Annual consolidated financial statements of the Silvair, Inc. Group

Kraków, 30 April 2019

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

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General information

Parent Company

Name:	**Silvair, Inc.**
Registered office:	**717 Market Street, Suite 100, San Francisco, CA 94103, USA**
Core business:	**IT business**
Registration authority:	**Secretary of State, Delaware Department of State, Delaware Corporate Number 5543093**
EIN: (Employer Identification Number)	**43-2119611**
Company's duration:	**Unlimited**

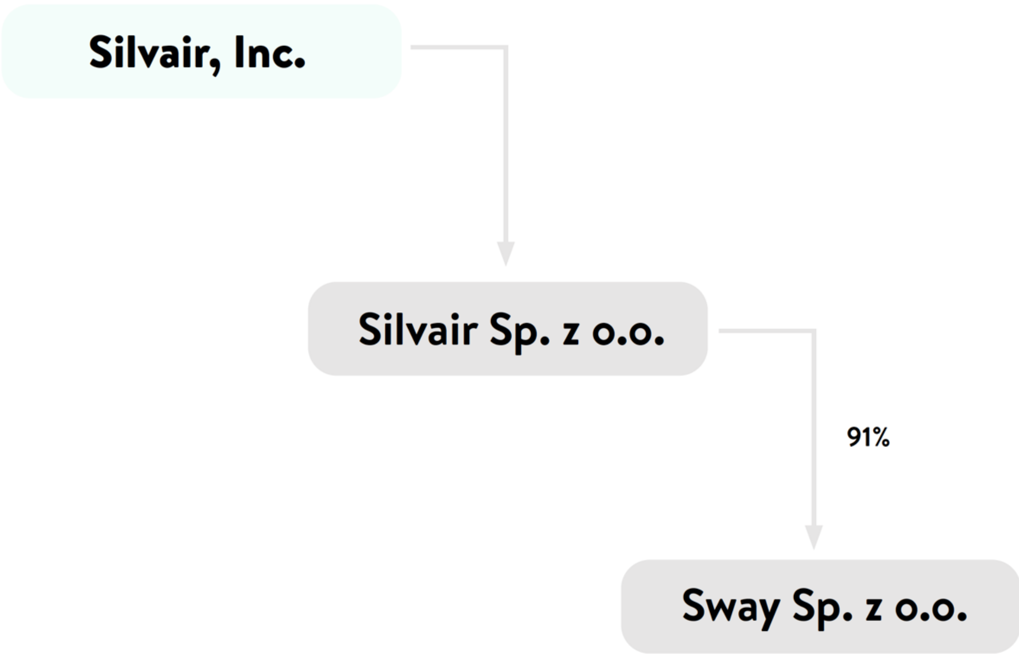
Group's business

The Group operates in the field of new technologies focusing on the Internet of Things (IoT). It has developed and is planning the implementation of an innovative product and software used for remote communication of devices, with special consideration of smart lighting systems. Its strategic goal is to achieve a leading position on the market of modern technology solution suppliers in the smart lighting sector using technology based on the Bluetooth Mesh standard.

The Group's market expansion is based on the following products: Silvair Mesh Stack, i.e. firmware to be installed directly in devices forming part of smart lighting infrastructure, and the Silvair Platform, a technology and service platform designed to be implemented in commercial spaces.

The Group has business presence on the global market, especially on the North American market and in Europe.

The Group



Functional and presentation currency

The consolidated financial statements are presented in the US dollar (USD), which is the Parent Company's functional currency and the Group's presentation currency; unless otherwise stated, all figures are expressed in thousands of American dollars ("USD '000s").

For each subsidiary, functional currency is determined and the assets and liabilities of the subsidiary are measured in that functional currency. The Group uses the direct consolidation method, which entails translation of the financial statements of its subsidiaries directly into the functional currency of the ultimate parent company, and it has chosen a method of recognizing translation gains and losses that is consistent with this method.

The Group uses the average USD/PLN exchange rate of the National Bank of Poland as the immediate exchange rate. The results and the financial position of all the Group entities, whose functional currencies differ from the presentation currency, are translated into the presentation currency as follows:

- assets and liabilities in each statement of financial position are translated at the closing exchange rate in effect on that balance sheet date;
- income and expenses in each statement of comprehensive income are translated at average exchange rates (unless the average exchange rate is not a satisfactory approximation of the cumulative effect of exchange rates on the transaction dates – in such a case, income and expenses are translated at the exchange rates in effect on the relevant transaction dates);

- equity of subsidiaries and interests in subsidiaries are excluded for consolidation purposes at the historical exchange rate as at the date of taking up the shares; and
- any resulting foreign exchange differences are cumulatively recognized in other comprehensive income as a separate component of equity.

Presentation periods

The consolidated financial statements have been prepared as at 31 December 2018 and cover the period of 12 months, i.e. from 1 January 2018 to 31 December 2018.

For the data presented in the consolidated statement of financial position and off-balance sheet items, comparative financial data were presented as at 31 December 2017.

For the data presented in the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement, comparative financial data were presented for the period from 1 January 2017 to 31 December 2017.

Going concern assumption

The statements have been drawn up based on the going concern assumption for the foreseeable future. The Parent Company's Board of Directors believes that there are no circumstances indicating a threat to the Group's continuing its operations as a going concern.

The Group focuses its endeavors on the commercialization of developed products with the objective of achieving the break-even point as soon as feasible. Contracts that have been executed by members of the Group have already generated initial revenue flows (which fact will be disclosed in the report for Q1 2019), and the Silvair Group's intention is to keep expanding the scale of commercialization of its products in 2019 and beyond.

At the same time, the Board of Directors, in collaboration with its financial advisor, is involved in activities aimed at evaluating and selecting the most favorable funding arrangement for the Group. The scenarios of possible funding deals for the Group's operations that have been reviewed by the Board of Directors include a new series of common shares that might potentially be issued within the limit of authorized capital as part of an offering targeted at selected eligible investors. In particular, in compliance with the regulations defining exemptions from the obligation to publish a prospectus for the purpose of offering shares and applying for the listing of its shares on a regulated market, Silvair, Inc. may effect a private placement or a public offering of common shares targeted, for instance, at a group of eligible investors and, subsequently, introduce to trading on a regulated market a total of up to 20% of shares listed on the Warsaw Stock Exchange (WSE).

The amendments to corporate documents of Silvair, Inc. made in 2018 before the launch of the IPO project included the introduction of the possibility for the Company to issue, within the limit of its authorized capital, up to 2.6 million common shares solely by virtue of a decision of the Board of Directors, that is without the requirement to obtain any additional approval from the Company's shareholders. Under the IPO project, Silvair, Inc. placed 1,184,910 shares. As a consequence, after the completion of the IPO project, the share pool available within the limit of authorized capital currently contains approx. 1.4 million common shares that may be issued on a relatively short notice without the requirement to obtain any additional corporate approvals from the Company's shareholders or the conduct of any complex administrative procedures.

Accordingly, the Group retains the ability to issue and apply for the listing of approx. 1.4 million common shares without the need to publish a new prospectus, the approval of which would require the conduct of separate proceedings before the Polish Financial Supervision Authority (KNF). Taking into account the current market valuation of the Silvair, Inc. stock listed on the WSE, making an additional assumption that all shares available under the authorized capital are placed at the current market price, the Group may count on raising approx. USD 5-6 million in new equity, subject to market conditions and the Group's current valuation at the time of such a transaction. It should be noted that the valuation of stock in such a transaction would take into account the valuation of both Silvair, Inc. and the Group as at the date of its execution, which may fluctuate along with the development of commercialization of the Group's products, and a possible discount to the market price, which is impossible to estimate as at the date of provision of this information. As at the date of this information, the Board of Directors has not made any decisions regarding the date, structure or possible boundary conditions of any funding transaction.

In parallel with analytical work on the implementation of the above scenario, the Board of Directors has been reviewing the possibility of issuing the 4th Series of Convertible Notes with a value of at least USD 3 million as part of a bridge funding arrangement in the event that unsatisfactory market conditions prevail and thus adversely affect the possibility of the successful application of the said scenario or the risk emerges of postponement of its implementation in relation to the adopted assumptions. The analytical work conducted by the Board of Directors in this area taps into, in particular, the Group's experience in carrying out a funding transaction based on the same instrument in previous years, including during the preparations for the IPO project.

Composition of the corporate bodies of the Parent Company as at 31 December 2018

Board of Directors:

Szymon Słupik — President

Adam Gembala — Vice-President, Secretary and Treasurer

Rafał Han — Director

Paweł Szymański — Director

Marek Kapturkiewicz — Director

Officers:

Rafał Han — Chief Executive Officer (CEO)

Szymon Słupik — Chief Technology Officer (CTO)

Adam Gembala — Chief Financial Officer (CFO)

Consolidation

Silvair, Inc. is the Group's parent company preparing consolidated financial statements.

As at 31 December 2018 and 31 December 2017, consolidation encompasses Silvair, Inc. and two subsidiaries: Silvair Sp. z o.o. and Sway Sp. z o.o. As at 31 December 2018, Silvair, Inc. held directly 100% shares in Silvair Sp. z o.o. and, indirectly through Silvair Sp. z o.o., 91% shares in Sway Sp. z o.o.

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

As at 31 December 2017, Silvair, Inc. held directly 100% shares in Silvair Sp. z o.o. and, indirectly through Silvair Sp. z o.o., 100% shares in Sway Sp. z o.o. The financial statements of the subsidiaries, after taking into consideration adjustments introduced to make them compliant with IFRS, are prepared for the same reporting period as the statements of the Parent Company, applying consistent accounting principles, based on uniform accounting principles applied for transactions and similar economic events. Adjustments are made in order to eliminate any discrepancies in the application of accounting policies.

The Company reviews whether or not it has control over other entities if an event occurs that indicates a change of one or more of the above conditions of control. Any significant balances and transactions between the Group companies, including unrealized profit from intra-Group transactions, have been fully eliminated.

Selected financial data

Average USD to EUR exchange rates in the periods covered by the consolidated financial statements are calculated as a quotient of the EUR/PLN and USD/PLN exchange rates published by the National Bank of Poland:

Average USD/EUR exchange rates in the periods covered by the financial statements:

Reporting period	Average exchange rate in the period	Minimum rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
1 January 2018 – 31 December 2018	1.1798	1.1235	1.2528	1.1437
1 January 2017 – 31 December 2017	1.1362	1.0410	1.2064	1.1981

Average USD/PLN exchange rates in the periods covered by the financial statements:

Reporting period	Average exchange rate in the period	Minimum rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
1 January 2018 – 31 December 2018	0.2762	0.2613	0.3014	0.2660
1 January 2017 – 31 December 2017	0.2671	0.2366	0.2872	0.2872

The individual items of assets and liabilities and equity in the consolidated statement of financial position have been translated using an exchange rate calculated as a quotient of the EUR/PLN and USD/PLN exchange rates published by the National Bank of Poland in effect on the last day of the period.

The individual items of the consolidated profit and loss account and the consolidated cash flow statement have been translated using an exchange rate calculated as a quotient of the exchange rates constituting an arithmetical mean of the average EUR/PLN and USD/PLN exchange rates published by the National Bank of Poland as at the last day of each month in the reporting period.

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

Selected financial data translated as at the balance sheet date:

For line items of the profit and loss account and the cash flow statement

Item	USD		EUR		PLN	
	1 Jan 2018 – 31 Dec 2018	1 Jan2017 – 31 Dec 2017	1 Jan 2018 – 31 Dec 2018	1 Jan 2017 – 31 Dec 2017	1 Jan 2018 – 31 Dec 2018	1 Jan 2017 – 31 Dec 2017
Net revenue on the sale of products, goods and materials	21	37	18	32	76	138
Operating profit (loss)	-3,103	-2,064	-2,630	-1,816	-11,235	-7,724
Profit (loss) before tax	-3,204	-2,210	-2,716	-1,945	-11,600	-8,274
Profit (loss) of the period	-2,779	-2,739	-2,355	-2,411	-10,062	-10,255
Net cash flows from operating activities	-2,649	-982	-2,245	-864	-9,589	-3,677
Net cash flows from financing activities	7,167	78	6,075	69	25,949	291
Net cash flows from investing activities	-2,204	-950	-1,868	-836	-7,980	-3,555
Total net cash flows	2,315	-1,854	1,962	-1,632	8,380	-6,941

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

For items of the statement of financial position

Item	**USD**		**EUR**		**PLN**	
	31 Dec 2018	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Total assets	13,077	9,410	11,434	7,854	49,162	32,760
Liabilities and provisions for liabilities	1,769	1,461	1,547	1,219	6,650	5,086
Non-current liabilities	165	334	144	279	620	1,164
Current liabilities	1,604	1,127	1,402	940	6,030	3,922
Equity	10,901	7,949	9,531	6,635	40,981	27,674
Share capital	1,138	973	995	812	4,278	3,388
Number of shares	11,380,420	9,732,495	11,380,420	9,732,495	11,380,420	9,732,495
Weighted average number of shares	10,556,458	9,297,995	10,556,458	9,297,995	10,556,458	9,297,995
Earnings/(loss) per share (in USD and EUR)	-0.26	-0.28	-0.22	-0.25	-0.94	-1.05
Book value per share (in USD and EUR)	1.03	0.85	0.90	0.71	3.88	2.98

Representation by the Board of Directors

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed in the European Union, which have been published and have come into effect as at 31 December 2018 and to the extent required by the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 20 April 2018 Item 757).

Representations by the Board of Directors on the preparation and publication of the financial statements for 2018 are presented in the Report by the Board of Directors of Silvair, Inc. on the activity of the Silvair Group and Silvair, Inc. for 2018.

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

Annual consolidated financial statements of Silvair, Inc.

Annual consolidated statement of financial position

	Note No.	31 Dec 2018	31 Dec 2017
A. Non-current assets		**9,540**	**8,179**
I. Costs of development work	**1**	8,838	7,924
II. Other intangible assets	**2**	18	-
III. Property, plant and equipment	**3**	57	62
IV. Financial assets	**4**	7	8
V. Deferred tax assets	**5**	620	185
B. Current assets		**3,537**	**1,231**
I. Inventory	**6**	13	50
II. Trade receivables	**7**	20	14
III. Other receivables	**8**	140	115
IV. Prepayments and accruals	**9**	31	34
V. Financial assets	**10**	-	-
VI. Cash and cash equivalents	**11**	3,333	1,018
Total assets		**13,077**	**9,410**

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

	Note No.	31 Dec 2018	31 Dec 2017
A. Equity		**10,901**	**7,949**
I. Share capital	**12**	1,138	973
II. Capital from revaluation of options	**13**	155	23
III. Other capital	**14**	21,147	15,286
IV. Capital from foreign exchange differences from translation of foreign operations		1,034	1,498
V. Retained earnings	**15**	-9,814	-7,092
VI. Financial result of the current period		-2,759	-2,739
B. Minority interest		**407**	-
C. Non-current liabilities		**165**	**334**
I. Deferred tax liabilities	**17**	28	33
II. Other non-current liabilities	**18**	137	301
D. Current liabilities		**1,604**	**1,127**
I. Trade liabilities	**19**	172	198
II. Other current liabilities	**20**	318	313
III. Other short-term provisions	**20**	52	-
IV. Prepayments and accruals	**21**	1,062	616
Equity and liabilities		**13,077**	**9,410**

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

Annual consolidated profit and loss account with consolidated statement of comprehensive income

Consolidated profit and loss account	Note No.	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
A. Revenue	**22**	**21**	**37**
B. Cost of sales		-	10
C. Gross sales result		21	27
I. Selling and distribution expenses		591	498
II. General and administrative expenses		2,558	1,394
D. Net sales result		**-3,128**	**-1,865**
I. Other operating income	**24**	71	25
II. Other operating expenses	**25**	46	224
E. Operating result		**-3,103**	**-2,064**
I. Financial income	**27**	16	5
II. Financial costs	**28**	117	152
F. Result before tax		**-3,204**	**-2,210**
I. Income tax	**29**	-425	-529
a) current part		14	4
b) deferred part		-439	525
G. Profit/(loss) for the period		**-2,779**	**-2,739**
Profit/(loss) attributable to:			
shareholders of the parent company		-2,759	-3,003
non-controlling interest		-20	-

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

Annual consolidated statement of other comprehensive income	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Profit/(loss) for the period	**-2,779**	**-2,739**
Other comprehensive income	**-298**	**1,460**
1. Other comprehensive income to be reclassified to result in the future	-464	1,437
– foreign exchange differences from translation of foreign operations	-464	1,437
2. Other comprehensive income not to be reclassified to result in the future	166	23
Total comprehensive income	**-3,077**	**-1,279**
Total comprehensive income attributable to:		
shareholders of the parent company	-3,057	- 1,279
non-controlling interest	-20	-

	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Net earnings/(loss) per share (in USD)	**-0.26**	**-0.29**
Diluted earnings/(loss) per share (in USD)	**-0.26**	**-0.28**

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

Annual consolidated statement of changes in equity

Consolidated statement of changes in equity	Share capital	Capital from revaluation of options	Other capital	Capital from foreign exchange differences from translation of foreign operations	Retained earnings	Financial result	Total equity	Equity attributable to non-controlling entities	Total equity
At the beginning of the period 1 January 2018	**973**	**287**	**15,286**	**1,498**	**-10,095**	**-**	**7,949**	**-**	**7,949**
Correction of errors	-	-264	-	-	264	-	-	-	-
At the beginning of the period 1 January 2018, corrected	**973**	**23**	**15,286**	**1,498**	**-9,831**	**-**	**7,949**	**-**	**7,949**
Exercise of stock options for Company shares	2	-34	34	-	-	-	2	-	2
Issue of new shares through IPO	119	-	5,325	-	-	-	5,444	-	5,444
Valuation of stock options under IFRS 2	-	166	-	-	-	-	166	-	166
Expenditures incurred in connection with the planned stock issue	-	-	-924	-	17	-	-907	-	-907
Bonds convertible to shares classified as equity instruments	44	-	1,426	-	-	-	1,470	-	1,470
Foreign exchange translation differences	-	-	-	-464	-	-	-464	-	-464
Change in the group's structure (transactions with non-controlling entities)	-	-	-	-	-	-	-	427	427
Result of the period	-	-	-	-	-	-2,759	-2,759	-20	-2,779
At the end of the period 31 December 2018	**1,138**	**155**	**21,147**	**1,034**	**-9,814**	**-2,759**	**10,901**	**407**	**11,308**

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

Consolidated statement of changes in equity	Share capital	Capital from revaluation of options	Other capital	Capital from foreign exchange differences from translation of foreign operations	Retained earnings	Financial result	Total equity	Equity attributable to non-controlling entities	Total equity
At the beginning of the period 1 January 2017	**886**	**2,771**	**12,705**	**61**	**-7,092**	**-**	**9,331**	**-**	**9,331**
Changes in accounting policies	-	-	-	-	-	-	-	-	-
At the beginning of the period 1 January 2017, corrected	**886**	**2,771**	**12,705**	**61**	**-7,092**	**-**	**9,331**	**-**	**9,331**
Exercise of stock options for Company shares	87	-2,778	2,778	-	-	-	87	-	87
Valuation of stock options under IFRS 2	-	294	-	-	-	-	294	-	294
Expenditures incurred in connection with the planned stock issue	-	-	-327	-	-	-	-327	-	-327
Bonds convertible to shares classified as equity instruments	-	-	130	-	-	-	130	-	130
Foreign exchange translation differences	-	-	-	1,437	-	-	1,437	-	1,437
Result of the period	-	-	-	-	-	-3,003	-3,003	-	-3,003
At the end of the period 31 December 2017	**973**	**287**	**15,286**	**1,498**	**-7,092**	**-3,003**	**7,949**	**-**	**7,949**

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

Annual consolidated cash flow statement

	Note No.	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Profit (loss) before tax		**-3,204**	**-2,210**
Adjustments for:		**556**	**1,228**
1. Depreciation and amortization	**1**	683	453
2. Foreign exchange gains (losses)		-18	123
3. Interest and profit sharing (dividends)		131	7
4. Movement in provisions		52	-
5. Movement in inventory		38	-5
6. Movement in receivables		-31	-26
7. Movement in current liabilities, except for loans and borrowings		-21	206
8. Tax paid		14	4
9. Movement in prepayments and accruals		449	588
10. Other adjustments resulting from operating activity		-741	-122
Net cash from operating activities		**-2,648**	**-982**
Proceeds		-	1,437
1. Disposal of intangible assets and property, plant and equipment		-	-
2. From financial assets, including:		-	1,437
a) in related entities		-	-
b) in other entities		-	1,437
Expenditures		2,204	2,387
1. Purchase of intangible assets and property, plant and equipment		87	51
2. Expenditures incurred for development work		2,117	2,336
3. For financial assets, including:		-	-

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

a) in other entities	-	-
Net cash from investing activities	**-2,204**	**-950**
Proceeds	7,331	243
1. Net proceeds from issuing shares and additional capital contributions	7,315	217
2. Loans and borrowings drawn	-	-
3. Interest	16	26
Expenditures	164	165
1. Repayment of loans and borrowings	140	133
2. Interest	24	31
Net cash from financing activities	**7,167**	**78**
Net cash flows	**2,315**	**-1,854**
Movement in cash	**2,315**	**-1,854**
- movement in cash on account of foreign exchange differences	-	-
Cash at the beginning of the period	**1,018**	**2,872**
Cash and cash equivalents at the end of the period	**3,333**	**1,018**

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

Explanatory notes to the annual consolidated financial statements

Corrections of prior period errors

Type of error

In 2018, the Group effected a retrospective correction of an error made in the previous reporting period. This error concerned the share-based payment agreements described in Note 30. As at 31 December 2017, the Group published an erroneous calculation of the balance of capital from revaluation of management options. The consequences of the correction are described below.

Impact on consolidated financial statements

Statement of financial position as at 31 December 2017	
Item	**Amount**
Capital from revaluation of options	264
Financial result	264

Profit and loss account for the period from 1 January 2017 to 31 December 2017	
Item	**Amount**
Payroll costs	-264

Impact on earnings/(loss) per share

Earnings/(loss) per share in the period covered by the financial statements: 31 December 2017	
Weighted average number of the company's shares in the period	9,297,995
Number of diluting options	584,000
Weighted average number of the company's shares in the period after diluting options	9,881,995
Loss before the correction (USD '000s)	-7,092
Loss after the correction (USD '000s)	-6,828
Earnings/(loss) per share (USD) after the correction	-0.73
Diluted earnings/(loss) per share (USD) after the correction	-0.69

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

Impact on the statement of financial position as at 31 December 2017

Statement of financial position (USD '000s)	Year 2017 published	Change	Year 2017 corrected
A. Non-current assets	**8,179**	**-**	**8,179**
I. Costs of development work	7,924		7,924
II. Other intangible assets	-	-	-
III. Property, plant and equipment	62	-	62
IV. Financial assets	8	-	8
V. Deferred tax assets	185	-	185
B. Current assets	**1,231**	**-**	**1,231**
I. Inventory	50	-	50
II. Trade receivables	14	-	-
III. Other receivables	115	-	-
IV. Prepayments and accruals	34	-	34
V. Financial assets	-	-	-
VI. Cash and cash equivalents	1,018	-	1,018
Total assets	**9,410**	**-**	**9,410**

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

	Year 2017 published	Change	Year 2017 corrected
A. Equity	**7,949**	**-**	**7,949**
I. Share capital	973	-	973
II. Capital from revaluation of options	287	-264	23
III. Other capital	15,286	-	15,286
IV. Capital from foreign exchange differences from translation of foreign operations	1,498	-	1,498
V. Retained earnings	-7,092	-	-7,092
VI. Financial result of the current period	-3,003	264	-2,739
B. Minority interest	**-**	**-**	**-**
C. Non-current liabilities	**334**	**-**	**334**
I. Deferred tax liabilities	34	-	34
II. Other non-current liabilities	301	-	301
D. Current liabilities	**1,127**	**-**	**1,127**
I. Trade liabilities	198	-	198
II. Other current liabilities	313	-	313
III. Prepayments and accruals	616	-	616
Equity and liabilities	**9,410**	**-**	**9,410**

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

Impact on the profit and loss account for 2017

Consolidated profit and loss account	Year 2017 published	Change	Year 2017 corrected
A. Revenue	**37**	**-**	**37**
B. Cost of sales	**10**	**-**	**10**
C. Gross sales result	**27**	**-**	**27**
I. Selling and distribution expenses	498	-	498
II. General and administrative expenses	1,658	-264	1,394
D. Net sales result	**-2,129**	**264**	**-1,865**
I. Other operating income	25	-	25
II. Other operating expenses	224	-	224
E. Operating result	**-2,327**	**264**	**-2,064**
I. Financial income	5	-	5
II. Financial costs	152	-	152
F. Result before tax	**-2,474**	**264**	**-2,210**
I. Income tax	529	-	529
current part	4	-	4
deferred part	525	-	525
G. Profit/(loss) for the period	**-3,003**	**264**	**-2,739**
profit/(loss) attributable to:		-	-
shareholders of the parent company	-3,003	264	-2,739
non-controlling interest	-	-	-

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

Compliance with International Financial Reporting Standards

These annual consolidated financial statements 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”.

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

New and amended standards and interpretations

Amendments to standards or interpretations applied by the Group since 2018

New or amended standards and interpretations that have been in force since 1 January 2018 and their impact on the Group’s consolidated financial statements:

- New IFRS 9 “Financial Instruments”

  Classification of financial instruments according to IFRS 9 is presented in Note 33.

- New IFRS 15 “Revenue from Contracts with Customers”

  The Company did not report any sales revenues in 2017 or 2018, thus the new standard has no impact on the financial statements

- Amendments to IFRS 2 “Share-based Payment”
- Amendments to IFRS 4 “Insurance Contracts”
- Amendments to IAS 28 “Investments in Associates and Joint Ventures”
- Amendments to IAS 40 “Investment Property”
- New IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

As a result of an analysis, it was found that the application of the aforementioned standards had no significant impact on the financial statements.

The standards and interpretations published by the IASB but not endorsed by the European Union are indicated below in the section on standards and interpretations that have not entered into force.

Application of a standard or interpretation prior to its entry into force

In these consolidated financial statements, no voluntary early application of any standard or interpretation has been applied.

Published standards and interpretations that have not entered into force for periods starting 1 January 2018 and their impact on the Group’s consolidated financial statements.

Until the date of preparation of these consolidated financial statements, certain new or amended standards and interpretations have been published as applicable to annual periods following 2018. The list also

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

includes amendments, standards and interpretations that have been published but not yet endorsed by the European Union.

- New IFRS 16 "Leases"

  This standard is effective for annual periods beginning on or after 1 January 2019. One lease agreement has been identified, as described in Note 38, in respect of which the Group applies the exemption provided for in IFRS 16 for short-term contracts.

- Amendments to IFRS 9 "Financial Instruments"

  These amendments are effective for annual periods beginning on or after 1 January 2019.

- New IFRIC 23 "Uncertainty over Income Tax Treatments"

  This interpretation is effective for annual periods beginning on or after 1 January 2019.

- Amendments to IAS 28 "Investments in Associates and Joint Ventures"

  These amendments to the standard clarify that IFRS 9 should be applied to financial instruments other than those measured using the equity method in affiliates and joint ventures, even if such instruments are a component of net investment in such entities.

These amendments are effective for annual periods beginning on or after 1 January 2019.

Amendments to IAS 12 "Income Taxes", IAS 23 "Borrowing Costs", IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements".

Minor amendments to standards, introduced as part of annual changes in standards (2015-2017 cycle):

- IAS 12: The International Accounting Standards Board clarified the manner of recognition of income tax charged on dividends. The tax is recognized upon recognition of the obligation to pay the dividend as a charge on the result or other comprehensive income or equity, depending on where the past transactions that generated the result were recognized.
- IAS 23: It was clarified that debt originally allocated to the financing of an asset that has already been completed is included in general debt, the cost of which may be capitalized later in the value of other assets.
- IFRS 3: The International Accounting Standards Board clarified that the rules regarding the settlement of mergers between undertakings implemented in stages, including the need to value shares, apply also to shares previously held in joint businesses.
- IFRS 11: The Board clarified that a shareholder in a joint venture that does not exercise joint control is not required, in a situation where such shareholder assumes joint control over the joint venture, to revalue the shares in such joint venture.

These amendments are effective for annual periods beginning on or after 1 January 2019.

- New IFRS 17 "Insurance Contracts"

  This standard is effective for annual periods beginning on or after 1 January 2021.

- Amendments to IAS 19 "Employee Benefits"

  This standard is effective for annual periods beginning on or after 1 January 2019.

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

These amendments are effective for annual periods beginning on or after 1 January 2020.

- Amendments to IFRS 3 "Business Combinations"

These amendments apply to business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and for acquisitions of assets effected in or after this reporting period. Accordingly, the amendments in question will not affect the Group's financial statements.

The Group estimates that the above standards, interpretations and amendments to standards would have had no material influence on the annual consolidated financial statements, had they been applied by the Group as at the balance sheet date. The Group intends to apply the said regulations on the dates set as the dates of application for the respective standards or interpretations.

Description of accepted accounting policies

Translation of items in foreign currencies

Transactions captured in the ledgers of the Parent Company Silvair, Inc. denominated in currencies other than USD are translated into US dollars at the rate effective on the transaction date.

As at the balance sheet date, monetary assets and liabilities expressed in currencies other than USD are translated into US dollars using the average exchange rate for such a currency in effect at the end of the reporting period.

The functional currency of both subsidiaries is PLN. As at the balance sheet date, assets and liabilities of these foreign subsidiaries are translated into the Group's presentation currency using the exchange rate in effect on the balance sheet date and their statements of comprehensive income are translated at the average exchange rates for the financial period. The translation method is described in the *Functional and presentation currency* section.

The Group has adopted the following PLN/USD exchange rates for the purposes of balance sheet measurement:

	31 December 2018	31 December 2017
PLN/USD	0.2769	0.2872

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

Average PLN/USD exchange rates for individual financial periods were as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
PLN/USD	0.2762	0.2671

Property, plant and equipment

The Group recognizes as fixed assets: individual items fit for use that meet the criteria defined for fixed assets in IAS 16 if the purchase price (production cost) is at least USD 3,500. Fixed assets worth less than USD 3,500 are depreciated or written off in full in the month of their purchase, unless, due to the specific nature of the Group's operations, they constitute in aggregate a significant asset.

Property, plant and equipment is initially recognized at cost (purchase price or production cost) less depreciation charges and impairment losses in subsequent periods. Costs of external financing related directly to the acquisition or production of assets that require a longer period of time to become fit for use or resale are added to the production cost of such fixed assets only if non-recognition of such costs would materially affect the reliability and clarity of presentation of its assets. Such costs are added at the moment financing is incurred for the construction of fixed assets until the moment such fixed assets are put into use. Modernization costs are included in the carrying amount of fixed assets when it is probable that the Group would accrue economic benefits on this account and the costs incurred for modernization can be measured reliably. All other expenses incurred on repair and maintenance of fixed assets are charged to the profit and loss account in the reporting periods in which they were incurred.

The Group also classifies the following as fixed assets: fixed assets under construction and investments in third party fixed assets and the right of perpetual usufruct of land.

Depreciation is calculated for all fixed assets, except for land and fixed assets under construction, for the estimated period of useful life of those assets, using the straight line method, starting in the month following the month, in which the asset is accepted for use. The Group verifies periodically, no later than at the end of the financial year, the assumed useful lives of fixed assets, residual value and depreciation methods, while the effects of changes in these estimates are taken into account in the subsequent and following financial years (prospectively).

The estimated useful lives for each group of fixed assets are as follows:

Buildings and structures:	10 years
Plant and machinery:	2-10 years
Other fixed assets:	2 years

As at the balance sheet date, the Group also reviews property, plant and equipment for impairment and assesses the need to recognize impairment losses on this account. This occurs when the Group becomes sufficiently certain that an asset will not bring the expected economic benefits or will bring significantly lower benefits in the future. Impairment loss is recognized at the surplus of the asset's carrying amount over

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

its recoverable amount. Recoverable amount is the higher of: fair value less the cost necessary in connection with its sale, or value in use.

Impairment is charged to other expenses corresponding to the function of the property, plant and equipment in the period when the impairment was found, no later than as at the end of the financial year. If the Group is sufficiently certain that the reason for the impairment loss recognized on an asset ceases to exist, it reverses the previously recognized impairment loss in whole or in part by crediting revenues.

An item of property, plant and equipment may be derecognized if disposed of or if the company does not expect to realize any future economic benefits from its further use. Any gains or losses on derecognition of an asset from the balance sheet (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are captured in the profit or loss of the period, in which the asset is derecognized.

Investments in progress are fixed assets under construction or under assembly and are stated at purchase price or production cost less any impairment losses. Fixed assets under construction are not depreciated until completed and commissioned for use.

Costs of development work

Expenditures for development are measured at production cost less depreciation charges and impairment losses.

An intangible asset arising from development is recognized if, and only if, the company can demonstrate all the issues specified in IAS 38 necessary to incorporate development in an asset. Production cost of intangible assets that has the nature of development includes direct costs comprised of costs of materials, work of the Group's employees and services directly related to the development work as well as a justified portion of indirect (departmental) costs.

Development work not yet completed is recognized in the intangible assets line item and are not amortized until their completion. For completed development work, the company applies the purchase price and production cost model under IAS 38 and recognizes them at production cost less total depreciation charges calculated based on their useful life and impairment losses. The Group verifies periodically, no later than at the end of the financial year, the assumed useful lives of intangible assets and amortization methods, while the effects of changes in these estimates are taken into account in the subsequent and following financial years (prospectively). Amortization is calculated using the straight-line method over the anticipated period of earning revenues from the sale of the project, until full amortization of the intangible assets. In exceptional circumstances, the Group may calculate amortization taking the residual value into account. Expenditures for development, which ended with a negative effect or which was discontinued, is classified as costs of the period on a one-off basis.

The cost of development work is recognized in profit or loss at the moment it is incurred.

As at the balance sheet date, the Group reviews the progress status of each project and reviews intangible assets for impairment and the need to recognize impairment losses on this account. This occurs when the Group becomes sufficiently certain that an asset will not bring the expected economic benefits or will bring significantly lower benefits in the future. Impairment loss is recognized at the surplus of the asset's carrying amount over its recoverable amount. Recoverable amount is the higher of: fair value less the cost necessary in connection with its sale, or value in use.

Impairment is charged to other expenses corresponding to the function of the intangible assets in the period when the impairment was found, no later than as at the end of the financial year. If the Group is sufficiently certain that the reason for the impairment loss recognized on an asset ceases to exist, it reverses the previously recognized impairment loss in whole or in part by crediting revenues.

Other intangible assets

Intangible assets are measured at historic purchase cost or production cost less depreciation charges and impairment losses. Amortization is accrued using the straight-line method.

Intangible assets may include intangible assets with indefinite useful lives and goodwill. Goodwill and intangible assets with indefinite useful lives are not amortized. They are tested for impairment on an annual basis.

The Group verifies periodically, no later than at the end of the financial year, the assumed useful lives of intangible assets, residual value and amortization methods, while the effects of changes in these estimates are taken into account in the subsequent and following financial years (prospectively). As at the balance sheet date, the Group also reviews intangible assets for impairment and assesses the need to recognize impairment losses on this account. This occurs when the Group becomes sufficiently certain that an asset will not bring the expected economic benefits or will bring significantly lower benefits in the future. Impairment loss is recognized at the surplus of the asset's carrying amount over its recoverable amount. Recoverable amount is the higher of: fair value less the cost necessary in connection with its sale, or value in use.

Other financial assets (other than investments in subsidiaries)

Upon initial recognition, the Group classifies each financial asset under IFRS 9 as:

- Financial assets at fair value through profit or loss.
- Financial assets at fair value through other comprehensive income.
- Financial assets measured at amortized cost

Assets are captured in the Group's balance sheet when they become a party to a binding agreement. When an asset is recognized initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the asset or financial liability.

Inventory

Inventory is measured at the lower of the purchase price/production cost and net realizable value.

The costs incurred in bringing each component of inventory to its present location and condition – both in respect of the current year and the previous year – are recognized as follows:

- Materials – at purchase price using the "first in, first out" method.

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

- Finished products and work in progress – the cost of direct materials and labor and an appropriate overhead of indirect manufacturing costs determined under the assumption of normal production capacity utilization, excluding external financing.
- Merchandise – at purchase price using the “first in, first out” method.

Net realizable selling price is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Trade and other receivables

Receivables from customers and other financial receivables are measured at fair value at initial recognition and at amortized cost as at the balance sheet date using the effective interest rate minus impairment losses. At the moment of recognition of a financial asset, the entity estimates the expected credit losses using a 3-step model based on changes in credit risk.

If the impact of time value of money is material, the value of receivables is determined by discounting forecast future cash flows to the present value, using a discount rate reflecting up-to-date market assessments of time value of money. If the discount method is applied, an increase in receivables as a result of lapse of time is recognized as financial income.

Other receivables include in particular advances provided on account of future purchases property, plant and equipment, intangible assets and inventory. Advances are presented in line with the type of assets to which they refer – as non-current or current assets respectively. As non-pecuniary assets, advances are not discounted.

Receivables from the state budget are presented in other non-financial assets, except for corporate income tax receivables, which are a separate balance sheet line item.

Prepayments and accruals

In prepaid expenses and accrued income, the Group captures expenses that were incurred in advance while they relate in whole or in part to subsequent periods.

The Group recognizes deferred income for the purpose of treating this income as income in future reporting periods when they are realized. Accrued expenses are liabilities payable for goods or services received or provided or formally agreed with the supplier, but not billed by the end of the financial year.

The Group keeps records of prepayments and accruals for the short and long term.

As part of prepayments and accruals, asset-related grants are also recognized.

If there is reasonable certainty that the subsidy will be obtained and all the related terms and conditions complied with, government subsidies are recognized at their fair value.

If the subsidy relates to a particular cost item, it is recognized as revenue in proportion to the costs which the subsidy is supposed to compensate for. If the subsidy is related to an asset, its fair value is recognized on the “revenue from future periods” account and then gradually entered on the profit and loss account by means of equal annual write-offs for the estimated utilization period for the related asset.

Cash and cash equivalents

Cash includes cash on hand, cash in bank and any deposits and short-term securities with maturity of up to 3 months.

Cash is recognized as at the balance sheet date at its nominal value.

Equity

The Group's equity is comprised of:

- Share capital.
- Capital from revaluation of options.
- Other capital.
- Capital from foreign exchange differences from translation of foreign operations.
- Retained earnings.
- Financial result of the current period.

Share capital is recognized at its par value, in the amount stated in the Parent Company's articles of association.

Capital from revaluation of options (share-based payment)

The cost of share-based payment transactions is measured by reference to the fair value at the date the rights are granted. Fair value is recognized in expenses in the profit and loss account and in equity (capital from revaluation of options) over the vesting period.

Fair value of awarded options (bonds) to purchase the Parent Company's shares is estimated by an independent expert using modern financial engineering methods and numerical methods. The measurement includes: input price for the model, strike price of the instrument, expected volatility of the instrument, risk-free interest rate and expected dividend.

Other capital is created from:

- share premium account less cost of issue. Share issue costs incurred upon incorporation of the Group or upon increase of the share capital reduce supplementary capital to the value of the share premium account,
- difference between the value of shares and the carrying amount of net assets if shares are taken up in the entity under joint control,
- revaluation of assets,
- charges to profits of successive financial years.

Capital from foreign exchange differences from translation of foreign operations is created in the process of translating figures into the Group's presentation currency in the manner described in the "Functional currency and presentation currency" section.

Retained earnings consist of profits and losses posted in previous financial years that have not been transferred by decision of an approving body to another capital line item or designated for dividend payment.

Provisions for liabilities

Provisions for liabilities are recognized if the Group has an existing obligation (legal or customary) resulting from past events, if fulfillment of the obligation will likely reduce the resources embodying the Group's economic benefits and the amount of the liability can be reliably estimated.

The amount of provisions recognized and the justification for recognizing new provisions is reviewed and updated at the end of the reporting period, in order to adjust the estimates to the Group's knowledge as at that date.

In the financial statements, provisions are presented as long-term and short-term, respectively.

Trade liabilities and other non-financial liabilities

Liabilities are the Group's present liabilities resulting from past events, the fulfilment of which will reduce assets generating economic benefits for the Group.

Current trade liabilities are recognized in the amount payable due to insignificant discount effects. Interest, if any, is recognized when the suppliers' notes are received.

Non-current liabilities are the liabilities whose maturity, counting from the end of the reporting period, is longer than 12 months.

Current liabilities are the liabilities whose maturity, counting from the end of the reporting period, is shorter than 12 months.

Other non-financial liabilities include in particular liabilities to the tax office on account of value added tax and other public institutional debt, liabilities on account of received advance payments to be settled by deliveries of goods, services or non-current assets. Other non-financial liabilities are recognized at the amount of the required payment.

Financial liabilities

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under potentially unfavorable conditions,
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to issue a variable number of its own equity instruments, or a derivative that will or may be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any

currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of the entity's own non-derivative equity instruments.

Upon initial recognition, the Group classifies each financial liability as:

- financial liabilities measured at amortized cost,
- financial liabilities measured at fair value through profit or loss – designated as measured in this manner at or after the initial recognition,
- financial liabilities measured at fair value through profit or loss – financial liabilities held for trading in accordance with IFRS 9,
- financial guarantee contracts,
- financial instruments designated as hedging instruments,
- liabilities outside the scope of IFRS 9 (Ex-IFRS 9).

Upon initial recognition, financial liabilities measured at fair value through profit or loss are measured at fair value taking into consideration their market value as at the balance sheet date without taking into account the costs of sale transactions that may be directly attributed to the financial liability. Changes in the fair value of these instruments are recognized in profit or loss as financial costs or income. Other financial liabilities other than financial instruments measured at fair value through profit or loss are measured at par value or, if measurement at par value would materially affect the accuracy and clarity of presentation of the liability – at amortized cost using the effective interest rate method.

The Group excludes a financial liability from its balance sheet if the liability has expired, i.e. when the obligation specified in an agreement has been satisfied, waived or expired. Replacing a current debt instrument with an instrument with substantially different conditions between the same entities is recognized by the Group as expiration of the original financial liability and recognition of a new one. Similarly, material amendments of terms and conditions of agreements relating to an existing financial liability is recognized by the Group as expiry of the initial and recognition of a new financial liability. The difference in the relevant carrying amounts arising out of the replacement is recognized in profit or loss.

Income tax

Income tax includes: current tax and deferred tax.

Current tax liability

Current tax liability is calculated on the basis of the tax result (taxable base) of the financial year.

Tax profit (loss) differs from accounting profit (loss) due to the exclusion of taxable revenues and tax-deductible expenses in future years as well as cost and revenue items that will never be taxable. Current tax liability is calculated on the basis of the tax rates applicable in the given financial year.

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

Deferred tax

Deferred tax liability is tax to be paid in the future, recognized in the full amount using the balance sheet method, on account of temporary differences between the tax value of assets and liabilities and their carrying amount in the financial statements.

Deferred tax asset is tax to be refunded in the future, calculated using the balance sheet method, on account of temporary differences between the tax value of assets and liabilities and their carrying amount in the financial statements. Deferred tax assets are recognized if it is probable that taxable income will be generated in the future that will enable the use of the temporary differences.

The main temporary differences result from the different valuation of assets and liabilities settled over time for tax and accounting purposes and tax losses from previous years of operation of Subsidiaries.

Deferred income tax is determined using tax rates enacted or substantially enacted as at the balance sheet date, which will prevail at the time they are realized. Deferred tax is recognized in the profit and loss account, except where it refers to transactions settled with equity it is posted to equity.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for a partial or full realization of this deferred tax asset would be generated. A deferred tax asset not recognized are reassessed at each balance sheet date and recognized to the amount that reflects the probability of achieving taxable income in the future, which will enable the recovery of this asset. A deferred tax liability or asset are recognized in the balance sheet as long-term provisions or assets, respectively.

The Group sets off deferred income tax assets and deferred income tax provisions if and only if an enforceable legal right exists to set off receivables against current income tax liabilities and the deferred income tax relates to the same taxpayer and the same fiscal authority.

Revenues and operating expenses

Revenue is the inflow of economic benefits during the period arising in the course of the ordinary activities of the Group when those inflows result in increases in equity, other than increases relating to contributions from shareholders.

Sales revenues are made up only of revenues from contracts with customers falling within the scope of IFRS 15. The manner of recognition of sales revenues in the consolidated financial statements, including both the value and the timing of revenue recognition, is determined by a five-stage model consisting of the following steps:

- identify the contract with the customer,
- identify the performance obligations,
- determine the transaction price,
- allocate the transaction price to performance obligations,
- recognize revenue when or as the entity satisfies a performance obligation.

Identify the contract with the customer

The Group recognizes a contract with the customer only if all of the following criteria are satisfied:

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

- the contracting parties have entered into a contract (in writing or in line with other usual commercial practices) and are required to perform their obligations,
- the Group is able to identify the rights of each party pertaining to the goods or services to be delivered,
- the Group is able to identify the payment terms for the goods or services to be delivered,
- the contract has economic content (meaning that it may be expected that the contract will result in changing the risk, timing or amount of future cash flows), and
- it is likely that the Group will receive consideration which it will be entitled to in exchange for the goods or services to be delivered to the customer.

Identify the performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either: a good or service (or bundle of goods or services) that is distinct; or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

The good or service is distinct if both of the following conditions are satisfied:

- the customer may benefit from the good or service either directly or through links to other resources that are readily available to the customer, and
- the obligation to deliver the good or service to the customer may be distinguished from the other obligations specified in the contract.

Determine the transaction price

The Group will consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

Allocate the transaction price to performance obligations

The Group allocates transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Recognize revenue when or as the entity satisfies a performance obligation

The Group recognizes revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer.

The Group activates additional costs associated with efforts aimed at executing the contract provided if it expects to recover such costs within a timeframe not longer than one year from the date of incurring the costs. Any costs which the Group expects never to be recovered and any costs that are expected to be

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

recovered within one year from incurring them are recognized as costs of the period in which they were incurred. The Group counts as costs subject to activation also commissions payable to employees of the Sales Department associated only with efforts aimed at executing contracts. Activated costs are presented in prepayments and accruals and are depreciated using the straight-line method over the anticipated term of the contract.

The cost of goods and materials consumed and the production cost of completed development work is recognized by the Group in the same period, in which revenues on sales of those assets are recognized, in line with the principle of commensurability of revenues and expenses. The cost commensurate with the revenues from the sale of rights to use a software license for a definite period of time is the amortization cost of completed development works.

Financial activity revenues and expenses

Financial income recognized in the profit and loss account includes mainly interest on investing available funds on bank accounts and positive foreign exchange differences. Other elements that may comprise financial income are commissions and interest on loans granted, late interest on receivables, amounts of forgiven loans and borrowings and the amounts of reversed provisions related to the financing activity. Financial costs include mainly interests on bonds and loans, commissions and handling fees and other bank fees. Other elements that may comprise financial costs include: provisions recognized for certain or probable losses from financial operations, value at purchase price of interests, shares, securities sold, losses on the settlement of derivatives.

Notes and explanations to the annual consolidated financial statements

Note 1.1 Costs of development work

Costs of development work	31 December 2018	31 December 2017
Completed development work	8,601	5,576
Development work not yet completed	237	2,348
Total	**8,838**	**7,924**

Amortization of costs of development work	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Completed development work	845	420
Development work not yet completed	-	-
Total	**845**	**420**

The amortization expenses of intangible assets in 2017-2018 were charged to general and administrative expenses or capitalized in the value of development work, depending on their purpose. Amortization of completed development work is charged to general and administrative expenses, while amortization of other intangible assets used to carry out research and development projects was capitalized as the value of development work.

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

Note 1.2 Change in costs of development work

No.	Item	Costs of development work (*)	Total
1.	**Gross value at the beginning of the period 1 January 2018**	**8,656**	**8,656**
	Additions, including:	2,117	2,117
	– expenditures incurred	2,117	2,117
	Reductions, including:	587	587
	– liquidation and sale	-	-
	– foreign exchange differences from measurement in presentation currency	587	587
2.	**Gross value at the end of the period 31 December 2018**	**10,186**	**10,186**
3.	**Accumulated depreciation at the beginning of the period 1 January 2018**	**732**	**732**
	Additions	617	617
	Reductions	-	-
4.	**Accumulated depreciation at the end of the period 31 December 2018**	**1,349**	**1,349**
5.	**Net value at the beginning of the period 1 January 2018**	**7,924**	**7,924**
6.	**Net value at the end of the period 31 December 2018**	**8,838**	**8,838**

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

No.	Item	Costs of development work (*)	Total
1.	**Gross value at the beginning of the period 1 January 2017**	**5,152**	**5,152**
	Additions, including:	4,038	4,038
	– expenditures incurred	4,038	4,038
	Reductions, including:	534	534
	– liquidation and sale	178	178
	– foreign exchange differences from measurement in presentation currency	356	356
2.	**Gross value at the end of the period 31 December 2017**	**8,656**	**8,656**
3.	**Accumulated depreciation at the beginning of the period 1 January 2017**	**312**	**312**
	Additions	420	420
	Reductions	-	-
4	**Accumulated depreciation at the end of the period 3 1 December 2017**	**732**	**732**
5	**Net value at the beginning of the period 1 January 2017**	**4,840**	**4,840**
6	**Net value at the end of the period 31 December 2017**	**7,924**	**7,924**

(*) balance sheet measurement of the costs of development work, calculated by translating the carrying amount to the presentation currency, i.e. the functional currency of the Parent Company, is presented in the table above in additions or reductions of the gross value.

Note 2.1 Other intangible assets

Other intangible assets	31 December 2018	31 December 2017
Other intangible assets (computer software)	18	0
Total	**18**	**0**

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

Note 2.2 Changes in other intangible assets, by type

No.	Item	Other intangible assets	Total
1.	**Gross value at the beginning of the period 1 January 2018**	**557**	**557**
	Additions	21	21
	Reductions	-	-
2.	**Gross value at the end of the period 31 December 2018**	**578**	**578**
3.	**Accumulated depreciation at the beginning of the period 1 January 2018**	**557**	**557**
	Additions	3	3
	Reductions	-	-
4	**Accumulated depreciation at the end of the period 31 December 2018**	**560**	**560**
5	**Net value at the beginning of the period 1 January 2018**	**-**	**-**
6	**Net value at the end of the period 31 December 2018**	**18**	**18**

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

No.	Item	Other intangible assets	Total
1.	**Gross value at the beginning of the period 1 January 2017**	**556**	**556**
	Additions, including:	1	1
	acquisition	1	1
	Reductions, including:	-	-
	other	-	-
2.	**Gross value at the end of the period 31 December 2017**	**557**	**557**
3.	**Accumulated depreciation at the beginning of the period 1 January 2017**	**521**	**521**
	Additions	36	36
	Reductions	-	-
4	**Accumulated depreciation at the end of the period 31 December 2017**	**557**	**557**
5	**Net value at the beginning of the period 1 January 2017**	**35**	**35**
6	**Net value at the end of the period 31 December 2017**	**0**	**0**

The Group has no intangible assets used under lease agreements. The Group has no intangible assets with restricted use rights. The Group has no bank loans that would be secured with intangible assets. As at 31 December 2018 and 31 December 2017, there were no contractual obligations related to the purchase of intangible assets.

Note 2.3 Ownership structure of other intangible assets

Intangible assets	31 December 2018	31 December 2017
Owned	18	-
Third party	-	-
Total	**18**	**-**

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

Note 3.1 Property, plant and equipment

Property, plant and equipment	**31 December 2018**	**31 December 2017**
a) fixed assets, including:	57	55
land	-	-
buildings and structures	10	12
plant and machinery	41	37
means of transport	-	-
other fixed assets	6	6
b) fixed assets under construction	-	7
Total	**57**	**62**

The Group has no property, plant and equipment used under finance lease agreements.

The Group has no land in perpetual usufruct.

The Group has no property, plant and equipment with restricted property and use rights.

The depreciation expenses non-current assets in 2017-2018 were charged to general and administrative expenses or capitalized in the value of development work, depending on the purpose of non-current assets.

Most development projects carried out in 2017-2018 were completed successfully and were accepted as intangible assets. Amortization of completed development work is charged to general and administrative expenses.

As at 31 December 2018 and 31 December 2017, there were no contractual obligations related to the purchase of property, plant and equipment.

As at 31 December 2018 and 31 December 2017, there were no liabilities to the state budget or local government units related to the acquisition of ownership titles to buildings and structures.

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

Note 3.2 Changes in property, plant and equipment, by type

The Group has no property, plant and equipment used under finance lease agreements.

The Group has no land in perpetual usufruct.

No.	Item	Own land	Buildings and structures	Plant and machinery	Vehicles	Other fixed assets	Fixed assets under construction	Total
1.	**Gross value as at 1 January 2018**	**-**	**23**	**174**	**-**	**30**	**7**	**234**
	Additions, including:	-	-	58	-	8	-	66
	acquisition	-	-	58	-	1	-	59
	internal relocation	-	-	-	-	7	-	7
	Reductions, including:	-	1	2	-	-	7	10
	liquidation and sale	-	-	2	-	-	-	2
	internal relocation		-	-	-	-	7	7
	foreign exchange differences from measurement in presentation currency	-	1	-	-	-	-	1
2.	**Gross value as at 31 December 2018**	**-**	**22**	**230**	**-**	**38**	**-**	**290**
3.	**Accumulated depreciation 1 January 2018**	**-**	**11**	**137**	**-**	**24**	**-**	**172**
	Additions	-	3	50	-	8	-	61
	Reductions	-	-	-	-	-	-	-
4.	**Accumulated depreciation 31 December 2018**	**-**	**14**	**187**	**-**	**32**	**-**	**233**
5.	**Net value as at 1 January 2018**	**-**	**12**	**37**	**-**	**6**	**7**	**62**
6.	**Net value as at 31 December 2018**	**-**	**8**	**43**	**-**	**6**	**-**	**57**

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

No.	Item	Own land	Buildings and structures	Plant and machinery	Vehicles	Other fixed assets	Fixed assets under construction	Total
1.	**Gross value as at 1 January 2017**	**-**	**20**	**120**	**-**	**30**	**-**	**170**
	Additions, including:	-	3	54	-	-	7	64
	acquisition	-	2	51	-	-	-	53
	other	-	1	3	-	-	7	11
	Reductions	-	-	-	-	-	-	-
2.	**Gross value as at 31 December 2017**	**-**	**23**	**174**	**-**	**30**	**7**	**234**
3.	**Accumulated depreciation 1 January 2017**	**-**	**9**	**108**	**-**	**22**	**-**	**139**
	Additions	-	2	29	-	2	-	33
	Reductions	-	-	-	-	-	-	-
4.	**Accumulated depreciation 31 December 2017**	**-**	**11**	**137**	**-**	**24**	**-**	**172**
5.	**Net value as at 1 January 2017**	**-**	**11**	**12**	**-**	**8**	**-**	**31**
6.	**Net value as at 31 December 2017**	**-**	**12**	**37**	**-**	**6**	**7**	**62**

Note 3.3 Ownership structure of property, plant and equipment

Property, plant and equipment	31 December 2018	31 December 2017
Owned	57	62
Third party	-	-
Total	**57**	**62**

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

Note 3.4 Value of fixed assets not depreciated by the Group, used under operating lease, rental and other similar agreements and value of land in perpetual usufruct

As at 31 December 2018 and 31 December 2017, the subsidiaries, i.e. Silvair Sp. z o.o. and Sway Sp. z o.o, were parties to a lease agreement for a property in Kraków at ul. Jasnogórska.

Due to its short-term nature, this agreement does not fulfill the criteria for recognition in the Group's statement of financial position in compliance with IFRS 16.

Note 3.5 Production costs of fixed assets under construction and fixed assets for own use.

By 31 December 2018 and in the financial year 2017, the Group did not incur costs for the production of fixed assets for its own use.

Note 3.6 Expenditures on non-financial non-current assets and on environmental protection, incurred last year and planned for the next year

Item	Value in the period of 1 January 2018 – 31 December 2018	Value in the period of 1 January 2017 – 31 December 2017
Expenditures incurred on property, plant and equipment	87	49
Expenditures incurred on intangible assets	2,117	2,492
Total	**2,204**	**2,541**

In 2019, the Group intends to incur expenditures (outlays) on intangible assets at a level comparable to 2018.

In 2018, as well as in 2017, the Group did not incur environmental protection expenditures. The Group does not intend to make any environmental protection expenditures in 2019.

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

Note 4 Financial assets (long-term)

Financial assets (long-term)	31 December 2018	31 December 2017
In related entities	-	8
In other entities	7	-
Total	**7**	**8**

Silvair Sp. z o.o. holds a stake in S-Labs Sp. z o.o. with its registered office in Kraków.

Note 5 Deferred tax assets

Deferred tax assets	31 December 2018	31 December 2017
Deferred tax assets – at the beginning of the period, including:	**185**	**670**
through profit or loss	185	670
through equity	-	-
Additions	**435**	**-**
through profit or loss	435	-
through equity	-	-
Reductions	**-**	**485**
through profit or loss	-	485
through equity	-	-
Deferred tax assets at the end of the period, including:	**620**	**185**
through profit or loss	620	185
through equity	-	-

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

Deferred tax assets arising from temporary differences resulting from:	31 December 2018	31 December 2017
Accumulated tax losses to be used	8,084	6,185
Impairment losses on deferred tax assets up to the amount of tax losses available for use in the future (calculation based on the financial budget)	-4,823	-5,209
Total	**3,261**	**976**
Deferred tax assets (19%)	**620**	**185**

Note 6 Inventory

Inventory	31 December 2018	31 December 2017
Materials in processing (own entrusted for testing)	5	4
Goods for resale	42	46
Impairment loss on merchandise	-34	-
Total	**13**	**50**

In 2018, USD 34 thousand worth of inventory was covered in full by an impairment loss. The total amount of impairment losses on inventory in 2018 was USD 34,000. In the corresponding period of 2017, no impairment losses were recognized on the Group's inventory.

Note 7 Trade receivables

Trade receivables	31 December 2018	31 December 2017
From related entities	-	-
From other entities	49	45
Impairment losses	-29	-31
Total	**20**	**14**

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

Note 7.1 Impairment losses on trade receivables

As at 31 December 2018, impairment losses on trade receivables amounted to USD 29 thousand.

In the financial year ended 31 December 2017, the Group recognized an impairment loss on receivables from one of the Group's business partners, in an aggregate amount of USD 31 thousand as at 31 December 2017.

Note 7.2 Aging of trade receivables

Trade receivables	31 December 2018	31 December 2017
up to one month	20	14
over 1 month to 3 months	-	-
over 3 months to 6 months	-	-
over 6 months to 1 year	-	-
over 1 year	29	31
impairment losses on receivables	-29	-31
Trade receivables	**20**	**14**
of which overdue (gross)	29	31

Note 8.1 Other receivables

Other receivables	31 December 2018	31 December 2017
On taxes and other public benefits	131	114
Other receivables	9	-
Impairment losses	-	-
Total	**140**	**114**

Note 8.2 Impairment losses on other receivables

As at 31 December 2018 and 31 December 2017, the Group did not recognize any impairment losses on other short-term receivables.

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

Note 9 Prepayments and accruals

Prepayments and accruals	31 December 2018	31 December 2017
Fees for fairs and conferences	22	27
IT services	9	6
Other	-	1
Total	**31**	**34**

Note 10 Financial assets (short-term)

Financial assets (short-term)	31 December 2018	31 December 2017
in related entities	-	-
in other entities	-	-
Total	-	-

Note 11 Cash and cash equivalents

Cash and cash equivalents	31 December 2018	31 December 2017
Cash on hand	1	2
Cash in bank	1,337	1,016
Bank deposits	1,995	-
Total	**3,333**	**1,018**

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

Note 12 Share capital

Share capital of the Parent Company as at 31 December 2018

Type	Number of shares	Par value (USD '000s)	Share subscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	10,420,420	1,042	20,223	19,181
Preferred Stock	960,000	96	125	29
Total	**11,380,420**	**1,138**	**20,348**	**19,210**

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

Share capital ownership structure	Number of shares	% of shares	Number of votes	% of votes
Funds managed by Trigon	2,213,781	19.45	2,213,781	13.68
Szymon Słupik	1,884,711	16.56	3,529,871	21.82
Rafał Han	1,296,441	11.39	2,928,441	18.10
Adam Gembala	1,018,760	8.95	2,145,520	13.26
Other shareholders holding less than 5% of shares	4,966,727	43.65	5,362,807	33.14
Total	**11,380,420**	**100.00**	**16,180,420**	**100.00**

On 24 July 2018, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange, "WSE") adopted Resolution No. 796/2018, by which the WSE Management Board resolved to:

- introduce, as of 26 July 2018, into trading on the parallel market of the stock exchange, 10,420,420 common bearer shares of the Company with a par value of USD 0.10 each registered by the National Depository for Securities under code USU827061099; and
- list Silvair, Inc. shares in the continuous listing system in the listing class referred to in § 71 item 5) of Section IV of Detailed Stock Exchange Trading Rules in the UTP system under an abbreviated name of "SILVAIR-REGS" and a ticker of "SVRS".

The offer shares were taken up at PLN 17.00 per share.

In accordance with the prospectus, the Management Board of WSE admitted and introduced into trading 10,420,420 shares of common stock with a par value of USD 0.10 each, including:

- 9,235,510 common bearer shares of the Company, of which: (i) 4,709,000 existing common bearer shares of Common Stock and 15,000 common shares taken up in exercise of options in 2018, which is discussed in Note 17 – totaling 4,724.00 shares of common stock, (ii) 4,063,495 common bearer shares created as a result of the conversion of 4,063,495 shares of Series A Preferred Stock, and (iii) 448,015 new common bearer shares of the Company, which were issued by the Company upon conversion of Third Series Bonds carried out on 18 July 2018.
- 1,184,910 new offered common shares subscribed for by a total of 98 investors, including: 82 retail investors who subscribed for 34,910 shares and 16 institutional investors who subscribed for 1,150,000 shares. The value of the new public offering was PLN 20,143,470.

The Company has not applied for admission of 960,000 Preferred Stock of the founders.

In Q4 2018 there was no issue, redemption or repayment of non-equity and equity securities.

Share capital as at 31 December 2017

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

Type	Number of shares	Par value (USD '000s)	Share s ubscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	4,709,000	471	471	0
Preferred Stock	960,000	96	125	29
Series A Preferred Stock (Trigon)	1,500,000	150	4,995	4,845
Series A Preferred Stock (Convertible Notes)	2,563,495	256	7,141	6,884
Total	**9,732,495**	**973**	**12,732**	**11,758**

Share capital ownership structure	Number of shares	% of shares	Number of votes	% of votes
Szymon Słupik	1,884,711	19.36	3,529,871	24.39
Rafał Han	1,296,441	13.32	2,928,441	20.15
Funds managed by Trigon	1,248,243	12.83	1,248,243	8.59
Adam Gembala	1,018,760	10.47	2,145,520	14.76
Onico S.A.	574,712	5.90	574,712	3.95
Other shareholders holding less than 5% of shares	3,709,628	38.12	4,105,708	28.25
Total	**9,732,495**	**100.00**	**14,532,495**	**100.00**

Note 13 Capital from revaluation of options

Capital from revaluation of options	31 December 2018	31 December 2017
Valuation of stock options under IFRS 2	155	23
Total	**155**	**23**

Note 14.1 Other capital

Other capital	31 December 2018	31 December 2017
Supplementary capital	21,147	15,286
Total	**21,147**	**15,286**

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

Note 14.2 Changes in other capital

In the period from 1 January 2018 to 31 December 2018:

Changes in other capital	Other capital
As at 1 January 2018	**15,286**
Exercise of stock options for Company shares	34
Expenditures incurred in connection with the stock issue	-924
Issue of new shares (IPO)	5,325
Issue of bonds convertible to shares	1,426
As at 31 December 2018	**21,147**

In the financial year ended 31 December 2017:

Changes in other capital	Other capital
As at 1 January 2017	**12,705**
Exercise of stock options for Company shares	2,778
Expenditures incurred in connection with the planned stock issue	-327
Issue of bonds convertible to shares	130
As at 31 December 2017	**15,286**

Note 15 Retained earnings

Retained earnings	31 December 2018	31 December 2017
Accumulated losses brought forward	-9,814	-7,092
Total	**-9,814**	**-7,092**

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

Note 16 Earnings (loss) per share

Earnings/(loss) per share are calculated by dividing the net profit/(loss) for the reporting period by the weighted average number of shares outstanding during the financial year.

Diluted earnings/(loss) per share are calculated by dividing the net profit/(loss) for the reporting period by the weighted average number of common shares outstanding during the reporting period, adjusted by the effect of diluting options.

Diluting options also include the allocation of shares in the Parent Company in the period from 1 January 2019 to the publication date, as described in the section on events after the balance sheet date.

Earnings/(loss) per share in the period covered by the financial statements:	**31 December 2018**	**31 December 2017**
Weighted average number of Parent Company's shares in the period	10,556,458	9,297,995
Earnings/(loss) per share (USD)	-0.26	-0.29
Number of diluting options	569,000	584,000
Weighted average number of Parent Company's shares in the period after diluting options	10,503,726	9,881,995
Diluted earnings/(loss) per share (USD)	**-0.26**	**-0.28**

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

Note 17 Deferred tax liabilities

Earnings/(loss) per share in the period covered by the financial statements:	31 December 2018	31 December 2017
Deferred tax liabilities at the beginning of the period, including:	33	38
through profit or loss	33	38
through equity	-	-
Additions:	-	-
through profit or loss	-	-
through equity	-	-
Reductions:	**5**	**5**
through profit or loss	5	5
through equity	-	-
Deferred tax liabilities at the end of the period, including:	**28**	**33**
through profit or loss	28	33
through equity	-	-

Deferred tax liabilities arising from temporary differences resulting from:	31 December 2018	31 December 2017
Difference between the tax value and carrying amount of completed development work	147	174
Total	**147**	**174**
Deferred tax liabilities (19%)	**28**	**33**

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

Note 18 Other liabilities (non-current)

Other liabilities	**31 December 2018**	**31 December 2017**
PARP loan	137	301
Other loans from other entities	-	-
Total	**137**	**301**

Note 19.1 Trade liabilities

Other liabilities	**31 December 2018**	**31 December 2017**
To related entities	-	-
To other entities	172	198
Total	**172**	**198**

Note 19.2 Aging of trade liabilities

Trade liabilities	**31 December 2018**	**31 December 2017**
up to one month	128	197
over 1 month to 3 months	-	1
over 3 months to 6 months	15	-
over 6 months to 1 year	28	-
over 1 year	-	-
Total	**172**	**198**
of which overdue	-	-

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

Note 20.1 Other liabilities (current)

Other current liabilities	31 December 2018	31 December 2017
To related entities	-	-
To other entities, including:	318	313
on loans	134	145
on taxes and other public benefits	96	86
on payroll	88	82
other	-	-
Total	**318**	**313**

Note 20.2 Contingent liabilities, including guarantees and sureties extended by the Group, e.g. promissory notes

In order to secure the loan granted by PARP in the amount of PLN 2.0 million with the outstanding balance of PLN 1.05 million (USD 279 thousand) as at 31 December 2018 and PLN 1.6 million as at 31 December 2017 (USD 446 thousand), Sway Sp. z o.o. issued a blank promissory note.

Except for that promissory note, as at 31 December 2018 and as at 31 December 2017, the Group had no other contingent liabilities. As at 31 December 2018 and 31 December 2017, Group Companies were not acting as guarantors or sureties and also had not drawn their own or received third party promissory notes as collateral or payment for transactions.

Note 20.3 Other short-term provisions

In 2018, provisions for unused vacation time were created. The Group creates a provision for the costs of accumulated payable absences which it will have to disburse to cover the unexercised right of employees in the amount accrued as at the balance sheet date. The provision for unused vacation time is a short-term provision and is not subject to discounting.

Other short-term provisions	31 December 2018	31 December 2017
Provision for unused vacation time	52	-
Total	**52**	**-**

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

Note 21 Prepayments and accruals

Prepayments and accruals	Value as at 1 Jan 2018	Additions	Reductions	Value as at 31 Dec 2018
Financing under the Smart Growth Operational Programme	-	448	-	448
NCBiR subsidy for fixed assets	616	109	111	614
Total	**616**	**557**	**111**	**1,062**

Prepayments and accruals	Value as at 1 Jan 2017	Additions	Reductions	Value as at 31 Dec 2017
Provision for costs of services rendered in the financial year but billed in the next year	1		1	-
NCBiR subsidy for fixed assets	-	616	-	616
Total	**1**	**616**	**1**	**616**

Note 22.1 Sales revenues

Sales revenues	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Revenues from sales of products	19	7
Revenues from sales of goods and services	2	30
Total	**21**	**37**

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

Note 22.2 Sales revenues – geographic structure

Sales revenues	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Revenues from sales of products	**19**	**7**
domestically	19	-
within the European Union	-	7
in third countries	-	-
Revenues from sales of services	**2**	**30**
domestically	1	11
within the European Union	1	-
in third countries	-	19
Total	**21**	**37**

Note 23 Operating segments

General information on the business conducted in the period from 1 January 2017 to 31 December 2018

The Silvair, Inc. Group identified 4 operating segments in its business activity conducted in the period from 1 January 2017 to 31 December 2018:

- Silvair Platform
- Silvair Mesh Stack
- Wi-Home
- Proxi

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.

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

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 **Proxi** system consists of: custom firmware compliant with the Bluetooth Low Energy standard to be installed in light switch box modules (flush-mounted) and a mobile iOS and Android app supporting wireless control of home devices (lighting, blinds, roller shutters, garage doors). The Company earns revenue in this segment from sales of firmware licenses and radio modules.

The **Wi&Home** system is a comprehensive wireless data exchange technology for a smart building management system. The solution has been designed mainly for home use and supports remote control of devices, based mainly on radio transmission over the 868 MHz band. The Company earns revenues in this segment by selling middleware licenses.

Following a strategic decision to focus its business on the Bluetooth Mesh technology only, the Group has redirected its efforts to the development of the Silvair Mesh Stack and Silvair Platform segments. In connection with the foregoing, the BLE Stack segment presented in the Group's previous reports has been combined with the Silvair Mesh Stack segment. At the same time, the Group is no longer developing the Wi-Home and Proxi segments, which are based on older technologies. Nevertheless, these segments still generate some revenues and therefore are included in the Group's statements.

Operating segment information from 1 January 2018 to 31 December 2018, in USD '000s

Segment type						
	Silvair Platform	**Silvair Mesh Stack**	**Wi-Home**	**Proxi**	**Other activity**	**Total**
Revenues and expenses						
Sales to external customers	-	-		2	19	21
Inter-segment sales	-	-	-	-	-	-
Income and expenses (operating and other operating)	-	-	-	-2	-3,122	-3,124

EBIT						**-3,103**
Net financial income (costs)	-	-	-	-	-101	-101
Share in profits of associates	-	-	-	-	-	-
Profit before tax						**-3,204**
Income tax (current and deferred)	-	-	-	-	-425	-425
Net profit for the reporting period	-	-	-	-	-	-2,779
Assets						
Costs of development work	2,486	4,030	444	177	1,701	8,838
Receivables	-	10	-	-	150	160
Unallocated assets	-	-	-	-	4,079	4,079
Total assets						**13,077**
Liabilities						
Financial liabilities	-	-	-	-	271	271
Unallocated liabilities					**1,498**	**1,498**
Total liabilities						**1,769**
Other information	-	-	-	-	-	-
Depreciation and amortization	16	272	63	25	307	683

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

Operating segment information from 1 January 2017 to 31 December 2017, in USD '000s

Segment type						
	Silvair Platform	Silvair Mesh Stack	Wi-Home	Proxi	Other activity	Total
Revenues and expenses						
Sales to external customers	-	26	7	4	37	37
Inter-segment sales	-	-	-	-	-	-
Income and expenses (operating and other operating)	-	-	-5	-4	-2,091	-2,100
EBIT						**-2,064**
Net financial income (costs)	-	-	-	-	-146	-146
Share in profits of associates	-	-	-	-	-	-
Profit before tax						**-2,209**
Income tax (current and deferred)	-	-	-	-	-529	-529
Net profit for the reporting period	**-**	**-**	**-**	**-**	**-**	**-2,739**
Assets						
Costs of development work	1,460	3,796	219	584	1,865	7,924
Receivables	-	12	-	-	116	129
Unallocated assets	-	-	-	-	1,357	1,357

Total assets						**9,410**
Liabilities						
Financial liabilities	-	-	-	-	447	447
Unallocated liabilities	-	-	-	-	1,014	1,014
Total liabilities						**1,461**
Other information	-	-	-	-	-	-
Depreciation and amortization	-	117	23	63	250	453

In 2016-2017 and 2018, the Silvair, Inc. Group focused all of its resources on completing the development work commenced in earlier years. The Silvair Group also worked on improving and expanding the functionalities of the development work completed in previous years and accepted for use.

In the period covered by the financial statements, the Group cooperated with external buyers, whose share in revenues exceeded 10% of the Group's revenues.

Information on sales revenues in 2018 – main buyers

In 2018, the Group generated sales in the Proxi segment with one buyer. The buyer is not an affiliate or subsidiary of Silvair, Inc. Other revenues do not pertain to the Group's core business.

Information on sales revenues in 2018 – geographic structure

Country	**Sales to external customers**	**1 January 2018 – 31 December 2018**
European Union of which Poland	USD	21
	%	100%
Other countries	USD	-
	%	0%
Total revenues	**USD**	**21**
	%	**100%**

Information on sales revenues – main buyers in 2017

In the Wi-Home, Proxi and BLE Stack segments, in 2017 the Group generated sales exceeding 10% of consolidated revenues in cooperation with three buyers:

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

- buyer A: 48.57% of the Group's total consolidated sales revenues,
- buyer B: 29.11% of the Group's total consolidated sales revenues,
- buyer C: 16.68% of the Group's total consolidated sales revenues.

The buyers listed above are not affiliates or subsidiaries of Silvair, Inc. Except for these buyers, no single external buyer has exceeded the threshold of 10% of the Group's consolidated revenues.

Country	Sales to external customers	1 January 2017 – 31 December 2017
European Union of which Poland	USD	18
	%	51%
United States	USD	18
	%	48%
Other countries	USD	1
	%	1%
Total revenues	**USD**	**37**
	%	**100%**

Note 24 Other operating income

Other operating income	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Profit on the sale of non-financial non-current assets	-	-
Other operating income	71	25
Total	**71**	**25**

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

Note 25 Other operating expenses

Other operating income	**Financial year ended 31 December 2018**	**Financial year ended 31 December 2017**
Revaluation of non-financial assets	34	31
Other operating income	12	193
Total	**46**	**224**

Note 26 Breakdown of costs

Other operating income	**Financial year ended 31 December 2018**	**Financial year ended 31 December 2017**
Depreciation and amortization	683	453
Consumption of materials and energy	128	170
External services	2,072	1,797
Taxes and fees	15	12
Payroll	1,548	1,152
Social security and other benefits	328	274
Other costs by nature	260	226
Cost of products and materials sold	-	10
Total costs by type	**5,034**	**4,094**
Movement in inventory of products and production cost of products for own use (development work)	**1,862**	**2,193**
Cost of sales	-	10
Selling and distribution expenses	591	498
General and administrative expenses	2,558	1,394
Total costs by function	**3,149**	**1,902**

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

Note 27 Financial income

Financial income	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Interest	**16**	**5**
Interest on bank deposits and accounts	16	5
Total financial income	**16**	**5**

Note 28 Financial costs

Financial income	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Interest	**24**	**31**
To other entities	24	31
Interest on received loans	24	31
Foreign exchange differences	93	121
Financial costs	**117**	**152**

Note 29 Reconciliation of the main items differentiating the income tax basis from the pre-tax financial result

Item	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Profit before tax	**-3,204**	**-2,210**
Costs not classified as tax-deductible expenses, including:	**804**	**1,148**
Depreciation and amortization	82	4
PFRON disability fund tax	16	12
Unpaid interest	5	31
Unpaid payroll and social security contributions	49	40

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

Foreign exchange differences in the balance sheet	345	38
Impairment losses	-	28
Other costs	306	731
– including valuation of stock options (Note 30)	132	24
Costs of the previous year recognized as tax-deductible expenses in the current year	**39**	**33**
ZUS from November-December of the previous year, paid in January of the next year	31	30
Other	8	3
Revenues that are not tax revenues	**94**	**137**
Unpaid interest	5	-
Foreign exchange differences in the balance sheet	24	137
Subsidy	65	-
Previous year revenues subject to taxation in the current year	**-**	**1**
Interest paid	-	1
Income / loss	**-2,643**	**-1,494**
Deductions from income (*)	**-924**	**-**
Taxation base	**-3,567**	**-1,494**
Tax – Parent Company	**14**	**4**
Impact of change in the deferred tax asset	**-434**	**-530**
Impact of movement in the deferred tax liability	**5**	**-5**
Total charges to profit before tax	**-425**	**-529**

(*) deductions from income include IPO costs accounted for and included in the Statement of financial position as reduction of the Group's Other Capital.

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

Note 30 Share-based payment agreements

Description of the agreements:

On 14 October 2016, the Parent Company signed an agreement (hereinafter referred to as the KPI Agreement) as amended by annex of 18 December 2017, setting forth the terms and conditions for granting stock options to the beneficiaries named in the agreement under two option pools: "Option Pool" and "Additional Option Pool".

1. The following were to be granted from the "Option Pool":

- 132,000 shares to Key Personnel of the Parent Company,
- 743,000 shares to the Management Board, including: 465,000 options to the CEO, Rafał Han, 172,000 shares to the CTO, Szymon Słupik, and 106,000 shares to the CFO, Adam Gembala,
- 96,000 shares to Venture FIZ.

According to the KPI Agreement, the Board of Directors has the powers to set the detailed terms and conditions for granting options in the "Option Pool" to the beneficiaries.

By 31 December 2017, options have been granted from the "Option Pool" for all the shares for the Management Board and Venture FIZ, as well as 70,000 out of 132,000 shares for the Key Personnel.

By 31 December 2017, all the options granted to the Management Board members and Venture FIZ have been exercised and in the Key Personnel pool, options for 30,000 shares will be exercised by 31 December 2017.

In 2018, as part of the Option Pool, 20,000 options and 333,000 options from the Additional Option Pool were granted.

By 31 December 2018, options for further 15,000 shares had been exercised.

2. The following were to be granted from the Additional Option Pool:

- 279,000 of shares to the Key Personnel of the Parent Company,
- 203,000 shares to the CEO, Rafał Han.

The Board of Directors has the powers to set the detailed terms and conditions for granting options from the "Additional Option Pool" to the Key Personnel, while the total number of shares taken up by employees in exercise of such granted options may not exceed 69,750 shares each year. The Board of Directors has the powers to set the detailed terms and conditions for granting options from the pool to the CEO Rafał Han, while the total number of shares taken up by the beneficiary may not exceed 50,750 shares each year. By 30 June 2018, options for all the shares envisaged for Rafał Han in the pool had already been granted. By 31 December 2017 and as at 31 June 2018, no stock options had been exercised from in the Additional Option Pool.

The Group considers the date of signing the KPI Agreement as the option grant date within the meaning of IFRS 2.

Number of options and strike price from 1 January 2017 to 31 December 2018

	In 2018	In 2017
Pool of shares under the Option Plan	1,453,000	1,453,000
Number of shares available under the Option Plan at the beginning of the period	**544,000**	**1,453,000**
Number of shares granted under option agreements	353,000	909,000
Number of shares taken up in exercise of the options	15,000	869,000
Number of shares available to be taken up in subsequent periods under option agreements	378,000	40,000
Number of shares released upon expiration of options	-	-
Number of shares available to be granted under further option agreements at the end of the period	**191,000**	**544,000**

The Group has measured the fair value of services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted.

The fair value of awarded options was estimated by an independent expert using modern financial engineering methods. The Hull-White model was used to measure the fair value of the options granted, with the following assumptions:

- Stock price at the beginning of the period = $3.33
- Strike price of the option = $0.10
- Risk-free interest rate = 2.455%.
- Dividend yield = 0%
- Parameter M = 3
- Parameter $e\Delta t$ = 0%.
- Stock price volatility (σ) = 46.6%.

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

Impact of share-based payment transactions on the Group's result in the reporting period – valuation of options:

	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Management cost	166	30
Capital from revaluation of options	166	30

Impact of option exercise, change in the structure of the Group's consolidated equity in the reporting period:

	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Other capital	34	2,788
Capital from revaluation of options	-34	-2,788

The change in capital from revaluation of options in 2017 until 31 December 2017 resulted from the exercise of 869,000 stock options and revaluation of the remaining options in the vesting period.

The total amount of shares taken up in performance of option contracts in 2017 was USD 87 thousand.

The change in capital from revaluation of options in 2018, by 31 December 2018, resulted from the exercise of 15,000 stock options and revaluation of the remaining options in the vesting period. The total amount of shares taken up in the performance of option contracts in the period from 1 January to 31 December 2018 was USD 1.5 thousand.

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

Note 31 Major events after the balance sheet date

The following material events occurred after the balance sheet date:

In the period from 1 January 2019 to the date of this report, Silvair, Inc. granted loans to its subsidiary Silvair Sp. z o.o. the total value of which was PLN 5,000,000.

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 Preference Founder Shares, 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, alongside the existing options to purchase 278,000 Common Shares granted under the Stock Plan. 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.

Note 32 Information on joint ventures

There were no joint ventures in the current and previous financial year.

Note 33 Financial risk management objectives and principles

The Group's operations are exposed to the following types of financial risk:

- credit risk,
- liquidity risk,
- market risk:
- currency risk,
- interest rate risk,
- other price risk.

Credit risk is the risk that one party to a financial instrument fails to discharge its obligation to the Group causing financial loss for the Group. Credit risk arises in receivables, cash and cash equivalents, deposits, bonds purchased and security deposits paid.

Main operating segments of the Group – production of software for remote communication between devices and smart lighting systems – due to their nature are not exposed to a significant level of this type of risk. Sales in these segments are largely to a stable client base and are made on deferred payment terms. However since the business partner pay the due amounts regularly, the exposure to individual credit risk is

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not high. The Group applies internal procedures and mechanisms that mitigate this risk: appropriate client selection, a new client review system and ongoing monitoring of amounts receivable. The Group consistently pursues the recovery of overdue receivables. The Group invests its cash in reliable financial institutions (selected on the basis of ratings). The Group is exposed to immaterial levels of credit risk.

Liquidity risk is the risk that arises when the Group meets difficulties in fulfilling is obligations related to financial liabilities. The Group makes sure that liquidity is maintained at an appropriate and safe level.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Because of the global character of the business conducted by the Silvair, Inc. Group, in which most of the revenues are generated in USD and EUR, while most expenses are incurred in PLN, the Group is exposed to risk related to sudden changes in exchange rates, including in particular appreciation of PLN and depreciation of EUR vs. USD.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group does not invest any surplus funds in interest-bearing assets based on floating interest rates and accordingly it is not exposed to the risk related to changes in interest rates. The principal risk of changes in interest rates is related to debt instruments. In 2018 and 2017, the Group did not use any external debt instruments (loans and bonds) with a floating interest rate, the interest rate on which would depend on changes in interest rates. Accordingly, it was not exposed to changes in cash flows resulting from changes in interest rates.

Other price risks are the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market. The Group does not use financial instruments associated with price risk. The Group is not exposed to other price risk. The Group's financial risk management is coordinated by the Parent Company in close collaboration with the Management Boards of the subsidiaries. In the risk management process, these are the most important goals:

- secure short- and medium-term cash flows,
- stabilize fluctuations in the Group's financial performance,
- fulfill planned financial forecasts by meeting the relevant budget assumptions,
- achieve a rate of return on long-term investments and obtain optimal sources of funding for investment activities.

The Group does not execute transactions on financial markets for speculative purposes. The main financial instruments used by the Parent Company and the subsidiaries include bank loans, cash and short-term deposits. The Group also holds various other financial instruments, such as trade receivables and payables, which arise directly from its activities. The Group does not classify any instruments categorized as loans and borrowings to financial liabilities designated for measurement at fair value through profit or loss. All loans, borrowings and other debt instruments are carried at amortized cost using the effective interest rate.

Classification of financial instruments according to IFRS 9

Financial assets by balance sheet item	31 Dec 2018 fair value	31 Dec 2018 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)			Other
			Measured at fair value through profit or loss	Measured at fair value with changes through other comprehensive income	Measured at amortized cost	
Financial assets						
Interest and shares	7	7	-	-	-	7
Loans	-	-	-	-	-	-
Long-term security deposits and other long-term receivables	-	-	-	-	-	-
Trade receivables	20	20	-	-	20	-
Receivables other than above, which are financial assets	-	-	-	-	-	-
Short-term securities	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Bank deposits	-	-	-	-	-	-
Cash	3,333	3,333	-	-	-	3,333

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

Financial liabilities by balance sheet item	31 Dec 2018 fair value	31 Dec 2018 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)		
			Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	279	279	-	279	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	-	-	-	-	-
Measurement of other instruments - derivatives	-	-	-	-	-
Trade liabilities	172	172	-	172	-
Liabilities other than above, which are financial liabilities	-	-	-	-	-

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

Financial assets by balance sheet item	31 Dec 2017 fair value	31 Dec 2017 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)			Other
			Measured at fair value through profit or loss	Measured at fair value with changes through other compre-hensive income	Measured at amortized cost	
Financial assets						
Interest and shares	8	8	-	-	-	8
Loans	-	-	-	-	-	-
Long-term security deposits and other long-term receivables	-	-	-	-	-	-
Trade receivables	14	14	-	-	14	-
Receivables other than above, which are financial assets	-	-	-	-	-	-
Short-term securities	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Bank deposits	-	-	-	-	-	-
Cash	1,018	1,018	-	-	-	1,018

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

Financial liabilities by balance sheet item	31 Dec 2017 fair value	31 Dec 2017 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)		
			Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	446	446	-	446	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	-	-	-	-	-
Measurement of other instruments - derivatives	-	-	-	-	-
Trade liabilities	198	198	-	198	-
Liabilities other than above, which are financial liabilities	-	-	-	-	-

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

Sensitivity analysis

As at the end of 2018, the Group did not hedge its transactions denominated in foreign currencies.

The following table presents the sensitivity of the gross financial result (due to movement in the fair value of cash assets and liabilities) to reasonable fluctuations in the exchange rate of the US dollar (“USD”), assuming that other factors remain unchanged. According to the Group’s estimates, the impact of exchange rate fluctuations on the Group’s equity and total comprehensive income would be similar to the impact on the gross financial result, when income tax is taken into account.

Currency risk 1 January 2018 - 31 December 2018

The tables depict the effects of fluctuations in the USD/PLN exchange rate, i.e. the exchange rate between the only currencies that are relevant to the Group companies.

Financial instruments by balance sheet items	Carrying amount of financial instruments	Effect on pre-tax financial result (10% increase)	Effect on equity (10% increase)	Effect on pre-tax financial result (10% decrease)	Effect on equity (10% decrease)
Financial assets					
Interest and shares	8	-1	-	1	-
Loans	0	-	-	-	-
Long-term security deposits and other long-term receivables	-	-	-	-	-
Trade receivables	20	-1	-	1	-
Receivables other than above, which are financial assets	-	-	-	-	-
Short-term securities	-	-	-	-	-
Debt securities	-	-	-	-	-
Bank deposits	-	-	-	-	-
Cash	3,333	-306	-	374	-
cash in bank	0	-	-	-	-
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-

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

Loans	320	36	-	-28	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	-	-	-	-	-
Trade liabilities	172	20	-	-15	-
Liabilities other than above, which are financial liabilities					

Currency risk 1 January 2017 – 31 December 2017

Financial instruments by balance sheet items	Carrying amount of financial instruments	Effect on pre-tax financial result (10% increase)	Effect on equity (10% increase)	Effect on pre-tax financial result (10% decrease)	Effect on equity (10% decrease)
Financial assets					
Interest and shares	8	-1	-	1	-
Loans	-	-	-	-	-
Long-term security deposits and other long-term receivables	-	-	-	-	-
Trade receivables	14	-3	-	9	-
Receivables other than above, which are financial assets	-	-	-	-	-
Short-term securities	-	-	-	-	-
Debt securities	-	-	-	-	-
Bank deposits	-	-	-	-	-
Cash	1,018	-45	-	55	-
cash in bank	1,018	-45	-	55	-
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	446	41	-	-50	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	-	-	-	-	-
Trade liabilities	198	13	-	-21	-
Liabilities other than above, which are financial liabilities	-	-	-	-	-

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

Note 33.2 Capital risk management

The Group manages capital to maintain its capacity to continue its activity, taking into account the planned capital expenditures, so that it can generate returns for shareholders and bring benefits to other stakeholders and also to maintain the optimum capital structure to reduce its cost. In line with the market practices, the Group is monitoring capital, among others on the basis of the debt to equity ratio. The debt to equity ratio is calculated as the ratio of debt to financial capital. Debt is calculated as the sum of financial liabilities (loans, borrowings), while financial capital is the sum of equity and financial liabilities.

In order to maintain financial liquidity and credit capacity that would enable the entity to raise external financing at a reasonable cost level, the Group assumes that its equity ratio will be maintained at no more than 50%.

Item	31 December 2018	31 December 2017
Debt	320	446
Equity	10,901	7,949
Reserve capital, total	11,221	8,395
Debt to equity ratio	2.8%	5.3%

Note 34 Employment in the Group

Item	Average headcount in the period from 1 January 2018 to 31 December 2018		
(persons)	**total**	**white-collar employees**	**blue-collar employees**
Silvair, Inc.	-	-	-
Silvair Sp. z o.o.	49	49	-
Sway Sp. z o.o.	6	6	-
Total	**55**	**55**	**-**

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

Item	Average headcount in the period from 1 January 2017 to 31 December 2017		
(persons)	total	white-collar employees	blue-collar employees
Silvair, Inc.	-	-	-
Silvair Sp. z o.o.	60	60	-
Sway Sp. z o.o.	3	3	-
Total	**63**	**63**	**-**

Note 35 Entity authorized to audit financial statements

The annual consolidated financial statements were audited by Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Poznań at ul. Abpa Antoniego Baraniaka 88E.

The net amount of the contractor's fee for auditing the consolidated financial statements was PLN 22,000.

The interim 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.

The net amount of the contractor's fee for reviewing the consolidated interim financial statements was PLN 12,500.

Note 36 Loans granted by the Group to persons comprising management and supervisory bodies

In the financial period, the Group did not conduct transactions with Members of the Board of Directors, Officers, Management Board Members and Supervisory Board Members or their spouses, relatives by blood and by marriage, which involved the granting of loans to the above persons.

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

Note 37 Compensation of key management personnel

Compensation of key management personnel on account of short-term employee benefits:

Item	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Szymon Słupik	79	78
Adam Gembala	79	79
Rafał Han	79	80
Oktawian Jaworek	8	16
Paweł Szymański	-	-
Marek Kaputkiewicz	-	-
Gross compensation paid	**245**	**253**

Compensation of key management personnel on account of share-based payments

Item	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Szymon Słupik	-	-
Adam Gembala	-	-
Rafał Han	102	-
Gross compensation paid	**102**	-

Total compensation of key personnel

Total compensation of key management	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Rafał Han	181	78
Szymon Słupik	79	79
Adam Gembala	79	80
Oktawian Jaworek	8	16
Paweł Szymański	-	-
Marek Kaputkiewicz	-	-
Total compensation	**347**	**253**

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

Note 13 presents costs captured in the consolidated profit and loss account related to the valuation of options in the "Additional Option Pool" referred to in Note 30.

Note 38 Related party transactions

Transactions with parties related by equity with the Parent Company:

Parties related by equity with the Parent Company:

- Silvair Sp. z o.o.
- Sway Sp. z o.o.

The Parent Company holds directly 100% shares in Silvair Sp. z o.o., which in turn holds 91% shares in Sway Sp. z o.o.

The following transactions were effected in the reporting period between parties related by equity:

Loan agreement between Silvair, Inc. as the lender and Silvair Sp. z o.o. as the borrower. As at 31 December 2017, Silvair Sp. z o.o. posted a liability under the loan from Silvair, Inc. in the amount of USD 650 thousand (principal). As at 31 December 2018, it posted a receivable in the total amount of USD 4,454 thousand.

Loan agreement between Silvair Sp. z o.o. (lender) and Sway Sp. z o.o. (borrower).

As at 31 December 2017, Sway Sp. z o.o. showed no liabilities on account of loans received from Silvair Sp. z o.o. In 2018, Silvair Sp. z o.o. granted a loan of PLN 680 thousand to Sway Sp. z o.o., as a result of which the balance of liabilities on account of loans received from Silvair Sp. z o.o. is now USD 186 thousand.

As at 31 December 2018, Sway Sp. z o.o. had a trade liability toward Silvair Sp. z o.o. in the amount of PLN 61.5 thousand. As at 31 December 2017, Sway Sp. z o.o. and Silvair Sp. z o.o. posted no mutual receivables or liabilities. As at 31 December 2018, Silvair Sp. z o.o. posted a trade receivable from Silvair, Inc. in the amount of PLN 205 thousand (USD 54 thousand). As at 31 December 2017, both Silvair Sp. z o.o. and Silvair, Inc. posted no mutual receivables or other liabilities.

Transactions between the companies and mutual liabilities and receivables were excluded from the consolidated statements.

Entities having personal ties with Group companies:

Transactions between entities with personal ties:

As stated in Note 3.4 of the explanatory notes to the consolidated financial statements, as at 30 June 2017 and as at 30 June 2018, the subsidiaries Silvair Sp. z o.o. and Sway Sp. z o.o. were parties to a lease agreement for a property in Kraków at ul. Jasnogórska, where the head offices of both companies are located.

The lessor is Centrum Jasnogórska 44 Spółka z o.o. with its registered office in Kraków, taxpayer identification no. NIP 6770050681, entered in the National Court Register under file no. 0000131205. Centrum Jasnogórska 44 is related to the issuer through the person of Mr. Szymon Słupik, who is a shareholder and vice-president of the company's management board and at the same time a member of the Board of Directors (Shareholder) of the Parent Company, Silvair, Inc.

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

In the financial years 2017-2018, the Group leased space from Centrum Jasnogórska 44 Spółka z o.o. where the total cost of the transactions was USD 278 thousand and USD 263 thousand in 2018 and 2017, respectively. The total cost was USD 214 thousand in the financial year 2017 and USD 225 thousand in the period from 1 January to 31 December 2018.

As regards the recognition of the said lease agreement in the statement of financial position, the Group applied the exemption provided for in IFRS 16 for short-term contracts.

As at 31 December 2017 and as at the balance sheet date of 31 December 2018, the Group had no liabilities toward the lessor under the lease agreement.

Except as described above, the Group's key management personnel and their close family members did not control, jointly control or exert significant influence on and were not members of key personnel of the entities that entered in material transactions with Group Companies in the reporting period.

Transactions with the key management personnel

Key management personnel:

Key management personnel is comprised of the persons who, directly or indirectly, have the right to and are responsible for planning, managing and controlling of the group's activities. In the reporting period, the key management personnel was comprised of:

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 – Non-executive Director

Marek Kapturkiewicz – Non-executive Director

Compensation received by the key management personnel in connection with their functions and on account of share-based payments is described in Note 37.

Transactions between Group Companies and key management personnel and/or shareholders:

As at 31 December 2018 and 31 December 2017, Silvair Sp. z o.o. and Sway Sp. z o.o. posted no liabilities toward shareholders or the Board of Directors other than current liabilities on account of compensation.

Note 39 Minority interest

Movement in non-controlling interest	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
As at the beginning of the financial year	-	-
Contributions to capital of Sway	427	-
Result for the year attributable to non-controlling interest	-20	-
As at the end of the financial year	**407**	-

In accordance with a resolution adopted by the Extraordinary Shareholder Meeting, on 18 May 2018 the share capital of Sway was increased by PLN 310,000 from PLN 3,100,000 to PLN 3,410,000. This was achieved by creating 6,200 new, equal and indivisible shares with a par value of PLN 50 each.

In accordance with the Notarial Deed entered in the Register of Deeds A under file number 1125/2018, prepared by Notary Monika Sucheta, the new shares were acquired by ASI Bridge Alfa Bitspiration Booster Sp. z o.o. Sp.k. with its registered office in Kraków in exchange for a cash contribution of PLN 1,600,000, of which PLN 310,000 was allocated to the share capital and the remaining amount constituting a premium over the total par value was allocated to the company's supplementary capital.

Note 40 Subsidiaries with non-controlling interest

Non-controlling interest exists in the subsidiary SWAY Spółka z ograniczoną odpowiedzilanością with its registered office in Kraków at ul. Jasnogórska 44. The company is entered in the National Court Register kept by the District Court for Kraków-Śródmieście, 11th Commercial Division, under file no. KRS 0000464535.

ASI Bridge Alfa Bitspiration Booster Sp. z o.o. Sp.k. with its registered office in Kraków, KRS 000068796 (ASI, Fund) became a shareholder in Sway Sp. z o.o. on the basis of the Notarial Deed entered in the Register of Deeds A under file number 1125/2018, prepared by Notary Monika Sucheta, in the Notary's Office in Kraków at ul. Ogrodowa 1/1.

In accordance with a resolution adopted by the Extraordinary Shareholder Meeting, on 18 May 2018 the share capital of Sway was increased by PLN 310,000 from PLN 3,100,000 to PLN 3,410,000 by creating 6,200 new, equal and indivisible shares with a par value of PLN 50 each.

The new shares were acquired in exchange for a cash contribution of PLN 1,600,000, of which PLN 310,000 was allocated to the share capital and the remaining amount constituting a premium over the total par value was allocated to the company's supplementary capital.

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

The transaction was a consequence of the Investment Agreement of 28 March 2018 and the Grant Agreement. The Investment Agreement provided for the establishment of cooperation under which ASI would provide Sway with funding for the execution of an R&D Project in exchange for the granting of rights to ASI in respect of both the company and its Founder. The agreement provided for a total investment of PLN 5 million, of which:

- 20% of the funding, provided by the Fund from its own resources would cover a contribution to the increased share capital of Sway in connection with the creation of Shares acquired by the Fund,
- 80% of the funding would be a non-returnable grant provided by the National Center for Research and Development to the Company under the Grant Agreement, with the Fund acting as the intermediary.

Share ownership structure as at 31 December 2018	Number of shares	% of shares	Value of shares in PLN '000s	Number of votes	% of votes
Silvair Sp. z o.o.	62,000	90.91	3,100	62,000	19.91
ASI Alfa Bridge	6,200	9.09	310	6,200	9.09
Total	**68,200**	**100.00**	**3,410**	**68,200**	**100.00**

The Grant Agreement contains provisions under which the National Center for Research and Development or an entity indicated by it has the priority right to:

- acquire each time up to 50% of new Share Rights at every increase in the share capital of Sway, including before the Company's shareholders. Sway Sp. z o.o. is required to enable the National Center for Research and Development or the entity indicated by it to exercise its priority right
- to acquire before other entities all intellectual property rights and rights related to confidential information, in particular titles to:
    - all patents and patent applications, protection rights, industrial designs, all economic copyrights, works protected by copyright laws and all related rights;
    - topographies of integrated circuits, topography registration rights, registrations or applications related thereto and all related rights;
    - all packaging and trade names, logos, addresses and internet domains, trademarks and service brands with related registrations and applications, all other designations of commercial origin and goodwill associated with any of the foregoing;
    - all inventions, designs, marks, recipes, know-how (whether or not subject to patenting, notification or registration, whether or not actually implemented and regardless of their form and manner of recording or lack thereof),
    - all confidential information related to the execution of the grant program under which the Agreement was entered into, including that related to the conduct of business activity by the Grantee, the execution of the R&D Project, improvement projects, standards, quality requirements, technical plans, quality control methods, utility and industrial designs, patentable inventions, information related to marketing activities and organization of the sales market, information related to the organizational structure, job descriptions, internal regulations

concerning determination of the scope of responsibility, rules governing the funding of operations, compensations of employees and persons hired under civil law contracts, technologies, technical data, trade secrets, confidential information, production and manufacturing processes and technologies, information on research and development, financial, marketing and business data, information on pricing and costs, business and marketing plans and any other information related to the conduct of business activity by the Grantee or its execution of the R&D Project, whether or not the confidentiality has been explicitly stated and regardless of their form and manner of recording or lack thereof;

- software (including source code and object code), firmware, programming tools, algorithms, files, records, technical drawings and related documentation, data and manuals;
- all databases and data sets; and
- all reproductions, copies and records of the foregoing (in any form and on any carrier).

The carrying amount in the consolidated financial statements of the assets to which the restrictions apply is USD 825 thousand.

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

The consolidated financial statements for the year ended 31 December 2018 (including comparative data) were approved for publication by the Board of Directors on 30 April 2019.

Rafał Han

Chief Executive Officer

Szymon Słupik

Chief Technology Officer (CTO),
President of the Board of Directors

Adam Gembala

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

Paweł Szymański

Director

Marek Kapturkiewicz

Director

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