

Report of the Board of Directors on the activities of the Silvair Group for the first half of the year ended 30 June 2019

Kraków, 30 September 2019

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All figures, unless indicated otherwise, are expressed in thousands of USD.

Key events and achievements of the Silvair Group in the first half of 2019

First revenues from sales of Silvair products

The first half of 2019 has proved to be exceptionally important for the Group. After several years of work on the Bluetooth Mesh standard and product development, the Group entered the phase of commercialization and earned the first revenues in Q1 this year in the amount of USD 47 thousand and in Q2 USD 67 thousand. Even though the first contracts with partners were concluded as early as in the first quarters of 2018, the process of developing new products, testing and launching mass production took the partners almost a year. This period, which could extend for more than a year in some instances, is typical for the industry and expected by the Group. What we are most happy with is the fact that products based on the Silvair technology appeared in the global distribution and the first complete implementations ultimately confirmed the assumptions made for the products.

Announcement of launching preparations for a new securities issue

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.

Silvair winning the prestigious LFI Innovation Award

During the jubilee 30th edition of LIGHTFAIR International - the biggest annual lighting industry fair, held in 2019 in Philadelphia, Silvair, Inc. won the prestigious LFI Innovation Award. The company's Silvair Commissioning product was awarded with the 1st prize in the category "Control and Distribution Systems, Connectivity and Analytics". The list of products submitted in this category included solutions from multiple established brands in the lighting industry, such as Osram, Eaton, Lutron Electronics and Crestron Electronics. The finalist shortlist included, apart from Silvair, Osram and Signify (Philips Lighting). In the justification of the verdict, the jury pointed to interoperability as the greatest advantage of the Silvair solution. Based on the global Bluetooth Mesh standard, the Silvair Commissioning tool may be used to control lighting devices supplied by different manufacturers.

Signing of a global distribution agreement with Future Electronics

On 14 May 2019, Silvair, Inc. established cooperation with Future Electronics Inc., world-class leader in distribution and sale of electronic components. Under the agreement Future Electronics will acquire customers for Silvair Firmware, the Silvair Commissioning tool for configuration of a smart lighting network, and the IoT services offered on the basis of the lighting infrastructure. At the same time Future Electronics will distribute the components of the lighting network operating on the basis of the Silvair technology. The

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agreement is an important element of the Company's strategy pertaining to commercialization of its products and services.

Silvair extends its cooperation with McWong International

On 7 May 2019, Silvair, Inc. announced extending its cooperation with McWong International, Inc. Chinese-American manufacturer of lighting components. The companies signed a contract for the sale of Silvair Commissioning (a component of the Silvair platform) which pertains to the provision of tools to configure a smart lighting network based on the Bluetooth Mesh technology, in the Lighting Control as a Service (LCaaS) model. The contract was entered into for an indefinite term.

Signing of a letter of intent and start of negotiations with OSRAM GmbH

On 28 March 2019, a Group company Silvair Sp. z o.o. and OSRAM GmbH signed a letter of intent under which the parties commenced negotiations with a view to entering into one or several agreements on privileged technical and commercial cooperation to facilitate the introduction, to the professional lighting market in the EMEA region, of Bluetooth low energy mesh wireless systems ("BLE") offered by OSRAM, based on the customized BLE network ecosystem developed by the Company. The parties finished the negotiations by signing an agreements on 10 July 2019, which the Company reported in Current Report No. 11/2019. Conclusion of the aforementioned agreements is described in the section entitled "Material events after the end of the reporting period" of this Report of the Board of Directors on the activities of the Silvair Group.

Execution of a contract with Linmore LED

On 21 March 2019, Silvair, Inc. signed a contract for the sale of Silvair Commissioning tools (parts of the Silvair platform) with Linmore LED Labs, Inc., a U.S.-based manufacturer of lighting fixtures. The contract pertains to the provision of tools to configure a smart lighting network based on the Bluetooth Mesh technology, in the Lighting Control as a Service (LCaaS) model. Linmore LED Labs will be responsible for comprehensive cooperation with customers, that is for sales and marketing of setup tools for smart lighting networks along with after-sales support. Linmore sells its products in the United States. The contract was entered into for an indefinite term.

New partnership of Silvair with LA Lighting

In February 2019, Silvair established cooperation with a new partner: LA Lighting, a leading U.S.-based manufacturer of lighting fixtures. LA Lighting, owing to its more than 30 years of experience in the manufacture of commercial and industrial lighting fixtures, is a leader in the market for wireless control integration solutions with the whole product line.

Silvair strengthens its North American team

In March 2019, Jim Sekinger joined the sales division as Sales Executive for the United States. Jim Sekinger has worked in the lighting industry for more than 25 years, focusing on innovation, sales and business

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development (development of products, markets and business models) related to smart lighting technologies. He headed the development and commercialization of several groundbreaking lighting technologies, including wireless communication and cloud data architecture. For over 10 years, he worked for Philips Lighting, where his most recent position was CEO of the division responsible for lighting control solutions. During his career, he has held a number of managerial positions in companies involved in the creation of smart lighting technologies, including as VP Business Development for Adura Technologies (a company specializing in wireless lighting control), SVP Sales & Business Development for Redwood Systems, a leader in LED solutions for building management, VP Channel for Enlighted, Inc. (a leading company in wireless solutions for LED lighting control systems).

Szymon Słupik elected again Chairman of the Mesh Working Group within the Bluetooth SIG

Close cooperation with the Bluetooth SIG brings additional image-boosting benefits to Silvair. By chairing the Mesh Working Group, Szymon Słupik (Silvair founder) keeps building the Group's renown and strong position on the international stage. Szymon is currently an industry expert in wireless technologies and a Bluetooth Mesh expert. Both Szymon and other Silvair representatives are regularly invited to Bluetooth World conferences, Bluetooth Media Events and webinars, where they have the opportunity to share their expert knowledge and disseminate their publications. A portion of the Bluetooth SIG's marketing activities focuses on the promotion of its active members, including Silvair, both in the media and in presentations forming part of various types of reports and rankings.

Material events after the end of the reporting period

Silvair strengthens its presence in the United Kingdom thanks to a new partner – Architectural FX

At the beginning of July this year Silvair established cooperation with Architectural FX, a company specializing in integration and sale of premium products in the lighting market in the United Kingdom. AFX's offer will be enriched by ready-to-use wireless lighting control solution based on the global interoperable standard Bluetooth Mesh. It comprises both lighting fixtures with integrated Bluetooth Mesh components, and Silvair lighting control software. Cooperation with Architectural FX is the next step in Silvair's development in the European lighting market. AFX will offer the wireless lighting control technology to UK designers, architects and lighting specialists. As part of the partnership Silvair will also support AFX's customers, sharing its knowledge and best practices regarding implementation of lighting control systems in commercial spaces.

Signing a strategic partnership agreement with Osram GmbH

On 10 July 2019, Silvair Sp. z o.o. signed a strategic partnership agreement with OSRAM GmbH, leading player in the global lighting market. As part of the cooperation Silvair Sp. z o.o. will provide its partner with the Silvair Firmware software which can be integrated with a broad range of lighting products. The two companies also defined the terms on which OSRAM will use the Silvair Commissioning tools for configuration and management of smart lighting control networks based on the Bluetooth Mesh standard. Conclusion of the agreement is an important element of the Company's strategy pertaining to commercialization of its

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products and services on a global scale. Undertaking close technical and business cooperation with one of the biggest companies in the market opens a number of new opportunities for development and distribution of the solutions developed by the Company. In addition, the signing of the agreement generates a number of image-related benefits, increasing the awareness of the Silvair brand and its credibility among manufacturers from the lighting industry.

Signing of an agreement with Legrand Electric Limited

On 18 July 2019, Silvair Sp. z o.o. signed with Legrand Electric Limited seated in London an agreement on delivery, licensing and provision of services under which the Company undertook to deliver the Silvair Firmware software together with a complete set of tools for implementation on the production line. Silvair Sp. z o.o. also undertook to grant a license to use the Firmware and provide the related services.

Information about transactions regarding Silvair, Inc.'s shares

On 24 July 2019 and 26 July 2019, Silvair, Inc. received from Rafał Han, member of the Board of Directors and President of the Company, a notification on transactions on the shares, referred to Article 19 sec. 1 of the MAR Regulation. The content of the notifications was published by the Company in Current Reports No. 13/2019 and 14/2019.

All figures, unless indicated otherwise, are expressed in thousands of USD.

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.

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Operating activities of the Silvair Group

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.

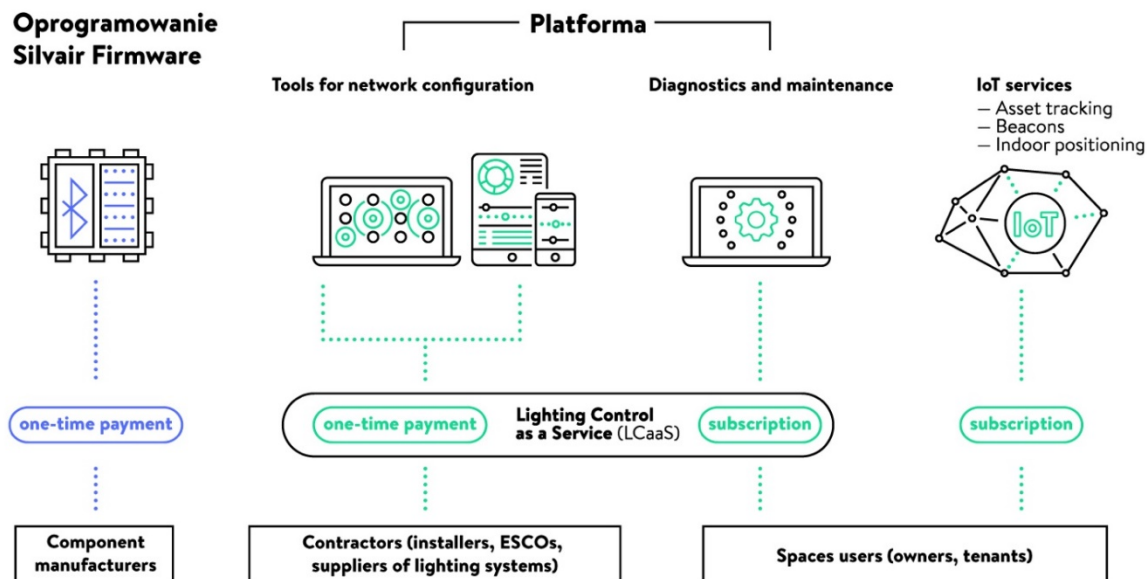
Silvair, Inc. develops software for the Internet of Things (IoT). The Company operates globally. Silvair’s strategic goal is to achieve a leading position on the market of modern technology solutions in the area of the Internet of Things. The Company’s offering includes software for smart lighting modules (Silvair Firmware). Silvair is also working on tools that enable control and management of lighting infrastructure and support analysis and use of data collected by sensors installed in lighting systems, which facilitates the provision of new, innovative services, also in the subscription model (Silvair Commissioning and Monitoring).

The **Silvair Firmware** is software installed in components produced by lighting manufacturers, which enables devices to communicate with each other. It enables autonomous control of the intensity and color of light and collection of information about how the spaces and the devices themselves are used. The Silvair software is offered to manufacturers of lighting components, including power supply units, controllers, sensors, converters, switches, etc.

The **Silvair Platform (Silvair Commissioning and Monitoring)** is a technology and service platform comprising digital tools for the launch, configuration and management of smart lighting networks and infrastructure that enables the Company to provide innovative services, e.g. services related to property management. They will be associated with collecting, processing and visualization of data generated by the smart lighting network equipped with sensors. The services will be provided remotely, on the basis of cloud solutions, through a dedicated Internet site.

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Business model



The Silvair Platform makes it possible for space users (owners and tenants) to control and manage lighting infrastructure and collect data on the use of buildings.

As part of the Silvair Platform, the Company and its partners offer services in areas that include store analytics (analytics of customer behaviors and sales), predictive maintenance (prevention service) and asset tracking (thing monitoring service).

The Silvair Platform is offered to owners and managers of private and public commercial properties and to companies offering maintenance services. As a tool for network configuration, it is also offered to contractors performing lighting installations for property owners and ESCOs (energy service companies).

The Silvair technology is based on the latest global Bluetooth Mesh standard, allowing for direct communication of devices with each other. Silvair is the co-author of the new Bluetooth Mesh standard, approved in mid-2017, and the first company in the world whose solutions have obtained the qualification of a new Bluetooth standard. Silvair's aim is to become the leader in the market of IoT solutions, including smart lighting control, and a key supplier of the technology based on the Bluetooth Mesh standard.

Silvair has established cooperation with various leading manufacturers of lighting equipment, including Osram, Murata Manufacturing, McWong International, DG Light, Demand Lighting, Danlers, Fulham and the Zumtobel Group.

The Group has business and marketing presence on the global market, especially on the North American market (in particular in California and the state of New York) and in Western Europe (predominantly the UK, Germany and Benelux states). Our solutions have been presented at top-ranking events and lighting fairs across the world.

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Board of Directors (composition of the parent's governing bodies as at 30 June 2019)

Rafał Han, Chief Executive Officer

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 himself nearly exclusively to Silvair.

Szymon Słupik, Chief Technology Officer (CTO)

Co-founder of Silvair, President of the Board of Directors Talented individual, Chief Technology Officer and engineer in the Silicon Valley. 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 task force, which groups together 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 securities broker, managing equity and fixed income funds. Then he discharged the function of Chief Financial Officer and President or member of the management boards of various companies operating in the fuel, TMT, real estate and other sectors.

Paweł Szymański, Non-executive Director

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. Served as a member of the management board of such companies as PKN Orlen, CTL Logistics, ICENTIS, Ruch, Marvipol, Netia, ABC Data. Currently, President of the Management Board of Krosno Glass and Member of the Supervisory Board of Alior Bank.

Marek Kapturkiewicz, Non-executive Director

Experienced and highly valued manager, investor and engineer. Graduate of the AGH University of Science and Technology in Kraków from the Faculty of Electrical Engineering, Automatics, Computer Science and Electronics. Former Vice President of the Management Board (2005-2009) and Director (1999 – 2002) in the Onet.pl S.A. Group. Previously, also Director for Product Promotion and Development at Tymbark S.A. (1996-1999) In 1985-1996, Constructor Specialist at the Institute for Advanced Technologies in Kraków.

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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 (CFO), Deputy Chairman Board of Directors Secretary and Treasurer	30 May 2014
Paweł Szymański	Non-executive Director	25 May 2018
Marek Kapturkiewicz	Non-executive Director	4 September 2018

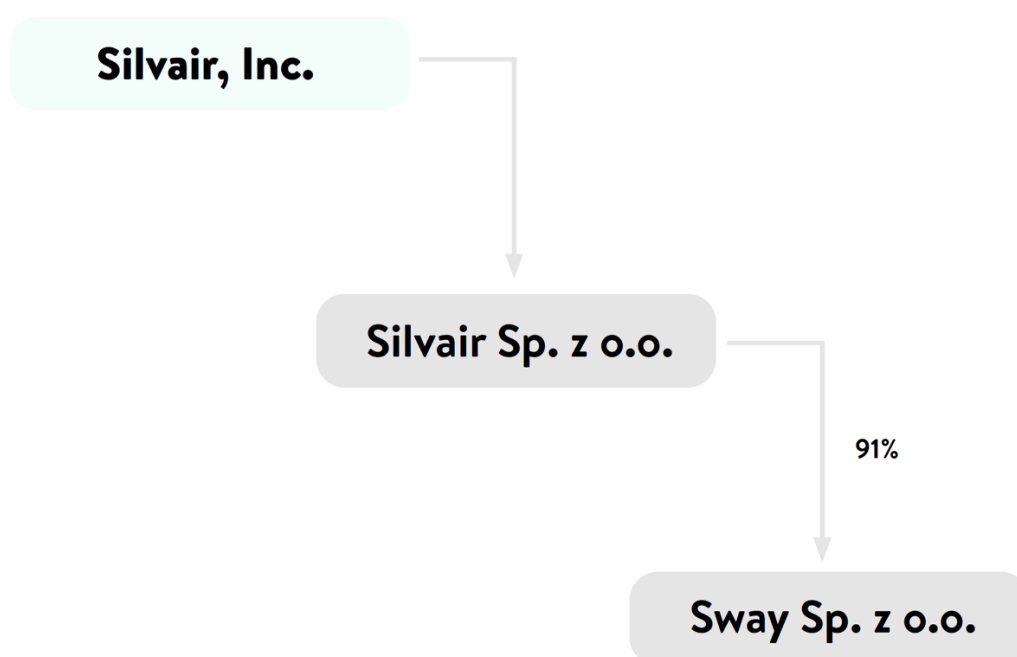
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Structure of the Silvair Group

The Group comprises Silvair, Inc. (hereinafter: “Company” or “Silvair”), 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. The Company is controlled by its founders: Szymon Słupik, Rafał Han, Adam Gembala and Maciej Witaliński (“Founders”).

The Company is a holding entity which at present does not run any operating business but oversees the operating activities of the Subsidiaries (as described hereinbelow), which hold the core assets of the Group.

Presented below is the structure of the Group as at 30 June 2019, 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 2019, 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.

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Sway Sp. z o.o.

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

No changes were recorded in the organization of the issuer's Group in the reporting period. In particular, there was no merger with another entity, control was not lost over a subsidiary or any of the Group's long-term investments. There was no demerger, restructuring or discontinuation of a portion of operations by the Company.

There have been no new changes in the Group's structure after the end of the reporting period.

Operating segments

The Silvair, Inc. Group develops the following 2 operating segments in its business activity:

- Silvair Platform
- Silvair Mesh Stack

The **Silvair Mesh Stack** segment consists of universal firmware based on the Bluetooth Mesh standard, intended primarily for installation in electronic components of lighting products and in sensory devices. The firmware is versioned depending on the type of device, its functionality and supported communication protocol. In this segment the Company also classifies the above firmware that is modified or upgraded based on the clients' individual requirements (custom firmware). The Company earns revenues in this segment from sales of firmware licenses.

The digital platform segment, i.e. **Silvair Platform**, consists of a bundle of services related to the management of a smart lighting network and the usage of data generated by such network to provide services going beyond smart lighting. Where the services within the platform are provided directly by the Company, the revenues consist of periodic fees charged for a specific service bundle. Where the services within the platform are provided by third parties, the Company earns a revenue share in the fees charged by the service provider.

The Group does not develop the Wi-Home and Proxy segments, which are based on older technologies. Nevertheless, these segments still generate some revenues and therefore are included in the Group's statements.

Marketing activity in H1 2019

In the first half of 2019, the marketing activities focused to a large extent on preparation of appropriate materials supporting the sale of Silvair's solutions by the Company's partners, and promotion of installations confirming the reliability of the technology the Company offers.

The Company continued efforts aimed at strengthening the awareness of the Silvair brand in the international arena. Rafał Han, CEO, represented the Company at such events as the Strategies in Light conference in Las Vegas, European Start-up Days during European Economic Congress in Katowice, and the Noah

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Conference in Berlin, while Szymon Słupik was invited to speak at a special Bluetooth arena at the Strategies in Light conference, and ran a webinar organized by LEDsMagazine, attended by over 600 industry specialists.

The Silvair team also participated in the lighting fairs organized with the Strategies in Light conference and in the most important industry event in the USA – LightFair International in Philadelphia. During the event Silvair received an award in the category “Control and Distribution Systems, Connectivity and Analytics” for the tools for coordination and management of wireless lighting networks. Information about the award and other information on the Company was published in the industry media, including the Lux Review portal, LEDsMagazine or the hardcopy edition of Electrical News.

Together with LEDsMagazine, at the beginning of the year, we published a guide for lighting manufacturers on how to build a lighting network based on the Bluetooth Mesh technology. So far nearly 1,000 people have downloaded the Ebook.

As part of the promotion of installations using the Silvair solution, the Company prepared case study materials describing the implementations in a school in Jaworzno, a warehouse in Sacramento and an office building Brussels, and distributed materials in its own marketing channels and among industry media.

To support partners in the sale and promotion of the solution, Silvair prepared a series of training films, presentations, product cards and other documents to be used by the sales teams. Additionally, Silvair developed a customer support program, combined with enabling partners to use the “Technology Partner Silvair” branding. This designation may be used by companies using the Silvair technology as a proof of high product quality.

Silvair will develop further documents supporting partner sales and continue to strengthen the efforts contributing to increasing the numbers of commercial projects. As part of the image-related efforts, the Company plans to participate in the Trends in Lighting event (in the previous edition the Company was awarded for its tools for configuration and management of lighting networks). In addition, we starting to prepare for the biggest lighting event – Light and Building 2020 in Frankfurt, where new products using the Silvair technology will be premiered.

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 2019. All the Company's transactions with related parties are concluded on an arm’s length basis.

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External environment

Description of the market and position of the Silvair Group

Description of the global market for smart lighting control systems

The Company's market of smart lighting systems is a subset of the market for Internet of Things (IoT) solutions, a concept in which system elements gather, process and exchange data through over the web. According to the report entitled "Worldwide Semiannual Internet of Things Spending Guide" prepared by IDC analysts, the global Internet of Things market in 2020 will be already worth USD 1.5 trillion. The smart lighting market itself is as the initial phase of development. The first commercial solutions in this respect, based on the Internet of Things idea, appeared around 5 years ago. Hence Silvair belongs to global pioneers of such solutions and thanks to its contribution to the development of the Bluetooth Mesh standard, it has a significant competitive advantage. According to the report entitled Smart Lighting Market - Global Forecast to 2022 (MarketsandMarkets), the smart lighting market will reach the level of USD 15.6 bn in 2022 (from USD 3 bn in 2016) and the number of delivered devices will increase from 26.8 million in 2016 to 1.27 billion in 2022. The authors of the report entitled Smart Wireless Lighting (On World, Inc.) expect that the smart lighting market in the wireless solutions market will reach USD 4.76 billion in 2019, and the number of delivered wireless devices will reach 160 million. According to forecasts contained in the report on the Internet of Everything Market by ABI Research, in 2021 the total number of all devices connected to the Internet may reach 48 billion. It is anticipated that devices fitted with the Bluetooth standard will account for 30% of the total number. According to the report entitled "Worldwide Semiannual Internet of Things Spending Guide IDC", the value of the IoT market in 2020 may be as much as USD 1.5 trillion. According to Gartner's analysts (as published in "Top Strategic Predictions for 2018 and Beyond, 2017"), as early as in 2020, 95% of all new devices will operate in the Internet of Things.

The smart lighting market is relatively new and technologically advanced, while development forecasts for the future of the industry are subject to a high degree of complexity and uncertainty. As a result, any predictions about the value of profits or revenue to be generated by the industry in the coming years are burdened with a high risk of error. However, a noticeable tendency has been observed that predictions published by research companies improve in subsequent reports as technology develops and the market environment evolves.

The smart lighting market is divided into the following three main sectors, taking into account the target groups and the intended use of products:

- Municipal, Outdoor & Others, which includes lighting of streets and large areas intended for public use (currently accounting for approx. 20% of the industry's revenues),
- Commercial Buildings, which includes lighting for office and retail space (currently accounting for approx. 30% of the industry's revenues),
- Residential, which is lighting intended for domestic use by retail buyers (currently accounting for approx. 50% of the industry's revenues).

It is worth noting that depending on the geographical area and the characteristics of the relevant economy, the shares of the main sectors in the industry's revenues may differ considerably from country to country, although no detailed studies are available describing the extent of these differences in terms of the current

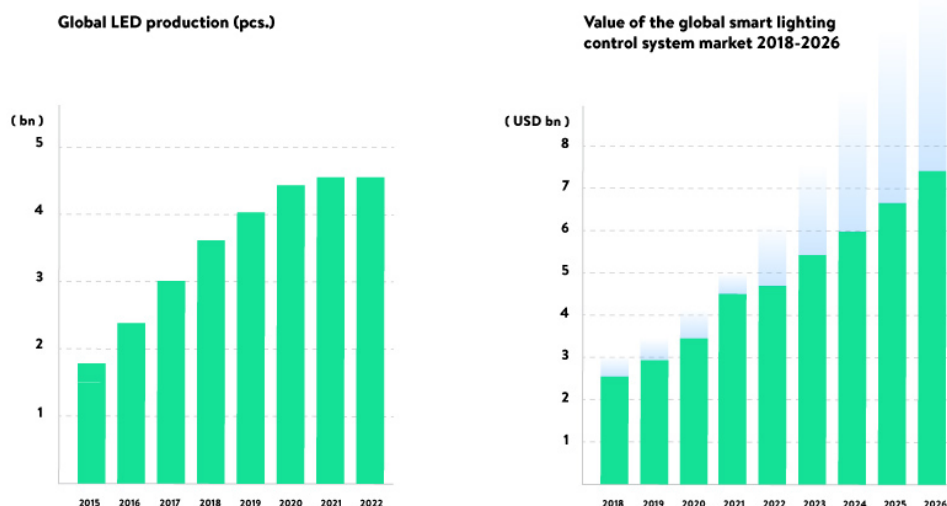
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size and growth potential of each sector. However, it should be mentioned that all sectors have been recording very positive performance and have been described by analysts as promising.

From the Group’s perspective, the Commercial Buildings sector, which is the target group of customers using the Silvair system and is of key importance for the Company, has been growing very rapidly in recent years. Also, from the demand perspective, this sector demonstrates a relatively high growth potential and market stability, because businesses generally have a greater propensity to implement solutions that reduce their cost base than retail customers, and, on top of that, are more likely to have sufficient funds to execute capital expenditure projects.

According to the analyses and projections presented in the report entitled “Global Lighting Control System Market 2015-2019”, published in January 2015 by ReportsnReports.com, the global smart lighting market in 2014-2019 will grow at an average annual rate of approx. 12.5% as a result of increasing demand generated by current industrial and business customers and the acquisition of new end users. In September 2016, a report by the same authors (ReportsnReports.com) was published, entitled “Smart Lighting Market by Product Type (Smart Bulbs, Fixtures, and Lighting Controls), Light Source (Fluorescent, LED, HID), Communication Technology (Wired, and Wireless), Software & Service, Application, and Geography - Global Forecast to 2022”, which estimated the value of the market at approx. USD 4.62 billion. According to the forecast included in the report, the market for smart lighting control systems in 2016-2022 is expected to grow an average annual rate of approx. 27.1%, which would allow the global industry to achieve total revenues of USD 19.47 billion in 2022. Indications for such optimistic predictions are based on the following factors: growing demand for energy-efficient lighting systems generated by consumers, growing demand for smart solutions in street lighting systems and development of Internet of Things technologies.

The chart below presents the predicted value of the global market for smart control systems and the forecast of global LED production in each year indicated.



Source: Lighting Market Analysis and Forecast 2016 (Strategies Unlimited) / Market Data Intelligent Lighting Controls (Navigant Research)

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The second edition of the report entitled “Smart Wireless Lighting” also presents estimates of the share of individual components of smart lighting systems in the industry’s global revenues, according to which bulbs and lamps followed by switches and dimmers play a key role, accounting for almost 70% of the sector’s revenues. Controllers, sensors and bridges account for the remaining share of the market.

According to an analysis published by ON World, revenues of the smart wireless lighting equipment industry in 2015-2019 will increase from USD 1.399 billion to USD 4.764 billion, which would mean an average annual rate of growth of 35.84%. In 2015, the size of the market in the EU, Switzerland and Norway was estimated at a total of USD 519 million, with the industry’s forecasted revenues in 2019 at USD 1.688 billion, which would mean an average annual rate of growth of approx. 40.44%.

Forecasts of the average annual rate of growth of the smart lighting market published in the last 3 years have ranged from 12% to 30%, depending on the author and the year of publication. If these forecasts agree with reality, it would mean that the industry is characterized by one of the fastest growth rates among all energy-related industries.

Despite the rapid growth of the Internet of Things and the increasing application of wireless technologies in consumer products, we are of the opinion that in the near future revenues generated in this market will account for only a fraction of revenues generated in professional applications.

The revolution that has been taking place in recent years in the lighting industry, driven by the trend of replacing traditional light sources with energy-saving LEDs, generates, on one hand, enormous business benefits, and, on the other hand, prompts significant changes within the industry itself. Manufacturers and suppliers who wish to remain competitive in this market are forced to look for distinguishing features that increase the quality, functionality and attractiveness of their products. Along with the development of new light emission technologies and the broadening of the offering of new lighting fixtures, smart lighting control is becoming increasingly important.

Energy service companies (ESCOs) are among the key market participants and at the same time serve as an important catalyst for the development of energy-saving lighting control systems.

According to the report “U.S. Energy Service Company (ESCO) Industry: Recent Market Trends” published by the Lawrence Berkeley National Laboratory in 2016, in the United States alone, in 2014, the ESCO industry’s revenue reached USD 5.3 billion. More than 85% of revenues generated by the ESCO industry in the USA is generated by the public and institutional sectors. Performance-based contracts in 2014 accounted for 74% of the industry’s revenue, and the lion’s share of the industry’s revenue came from new customers. More than half of all ESCOs took advantage of tax breaks at a local, state or federal level. In 2011-2014, each ESCO introduced at least one type of “non-energy benefits” (NEBs). The share of non-energy retrofits in projects executed by ESCOs has been growing rapidly in recent years. According to the “ESCO Market Overview” report by Navigant Research, the global ESCO market is expected to grow from USD 15.0 billion in 2017 to USD 30.8 billion in 2026.

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Competitive environment

The pillar of growth for the smart lighting industry is provided by global multinational companies with an established market position (such as GE, OSRAM, LG, Samsung and Philips), which offer all components necessary for the development and construction of smart lighting systems, but also carry out intense development work themselves in this area. It should be noted, however, that in contrast to the traditional manufacturing of lighting products, due to low barriers to entry, the smart lighting sector creates attractive opportunities for the establishment of new start-ups and the entry of existing companies operating in other industries, such as IT. This is confirmed by a large number of manufacturers of smart lighting systems. According to all available analyses, there are at least 100 entities across the world involved in the development or manufacture of smart lighting products, but usually the business model adopted by smaller manufacturers is based on extensive cooperation with other companies combined with a high degree of specialization of their own business.

According to the ON World report, major global manufacturers of smart lighting system components include GE Lighting, OSRAM, Philips Lighting, Samsung Electronics, Sharp Corporation, Zumtobel and Fagerhult. In turn, the world's most important players in the commercial buildings sector include Acuity Brands (Distech Controls, Atrius, Adura Technologies), Daintree (currently the GE group), Digital Lumens (currently the Osram group), Enlighted, Dynalite (Philips), Lutron, Legrand and Cree.

Also in Poland, several enterprises have joined in recent years the development of business related to the manufacture and operation of smart lighting systems, of which the major ones include Lena Lighting S.A. (LED lamps, control systems), ES-System (LED fittings, control systems), APANET Green System Sp. z o.o. (sensors, controllers, ballasts, power supply units), GLOBUS Lighting Sp. z o.o. (LED fittings), FirmaSmart Sp. z o.o. (LED lamps and sensors), AutoID Polska S.A. (LE bulbs), LEDIKO Sp. z o.o. (LED modules and LED fittings).

We believe that the Company's competitive edge over other domestic manufacturers is our focus on global expansion and the precise definition we have developed of our target customer base combined with the optimal match of our end product with the user's requirements.

All figures, unless indicated otherwise, are expressed in thousands of USD.

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 Note 33 of the Silvair Group's Interim Consolidated Financial Statements for H1 2019.

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 modifications, including 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.

All figures, unless indicated otherwise, are expressed in thousands of USD.

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.

All figures, unless indicated otherwise, are expressed in thousands of USD.

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.

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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 were 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 and apply 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.

All figures, unless indicated otherwise, are expressed in thousands of USD.

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, 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 or 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 Directors' and Officers' liability towards the Company

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.

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The Issuer's Board of Directors believes financial performance of the Group in the coming periods will be affected by the following external and internal factors:

Macroeconomic trends in global economy, including Poland's economic situation

Our operations and financial situation depend on the macroeconomic environment of the countries where we conduct our development work (in particular Poland). In the long-term, it will depend on the macroeconomic situation in the countries where we distribute our products and provide services. There is a strong relationship between general economic conditions and the results in the lighting industry, in particular in the lighting control systems market, due to its strong links to investment activities, which are closely correlated with the global growth rate.

Increase in the scale of our business, including:

- **rate of adoption of the Bluetooth Mesh standard by the market and effectiveness in acquiring new business**
- **systematic development work supporting the commercialization of new products and increase of the competitive advantage.**

Capital needs

Given the nature and the development level of our operations, as well as absence of significant revenues, our external capital requirements have been and may remain significant. Furthermore, to grow the scale of our operations and increase growth rate, we may be forced to take out loans and borrowings or issue new securities, in the form of equities or debt securities. All those measures may have a significant impact on our financial situation and operational results, in particular as a result of higher operating costs due to debt repayments.

Besides the factors described above and other information given in this document, we do not identify any trends, uncertainties, claims, obligations or events that would be highly likely to have a material impact on the development prospects of the Group within the next quarter.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Financial standing of the Silvair Group

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

These interim condensed consolidated financial statements and the comparative data have been prepared in accordance with the International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board approved by the European Union under IFRS Regulation (European Commission 1606/2002), hereinafter referred to as “EU IFRS” applicable to interim financial reporting in effect as at 30 June 2019.

The EU IFRS include the standards and interpretations accepted by the International Accounting Standards Board (IASB) and International Financial Reporting Standards Interpretations Committee (IFRIC).

All figures, unless indicated otherwise, are expressed in thousands of USD.

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

Interim consolidated profit and loss account of the Group

Consolidated profit and loss account	1 January 2019 – 30 June 2019	1 January 2018 – 30 June 2018
A. Income	114	1
B. Cost of sales	395	0
C. Gross sales result	-281	1
I. Selling and distribution expenses	237	260
II. General and administrative expenses	1,020	1,530
D. Net sales result	-1,538	-1,789
I. Other operating income	44	47
II. Other operating expenses	24	3
E. Operating result	-1,518	-1,745
I. Financial income	29	0
II. Financial costs	85	179
F. Result before tax	-1,574	-1,924
I. Income tax	2	267
Current part	5	1
Deferred part	-3	-268
G. Profit/(loss) for the period	-1,576	-1,657
Profit/(Loss) attributable to:		
shareholders of the parent company	-1,557	-1,654
non-controlling interest	-19	-3

All figures, unless indicated otherwise, are expressed in thousands of USD.

Commentary to the results for H1 2019

Just like in 2018, the Group conducted intensive work on the development and promotion of new products, the establishment of sales markets. In H1 the Group entered into sales agreements with new customers and, consequently, recorded the first sale in the amount of USD 114 thousand. Cost of sales included mainly amortization and depreciation of completed development work, whereas in the comparative period the amortization and depreciation of completed development work was presented in general and administrative expenses. This explains the difference in the cost of sales items and the general and administrative expenses in 2019 compared to the previous period. The Group recorded a gross loss on sales in the amount of USD -281 thousand due to the initial phase of generation of revenues. In the future an increase in sales revenues is expected since negotiations with prospective buyers are under way and new contracts are being concluded.

Financial results by the Group's operating segments

The Silvair, Inc. Group develops the following 2 operating segments in its business activity:

- Silvair Platform
- Silvair Mesh Stack

The Group does not develop the Wi-Home and Proxy segments, which are based on older technologies. Nevertheless, these segments still generate some revenues and therefore are included in the Group's statements as "Other activities".

Segment type	Silvair Platform	Silvair Mesh Stack	Other activities	Total
Revenues and expenses				
Sales to external customers	82	31	1	114
Inter-segment sales	-	-	-	-
Cost of sales	124	219	52	395
Income and expenses (operating and other operating)	-	-	-1,237	-1,237
EBIT				-1,518
Net financial income (costs)	-	-	-56	-56
Share in profits of associates	-	-	-	-

All figures, unless indicated otherwise, are expressed in thousands of USD.

Profit before tax				-1,574
Income tax (current and deferred)	-	-	2	2
Net profit for the reporting period	-	-	-	-1,576
Assets				
Costs of development work	2,775	4,532	2,446	9,753
Receivables	49	7	2	58
Unallocated assets	-	-	2,191	2,191
Total assets				11,914
Liabilities				
Financial liabilities	-	-	214	214
Liabilities from contracts with customers	40	1	-	41
Unallocated liabilities			1,803	1,803
Total liabilities				2,058
Other information	-	-	-	-
Depreciation and amortization	124	219	251	594

In the reporting period covered by these statements, the Group generated the first revenues in both of the above segments. In general, the revenue originated from: sales of Silvair Lighting Firmware (in the Silvair Mesh Stack segment) and sales of licenses to use network configuration tools and lighting scenarios offered as part of the Silvair Platform. These revenues are recognized directly on the billing date and are presented in the Group's statements in the full amount. Technical support services in the Silvair Platform constitute additional revenue components. Fees for these services are usually regular and are generally charged every year in advance. A proportionate part of these revenues is allocated to the period revenues, while the remaining part is recognized as liabilities from contracts with customers.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Interim consolidated statement of financial position of the Group

	30 June 2018	31 December 2018	30 June 2018
A. Non-current assets	10,704	9,540	8,342
I. Costs of development work	9,753	8,838	7,828
II. Other intangible assets	16	18	-
III. Property, plant and equipment	44	57	56
IV. Right-of-use assets	250	-	-
V. Financial assets	7	7	7
VI. Deferred tax assets	634	620	452
B. Current assets	1,298	3,537	1,331
I. Inventory	18	13	47
II. Trade receivables	58	20	22
III. Other receivables	171	140	151
IV. Prepayments and accruals	23	31	25
V. Financial assets	-	-	-
VI. Cash and cash equivalents	1,028	3,333	1,086
Total assets	12,002	13,077	9,673

All figures, unless indicated otherwise, are expressed in thousands of USD.

	30 June 2019	31 December 2018	30 June 2018
A. Equity	9,944	11,308	7,858
Equity attributable to the owners of the parent company	9,556	10,901	7,434
I. Share capital	1,142	1,138	975
II. Capital from revaluation of options	273	155	69
III. Other capital	21,181	21,147	16,652
IV. Capital from foreign exchange differences from translation of foreign operations	1,090	1,034	1,223
V. Retained earnings	-12,573	-9,814	-9,831
VI. Financial result of the current period	-1,557	-2,759	-1,654
Equity attributable to non-controlling entities	388	407	424
B. Non-current liabilities	191	165	242
I. Deferred tax liabilities	26	28	31
II. Lease liabilities	86	-	-
III. Other non-current liabilities	79	137	211
C. Current liabilities	1,867	1,604	1,573
I. Trade liabilities	225	172	220
II. Liabilities from contracts with customers	41	-	-
III. Lease liabilities	166	-	-
IV. Other current liabilities	323	318	308
V. Other short-term provisions	75	52	-
VI. Prepayments and accruals	1,037	1,062	1045
Equity and liabilities	12,002	13,077	9,673

All figures, unless indicated otherwise, are expressed in thousands of USD.

Commentary

In the reporting period the Group continued its investments in development work, which increased in relation to the comparable period from USD 8,838 thousand to USD 9,753 thousand. Expenditures on development work were financed from own funds. Total assets decreased in H1 compared to the previous period by approx. 8%. This is attributable primarily to a decrease in current assets, including cash, in relation to the comparable period of last year.

In H1 a loss was recorded but it showed a decreasing trend. The return on equity (ROE) amounted to -16%, compared to -21% in the comparable period, while the return on assets (ROA) changed from -17% to -13%, 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 2018.

The current liquidity ratio, calculated as the ratio of total current assets to total current liabilities, in the analyzed period amounted to 0.70, and dropped from the previous level of 0.84, and the quick ratio (current assets were adjusted by the level of inventories and prepayments and accruals) amounted to 0.67 compared to 0.80 in the previous period. The financial liquidity ratios were compared to the results as at 30 June 2018.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Consolidated cash flows of the Group

	1 January 2019 – 30 June 2019	1 January 2018 – 30 June 2018
Profit (loss) before tax	-1,574	-1,924
Adjustments for:	718	983
1. Depreciation and amortization	594	345
2. Foreign exchange gains (losses)	22	-9
3. Interest and profit sharing (dividends)	-11	12
4. Change in provisions	23	0
5. Change in inventories	-5	4
6. Movement in receivables	-69	-44
7. Movement in current liabilities, except for loans and borrowings	58	17
8. Tax paid	5	2
9. Change in prepayments and accruals	-17	439
10. Other adjustments resulting from operating activity	118	219
Net cash from operating activities	-856	-941
Proceeds	-	-
1. Disposal of intangible assets and property, plant and equipment	-	-
2. From financial assets, including:	-	-
in related entities	-	-
in other entities	-	-
Expenditures	1,343	835
1. Purchase of intangible assets and property, plant and equipment	10	22

All figures, unless indicated otherwise, are expressed in thousands of USD.

2. Expenditures incurred for development work	1,333	813
3. For financial assets, including:	-	-
in other entities	-	-
Net cash from investing activities	-1,343	-835
Proceeds	67	1,930
1. Net proceeds from issuing shares and additional capital contributions	38	1,928
2. Loans and borrowings drawn	0	0
3. Interest	29	1
Expenditures	173	86
1. Repayment of loans and borrowings	75	72
2. Lease payments	80	-
3. Interest	18	13
Net cash from financing activities	-106	1,844
Net cash flows	-2,305	68
Movement in cash	-2,305	68
- movement in cash on account of foreign exchange differences	0	1
Cash at the beginning of the period	3,333	1,018
Cash and cash equivalents at the end of the period	1,028	1,086

The Group recorded a decrease in cash by USD 2,305 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 2019.

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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.

State aid

Grant agreement with the National Center for Research and Development for activities constituting an R&D Project

On 28 March 2018, the between National Center for Research and Development (NCBiR), ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. and Sway sp. o.o. (a member of the Silvair Group) entered into a Support Agreement (for the entrustment of a grant) to execute a project under the Smart Development Operational Programme 2014-2020 ("Support Agreement"). Pursuant to the Support Agreement, Sway Sp. z o.o. is to receive a NCBiR grant of up to PLN 3.4 million, for the implementation of tasks included in the R&D Project, specified in the Agreement, 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".

The Support Agreement stipulates that NCBiR or an entity indicated by NCBiR will enjoy certain priority rights to new shares in Sway Sp. z o.o. and the intellectual property rights held by Sway Sp. z o.o. in all fields of exploitation in the case of an intention by Sway sp. z o.o. to sell any intellectual property rights covered by the funding to a third party. Any intellectual property rights that Sway Sp. z o.o. must hold to execute the Project have been transferred to Sway Sp. z o.o. by Silvair Sp. z o.o.

Moreover, the investment agreement lays down the rules for the sale of shares in Sway Sp. z o.o. acquired by ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp. k., which is to be effected by the transfer of ownership of shares to the Company by ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. prior to the next issue of the Company's shares, in exchange for which ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. will have the right to subscribe for the Company's shares after taking up convertible notes, including in connection with the IPO.

Accordingly, on 18 May 2018, the extraordinary shareholder meeting of Sway Sp. z o.o. adopted a resolution to increase the share capital of Sway Sp. z o.o. by PLN 310 thousand, by way of issuing 6,200 new shares with a par value of PLN 50.00 each. The shares were acquired by ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k., which became Sway's new shareholder. An amendment to the articles of association of Sway Sp. z o.o., reflecting the issue of Shares, was registered in the Court Register (KRS) on 22 June 2018.

Moreover, on 18 May 2018, the Company executed an agreement with ASI Bridge Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. on the exchange of shares in Sway Sp. z o.o., pursuant to which ASI Bridge Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. undertook to transfer the Shares to the Company. The transfer of the legal title to the Shares will take place on the basis of a separate shares transfer agreement. As payment for the Shares, the Company transferred to ASI Bridge Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. a Note issued as part of the Series Three Notes worth USD 441.0 thousand. During the Company's IPO, as a result of the conversion of the debt resulting from the

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Notes, ASI Bridge Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. subscribed for 91,722 common shares in the Company.

By 30 June 2019, ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. invested a total of PLN 1.6 million in the acquisition of shares in Sway sp. z o.o. and entrusted the Company with a grant in the total amount of USD 1.8 million.

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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 2019

The capital of Silvair, Inc. is divided into 11,420,670 shares. The par value of the shares is USD 0.1. Number of shares.

Type	Number of shares	Par value (USD '000s)	Share subscrip- tion price (USD '000s)	Share premium account (USD '000s)
Common Stock	10,460,670	1,046	20,261	19,218
Preferred Stock	960,000	96	125	29
Total	11,420,670	1,142	20,386	19,247

Shareholding structure as at 30 June 2019

The par value per share is USD 0.1. Number of shares.

Share capital ownership structure	Number of shares	% of shares	Number of votes ¹	% of votes
Funds managed by Lartiq TFI ²	2,213,781	19.39	2,213,781	13.65
Szymon Słupik	1,884,711	16.50	3,529,871	21.76
Rafał Han	1,296,441	11.35	2,928,441	18.05
Adam Gembala	1,018,760	8.92	2,145,520	13.23
Other shareholders holding less than 5% of shares	5,006,977	43.84	5,403,057	33.31
Total	11,420,670	100.00	16,220,670	100.00

¹ Pursuant to the Certificate of Incorporation: (i) a holder of one Common Share holds one vote at the Shareholder Meeting (i.e. one Common Share); (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 (i.e. one Common Share). The Company's shareholders do not hold any other voting rights than the rights specified above.

² Lartiq TFI – Venture FIZ and other funds managed by Lartiq TFI (change of the name of the Trigon fund)

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As at the date of preparation of these statements, 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
- Funds managed by Lartiq TFI (formerly Trigon)

On 8 March 2019, the Company issued 40,250 Common Restricted Shares with a par value of USD 0.1 each ("Issue") to a consultant as part of the 2016 Stock Plan described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 25 June 2018 ("Stock Plan"). As a result of the Issue, the Company's share capital is PLN 1,142,067 and consists of 11,420,670 shares with a par value of USD 0.1 each, including 10,460,670 Common Shares and 960,000 shares of the Founders Preferred Stock, representing 16,220,670 votes at the Company's shareholder meeting, of which 10,460,670 are votes attaching to the Common Shares and 5,760,000 are votes attaching to the Preference Founder Shares. After the Issue, the total number of the Company's common shares remaining to be issued under the Stock Plan is 250,750 shares. The contract between the Company and its consultant provides for the granting of 2,300 shares on each 18th day of the month following 18 February 2019 up until and inclusive of 18 July 2020 as well as 1,150 shares on 30 July 2020 if the consultant maintains the Continuous Service Status within the meaning of the contract as at the date of granting the shares in question.

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 convertible promissory notes ("Convertible Securities") and 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

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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 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.

The terms of the Convertible Securities define the mechanisms 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 ("New Equity Financing") 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"). In the case of New Equity Financing or in the case of Change of Control, the Company will issue for the holders of Convertible Securities the Company's common shares in the number following from dividing the Conversion Amount by the lower of: (i) price per share paid for most of the Company's shares in return for a cash contribution as part of New Equity Financing (in the case of New Equity Financing) multiplied by the discount rate of 80% or the price per the Company's common share paid in connection with the Change of Control (in the case of Change of Control); and (ii) the quotient of USD 37.0 million and the Company's capitalization (within the meaning of the terms of the Convertible Securities). The terms of the Convertible Securities contain provisions prohibiting the disposal of the Company's securities in the case of effecting an initial public offering of the Company's securities pursuant to the United States Securities Act. The Convertible Securities are subject to the laws of the state of California.

As at the date of preparation of these statements the Company issued Convertible Securities with the total par value of USD 1.412 million. If the Company carries out further issues of Convertible Securities on the terms approved by the resolution of the Board of Directors, pertinent information will be published separately as part of the Company's current reporting duties in accordance with the EU MAR regulation. At the same time the Company continues preparations to raise financing through a new issue of the Company's shares or other financial instruments, in accordance with the information contained in the Company's Current Report No. 10 of 26 June 2019.

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

On 24 July 2019 and 26 July 2019, Silvair, Inc. received from Rafał Han, member of the Board of Directors and President of the Company, a notification on transactions on the shares, referred to Article 19 sec. 1 of the MAR Regulation. The content of the notifications was published by the Company in Current Reports No. 13/2019 and 14/2019.

In H1 2019 there was no issue, redemption or repayment of non-equity and equity securities.

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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 comprises 42 companies.

Basic information about the stock:

Name	Silvair, Inc.
Short name	SILVAIR-REGS
Ticker	SVRS
ISIN	USU827061099
Free float	43.65%
First listing	26.07.2018
Number of shares	11,420,670
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/>

All figures, unless indicated otherwise, are expressed in thousands of USD.

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 H1 2019 report with indication of changes in shareholding from the date of submission of the previous periodic report, separately for each of these persons:

Name	Number of shares as at 30 June 2019	% of shares	Number of votes	% of votes
Szymon Słupik	1,884,711	16.50	3,529,871	21.76
Rafał Han	1,296,441	11.35	2,928,441	18.05
Adam Gembala	1,018,760	8.92	2,145,520	13.23

Name	Number of shares as at 30 September 2019	% of shares	Number of votes	% of votes
Szymon Słupik	1,884,711	16.50	3,529,871	21.76
Rafał Han	1,335,071	11.69	2,967,071	18.29
Adam Gembala	1,018,760	8.92	2,145,520	13.23

Name	Number of shares as at 30 June 2019	Change	Number of shares as at 30 September 2019
Szymon Słupik	1,884,711	-	1,884,711
Rafał Han	1,296,441	38,630	1,335,071
Adam Gembala	1,018,760	-	1,018,760

All figures, unless indicated otherwise, are expressed in thousands of USD.

Additional information

Disputes

From 1 January to 30 June 2019, 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 Technology, 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. The litigation is conducted by a Delaware court (DISTRICT COURT FOR THE DISTRICT OF DELAWARE, USA) under the US law. F2VS moved for discontinuation of the breach by the Company and a compensation in an unspecified amount. Based on the facts of the case, the Company is of the position that its products and services do not breach the plaintiff's patents. Consequently, in the Company's opinion, the probability of winning the dispute by the Company, is high. Considering this, 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 USA, the parties have embarked on negotiations to conclude a settlement. The Company put forward a settlement proposal in the amount of USD 10,000. In the Company's opinion, the lawsuit in question is an example of the so-called patent trolling.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Representation of the Board of Directors

The Board of Directors of the Parent Company represents that, according to its best knowledge, these 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 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 2019 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 (CFO),
Vice-President of the Board of Directors,
Secretary and Treasurer

Paweł Szymański

Director

Marek Kapturkiewicz

Director

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