, subject to contrary provisions of law, the holders of common shares are not entitled to vote in the matter of amendment of the Certificate of Incorporation pertaining only to the conditions applicable to one or more series of preferred shares, if the holders of the shares of the given series are entitled, separately or jointly as a class with the holders of one or more series, to vote with such shares pursuant to the Certificate of Incorporation.

The holders of common shares and the holders of Founders Preferred Stock vote jointly in the same class on all matters. Each holder of a Common Share is entitled to 1 vote and each holder of Founders Preferred Stock is entitled to the number of votes equal to six times the number of Common Shares (i.e., as at the date of the report, 6 votes) to which the relevant Founders Preferred Stock may be converted.

Description of the dealings of management, supervising or administration bodies of the issuer and their committees, with indication of the composition of such bodies and any changes thereto during the last financial year

Description of the dealings of management and supervisory bodies, i.e. the Board of Directors and Management, is presented in section 8 of this Report above.

In 2018, the Audit Committee was established within the Company. In connection with Marek Kapturkiewicz's resignation from the positions of a member of the Board of Directors and a member of the Company's Audit Committee, which was submitted on 4 February 2020, the Company appointed Christopher Morawski as a member of the Audit Committee. Currently, the Audit Committee consists of the following persons:

- Adam Gembala,
- Paweł Szymański,
- Christopher Morawski

The purpose behind the establishment of the Audit Committee of the Board of Directors is to supervise the Company's accounting and financial reporting processes as well as to oversee audits of the Company's financial statements. However, the Committee is not responsible for planning or conducting audits or for determining whether the Company's financial statements are complete and accurate or whether they have been prepared in accordance with generally accepted accounting principles.

The Committee is composed of at least two members of the Board of Directors. The Committee adopts its resolutions by a majority of votes. Meetings of the Committee are held as often as it is necessary to perform its tasks in an effective manner. The Audit Committee carries out its duties on an ongoing basis during working consultations. The Audit Committee also cooperates with the auditor when auditing individual financial statements. The following members of the Audit Committee satisfy the requirement of independence from the Company: Christopher Morawski and Paweł Szymański.

The Audit Committee may, in particular:

- monitor the financial reporting process, the effectiveness of operation of internal control systems, risk management systems and internal audit, including among others with regard to financial reporting,
- oversee the work of an independent auditor (e.g. by resolving any disputes that may arise between management and the independent auditor regarding financial reporting), evaluate the independent auditor's performance and, if so determined by the Committee, replace the independent auditor,
- review the plan and scope of audits and related services,
- receive, evaluate and discuss financial statements with the auditor, oversee and evaluate the auditor's independence and, in respect of such financial statements, take appropriate action to resolve any issues brought up during such evaluation, or recommend such actions to the Board of Directors,
- prior to the issue of an audit report by the independent auditor, provide the independent auditor with information on the course of the audit and provide information relevant to the audit,
- discuss with the independent auditor issues related to the Company's risk assessment, guidelines, policies and processes in the area of risk management,
- prepare a policy for the selection of an audit firm to perform an audit.

Additional information

Information on the employee share program control system

In order to attract and retain the most qualified staff within the Group, and to provide additional incentive and motivation for employees, consultants and investors, in 2016 the Issuer adopted a set of rules in the form of a share program called "2016 Stock Plan". On 14 October 2016, the parent company signed an agreement (called KPI Agreement), amended by an annex of 18 December 2017, specifying the conditions for granting share options, to the beneficiaries indicated in the agreement, under two option pools - "Option Pool" and "Additional Option Pool".

On 31 March 2020, the Board of Directors of Silvair, Inc. adopted a resolution on increasing the number of shares under the Option Plan from 1,453,000 shares to 2,000,000 shares, and granting options for 523,312 shares to designated employees. The options will be exercisable from 1 January 2021.

Share-based payment contracts are described in Note 30 to the Interim Consolidated Financial Statements.

Entity authorized to audit financial statements

On 22 June 2020, the Company's Board of Directors adopted a resolution to again select Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Poznań (postal code: 61-131) at ul. abpa Antoniego Baraniaka 88 E, entered in the Register of Commercial Undertakings kept by the District Court for Poznań – Nowe Miasto and Wilda in Poznań, 8th Commercial Division of the National Court Register, under file number KRS 407558, taxpayer identification no. NIP 782-25-45-999, audit firm no. 4055 ("Grant Thornton"), as the audit firm that will audit the Company's financial statements.

In the previous years, Grant Thornton provided the Company with audit services for the Company's annual statements (standalone and consolidated) for 2018 and 2019, and with the review of the Company's consolidated financial statements for the first half of 2019.

The selection of Grant Thornton was preceded by an evaluation of the independence of this entity, and was based on the guidelines laid down in the Auditor Selection Policy, under which, without limitation:

- an audit firm is selected by the Company's Board of Directors in the form of a resolution. An audit firm is selected after becoming familiar with the Audit Committee's recommendation for the Board of Directors,
- the decision on selecting an audit firm is made in compliance with the principles of the audit firm's impartiality and independence and having analyzed the possible work to be performed by that company in the SILVAIR Group going beyond the scope of audit of the financial statements, in order to avoid a conflict of interest,
- an audit firm should be selected by the Board of Directors by the end of the third quarter of the financial year, for which the financial statements will be audited,
- the Board of Directors follows the principle of rotation of audit firms and key auditors,
- the first agreement to audit financial statements will be concluded with an audit firm for a period of no less than two years, with an option of extension for further periods of at least two years,
- no contractual clauses may be introduced that would require the Board of Directors to select an entity authorized to conduct an audit from among a specified category or list of entities authorized to conduct an audit. Such clauses are invalid by law,
- after selecting the audit firm, the Company makes a public announcement of the selection of the audit firm by the Board of Directors.

The Board of Directors adopted the above resolution on the selection of Grant Thornton based on the recommendation provided by the Audit Committee regarding the selection of an audit firm to perform

the audit. The Audit Committee, at the stage of preparation of recommendations, and the Board of Directors, during the final selection of the audit firm, are guided in particular by the following guidelines for selecting an entity authorized to conduct the audit:

- the quality of audit work performed, the level of resources that may be allocated for the performance of the agreement, efficiency of the work performed,
- impartiality and independence of the audit firm, compliance with the applicable laws, professional standards and professional ethics principles,
- experience of the audit firm,
- the fee charged for the services,
- assurance that the audit will be conducted in accordance with the International Financial Reporting Standards,
- professional background and experience of the persons directly involved in the audit,
- reputation of the audit firm on financial markets.

The recommendation provided by the Audit Committee on the selection of an audit firm satisfied the applicable conditions and was prepared in accordance with the selection procedure adopted by the Company that satisfied the applicable criteria.

In accordance with the concluded agreement, Grant Thornton will perform the following: an audit of the Company's annual statements (standalone and consolidated) for 2020 and 2021, and a review of the Company's consolidated financial statements for the first half of 2020 and 2021.

The interim standalone and consolidated financial statements were reviewed by UHY ECA Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Kraków at ul. Moniuszki 50.

Table: Auditor's fee

Range of services	Reporting standards	Net fee (in PLN) for 2020	Net fee (in PLN) for 2021
Audit of the standalone annual financial statements	MSSF*	12 000	12 000
Audit of the consolidated annual financial statements	MSSF*	22 000	22 000
Review of the consolidated interim financial statements**	MSSF*	23 000	23 000

* *International Financial Reporting Standards;*

** *The price includes review procedures in subsidiaries.*

Disputes

From 1 January to 30 June 2020, no proceedings relating to any liabilities or receivables of Silvair, Inc. or any of its subsidiaries were pending before any court, arbitration body or public administration authority, the value of which was equivalent to at least 5% of the Company's equity.

However, it should be noted that on 2 June 2019, F2VS Technologies, Inc. with its registered office in the US (hereinafter: F2VS) filed a statement of claim against Silvair, Inc. The proceedings pertain to an allegation that the Company breached F2VS's patents. On 3 September 2019, the Company submitted its statement of defense, denying the breaches, and moved for dismissing F2VS's statement of claim in entirety. Nonetheless, considering the time and potential costs of the court proceedings in the U.S., the parties have embarked on negotiations to conclude a settlement. On 21 January 2020, Silvair, Inc. entered into a license agreement with F2VS, pursuant to which the Company and its subsidiaries may use certain F2VS technological solutions covered by patent protection in their products and services during the term of such agreement. The concluded agreement constitutes a settlement based on which F2VS dismissed its complaint in the case brought against Silvair.

On 13 February 2020, JSDQ Mesh Technologies LLC (hereinafter: "JSDQ") – based on the alleged infringement of JSDQ patents by the Company – made a proposal to conclude a license agreement with the Company, the scope of which grants the Company the right to use JSDQ technological solutions covered by certain patents. Based on the facts, the Company is of the opinion that its products and services do not infringe JSDQ patents. In the Company's opinion, this case is an example of the so-called patent trolling. Nonetheless, considering the time and potential costs of the litigation in the case, if any, on 10 September 2020 the Company concluded a "Release and license agreement" with JSDQ for the amount of USD 3.5 thousand. Under this agreement, JSDQ waived its claims regarding potential infringements of its patents by the Company. JSDQ has also granted a license to the Company and its subsidiaries for the use of specific JSDQ technological solutions covered by patent protection in the Company's products and services.

Representation of the Board of Directors

The Board of Directors of the Parent Company represents that, according to its best knowledge, the interim condensed consolidated financial statements and the comparative data were prepared in line with the accounting principles in effect in Silvair, Inc., and are a true, accurate and clear reflection of the Group's property and financial position and its financial result. The Report of the Board of Directors on the activities of the Silvair Group for the period from 1 January to 30 June 2020 contains a true presentation of developments, achievements and situation of the Group, including a description of key risks and threats.

Rafał Han

Chief Executive Officer

Szymon Słupik

Chief Technology Officer,
President of the Board of
Directors

Adam Gembala

Chief Financial Officer,
Vice-President of the Board of
Directors,
Secretary and Treasurer

Paweł Szymański

Director

Christopher Morawski

Director