

# Directors' Activity Report of Silvair, Inc. Group

for the period from

**1 January 2018**  
**to 30 June 2018**

SILVAIR

## 1.1 Key information about the Issuer

(Company) name:	<b>Silvair, Inc. (“Issuer” or “Company”)</b>
Registered office and address:	<b>717 Market Street, Suite 100, San Francisco, CA 94103, USA</b>
Telephone no.:	<b>+48 12 376 95 98</b>
Website:	<b><a href="https://silvair.com">https://silvair.com</a></b>
Email:	<b>office@silvair.com</b>

The Company has been established and operates under the law of the State of Delaware. The Company was established as a corporation on 30 May 2014. It is entered into the register maintained by the Secretary of the State of Delaware under entry no. 5543093 (Delaware Corporate Number) and has been established for an indefinite period.

The Company is the parent entity in the Company’s group, described in items 1.3 – 1.6 below.

### Composition of the Board of Directors

The table below presents key information about the members of the Board of Directors discharging their functions as at 30 June 2018 r.:

<b>Name of the member of the Board of Directors</b>	<b>Function</b>	<b>Original date of assuming the function of the member of the Board of Directors</b>
<b>Rafał Han</b>	President (CEO)	30 May 2014
<b>Szymon Słupik</b>	Chief Technology Officer (CTO), President of the Board of Directors	30 May 2014
<b>Adam Gembala</b>	Chief Financial Officer (CFO), Vice-President of the Board of Directors, Secretary and Treasurer	30 May 2014
<b>Paweł Szymański</b>	Director (non-executive)	25 May 2018

On 4 September 2018, the Company’s Board of Directors appointed Marek Kapturkiewicz to the Board of Directors and to the Company Audit Committee.

### Line of business

Pursuant to Article III of the Company’s Articles of Incorporation, the purpose of the Company is to engage in any lawful activities for the purpose of which companies may be established under Delaware General Corporation Law (DGCL). The Group (“Group”) operates in the field of new technologies, focusing on the Internet of Things (IoT). We have developed and are planning the implementation of an innovative product and software used for remote communication of devices, with special emphasis on smart lighting systems. Our strategic goal is to achieve a leading position on the market of modern technology solutions in the area of the Internet of Things, using the Bluetooth Mesh standard technology.

The Company is a holding entity which at present does not conduct operating activities, but oversees the operating activities of the Subsidiary Companies (as per the definition given below), which hold the core assets of the Group.

The Company's product research and development activities are conducted primarily by the company Silvair Sp. z o.o. The Group's sales activities (i.e. product marketing, sales and distribution) are conducted - relative to the market and regulatory environment - by both Silvair Sp. z o.o and the Company.

The Group's market growth is based on the following products: Silvair Mesh Stack and Silvair Platform. The solutions are addressed primarily to the smart lighting market segment, dedicated to commercial and industrial applications to be used predominantly in large-area office spaces, as well as commercial and warehouse facilities. Silvair Mesh Stack is a firmware designed for direct installation in lighting devices and components manufactured by third party suppliers. Silvair Platform is a technology and service platform comprising digital tools to launch, configure and manage smart lighting networks, and an infrastructure that allows the Group to offer a range of services to target customers (i.e. real estate owners and tenants of commercial spaces).

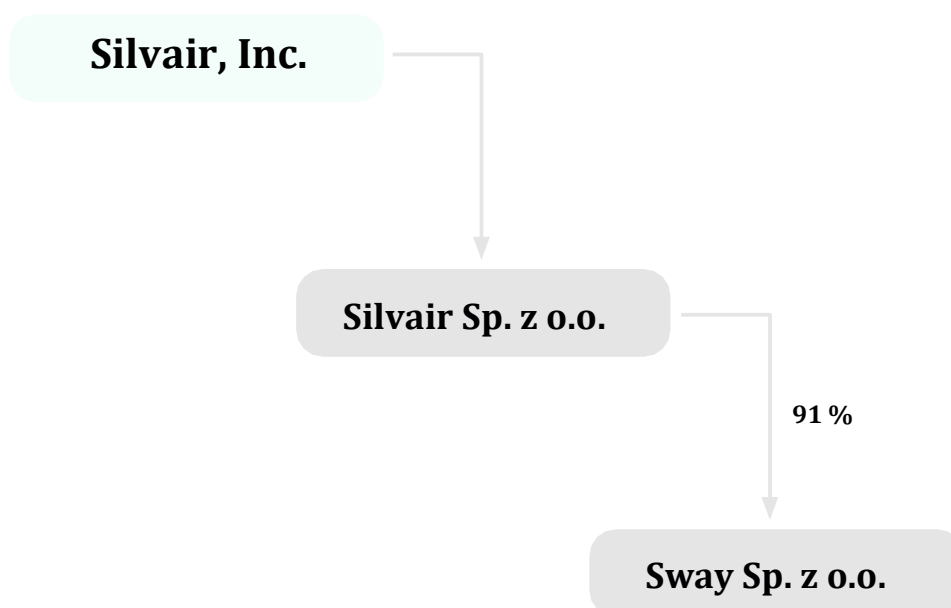
The Group's development work focuses on products based on the Bluetooth Mesh communications protocol. This global and universal standard determines the future target sales market for the Group's products. Consequently, both the distribution of the Lighting Firmware, as well as the provision of services via the digital platform are unrestricted geographically. In this context, the activities of the Group designed to establish and develop relations with clients from various parts of the world, and - consequently - the future distribution of its products into those markets, are global in nature. Our solutions are presented at the top-ranking events and lighting fairs across the world.

## The Group

The Group comprises the Company, which is the parent company, and two subsidiary companies: Silvair Sp. z o.o and Sway Sp. z o.o ("**Subsidiaries**"), which are consolidated by the Company. The Company is controlled by its founders, i.e. Szymon Słupik, Rafał Han, Adam Gembala and Maciej Witaliński ("**Founders**").

Below follows a description of the structure of the Group as at 30 June 2018, showing the Company's percentage share in the share capital of each of the Subsidiaries, as resulting from the number of shares held. There have been no new changes in the Group's structure after the balance sheet date.

## Silvair, Inc. Group



No changes were recorded in the organization of the issuer's Group from 2017 to 2018. In particular, there was no merger with another entity, control was not lost over a subsidiary or any of the Group's long-term investments. There was no demerger, restructuring or discontinuation of a portion of operations by the Company.

Presented below is key information about the Company as the parent company and about its subsidiaries.

## **The Company**

The Company is the parent entity in Group. Other information about the Company is presented above.

### **Silvair Sp. z o.o.**

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

#### **Key information:**

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Name and legal form:	<b>Silvair Sp. z o.o.</b>
Registered office and address:	<b>Krakow, ul. Jasnogórska 44, 31-358</b>
Share capital:	<b>PLN 10,000,000.00</b>
Core line of business:	<b>Information and computer technologies</b>

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### **Sway Sp. z o.o.**

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

#### **Key information:**

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Name and legal form:	<b>Sway Sp. z o.o.</b>
Registered office and address:	<b>Krakow, ul. Jasnogórska 44, 31-358</b>
Share capital:	<b>PLN 3,410,000.0 (1)</b>
Core business:	<b>Information and computer technologies</b>

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(1) Following the registration in the Court Register (KRS) of a share capital increase in Sway Sp. z o.o on 22 June 2018, the Company and ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. will immediately conclude an agreement to transfer the shares of Sway Sp. z o.o acquired by ASI Bridge Alfa Bitspiration Booster to the Company. As at the date of this report, the agreement has not been concluded, yet.

## Description of the organization of the Issuer's Group, and entities subject to consolidation

Company name	Registered office	Line of business	Effective share held by the parent entity in the Company as at 30 June 2018	Exchange rate as at the last day of the period	Relationship to Silvair, Inc. and the method of consolidation as at 30 June 2018
Silvair, Inc.	San Francisco, California, United States	Computer programming activities	-	-	Parent entity
Silvair Sp. z o.o.	Krakow, Poland	Computer programming activities	100%	100%	Direct subsidiary, purchase method
Sway Sp. z o.o.	Krakow, Poland	Computer programming activities	100%	about 91%	Indirect subsidiary via Silvair, Inc., purchase method

## 2. Key threats and risks associated with the remaining six months of the financial year

### 2.1 Risk associated with strategic objectives and growth management

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

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

At present the Company conducts only development work on its products and services; it does not engage in any significant sales activities. The pace of the Company's development depends on the success of its product sales.

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

The commercial version of the Company's products have not been created, yet. Their individual elements and functionalities are still at the final testing stage. Although the work is highly advanced, we cannot exclude that the current form of our products will require additional modifications, including unpredicted alterations, and the work will not be completed by the time needed to ensure quick commercialization.

## **2.4 Risk associated with the dissemination of the Bluetooth Mesh technology**

Commercial success of the Company's products and services will depend, inter alia, on the recognition by the market as well as the pace and scale of dissemination and commercial implementation of the Bluetooth Mesh standard. It cannot be ruled out that Bluetooth Mesh will not be a market success.

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

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

## **2.6 Risk of product concentration**

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

## **2.7 Risk associated with the work of development teams**

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

## **2.8 Risk of failure to attract qualified employees**

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

## **2.9 Risk associated with significant increase in labor costs**

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

## **2.10 Risk of growing costs of operations coupled with absence of sufficient growth in the Company's revenues**

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

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

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

## **2.12 Risk associated with development of competition**

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

## **2.13 Risk associated with intellectual property protection**

It is uncertain that all the actions taken in the area of intellectual property protection will be successful. There is also a risk that competitors will launch into the market devices which use the Group's copyright or protected technical solutions. Furthermore, the support agreement (grant allocation) concluded on 28 March 2018 between NCBiR, ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. and Sway sp. z o.o. stipulates a preemption right for NCBiR for the purchase of any intellectual property right of Sway Sp. z o.o if Sway Sp. z o.o intends to sell any such right to a third party (see item 5 below).

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

The achievement of the Company's plans hinges to a high degree on its unique, partly still unpatented technologies. Their protection should be ensured by confidentiality agreements. However, it is uncertain that those agreements will be respected, which may lead to, inter alia, the data being taken over by competitors.

## **2.15 Risk of loss, demand of early repayment or return of the grants or other state aid received by the Company**

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

## **2.16 Risk associated with breakdowns or break-ins into IT systems**

Breakdowns of IT systems or infrastructure may restrict or stop proper operations of the Group, or its ability to offer products and services, temporarily or permanently. IT systems may be susceptible to physical or electronic break-ins and other threats, which may result in, inter alia, the Company's losing access to the information stored in its IT systems or access to such information having been obtained by unauthorized third persons. Such actions may also damage the Company's reputation or lead to substantial expenses.



## **2.17 Risk associated with absence of insurance protection**

At present the Company is looking for a suitable third party liability insurance cover, but to date no policy has been concluded. In other words, the Company does not have any insurance cover that could pay for possible losses of the Group or claims made against it. Furthermore it is uncertain that the Company will be able to secure an adequate insurance protection in the future, in every necessary area of its activities, on favorable terms. Some agreements that the Company is a party to obligate it to acquire insurance cover of a specified scope; in those cases absence of insurance means that the Company's actions contravene the provisions of those agreements.

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

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

## **2.19 Risk associated with court and administrative proceedings**

The Company's operation gives rise to potential disputes and claims, related to, inter alia, possible client claims regarding the products sold. On the other hand, members of the Group conclude trade agreements, that may also give rise to disputes and claims. Such disputes or claims may have an adverse effect on the Company's reputation, deflect the management's and the team's attention away from its core activities, and expose the Company to significant legal costs of court proceedings.

## **2.20 Risk associated with absence of adequate internal control procedures and systems**

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

## **2.21 Risk associated with the economic and political situation**

The efficiency of the Company's business is - and will even more so be in the future - dependent on, inter alia, the rate of economic growth, consumption level, fiscal and monetary policy, inflation and many other macroeconomic parameters having an indirect impact on the commercial real estate sector, considered by the Company as key for the development of its operations in the smart lighting sector, in the countries where the Company distributes its products or provides its services.

## **2.22 Foreign exchange risk**

Currency risk arises from the fact that the majority of the Company's ongoing operating expenses are incurred in PLN, while - once the sales of products begin - a major or significant part of the expected revenue will be denominated in foreign currencies. We expect that the foreign exchange rate fluctuations will have an impact on, inter alia, changes in the value of our revenues and receivables after conversion to PLN.

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

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

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

The achievement of the Company's plans hinges to a high degree on its unique, partly still unpatented technology. Their protection should be ensured by confidentiality agreements. However, it is uncertain that those agreements will be respected, which may lead to, inter alia, the data being taken over by competitors.

## **2.25 Risk associated with patent trolls**

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

## **2.26 Risk associated with limited capital and future capital needs**

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

## **2.27 Risk associated with lost liquidity**

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

## **2.28 Risk associated with technological change in the industry and development of new products.**

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

## **2.29 Risk of unexpected trends**

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

## **2.30 Risk associated with difficult enforcement of Directors' and Officers' liability towards the Company**

Enforcement of US court judgments based on US third party liability laws, including the federal securities law, from the Company's assets may prove impossible, given that, inter alia, almost all operating assets of the Issuer are located in Poland.

## **3. Rules for preparing the interim condensed financial statements**

These interim condensed consolidated financial statements have been prepared according to the International Financial Reporting Standards approved by the European Union ("IFRS EU").

## **4. Segment reporting**

The Group's internal and external reporting system is essentially based on industry segments. The Group is organized and managed in operating segments, which are separated on the basis of their products and services.

The Group distinguishes the following business segments:

- 1) Silvair Platform;
- 2) Silvair Lighting Firmware;
- 3) Wi-Home;
- 4) Proxi;
- 5) BLE Stack.

The **Silvair Lighting Firmware** (earlier: 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. Within this segment, the Company also includes the firmware mentioned above that is modified or upgraded based on the clients' individual requirements (custom firmware). The Company's revenue in this segment is earned from the sale of firmware licenses.

The digital platform segment, i.e. **Silvair Platform**, consists of a bundle of services involving the management of a smart lighting network and the usage of data generated by such a network to provide services of a scope beyond the smart lighting solutions. 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 **BLE Stack** segment consists of: firmware based on the Bluetooth Low Energy standard and a radio module based on a Texas Instruments chip, designed for installation in electronic devices. The firmware is versioned depending on the type of device, its functionality and the type of the processing unit. In this segment the Company also includes the firmware that is modified or upgraded based on the clients' individual requirements (custom firmware). The Company's revenue earned in this segment is from the sales of firmware licenses and the sales of radio modules.

The **Proxi** system consists of: custom firmware compliant with the Bluetooth Low Energy standard, essentially for installation in light switch box modules (flush-mounted), and a mobile app for iOS and Android systems offering wireless control of home devices (lighting, blinds, roller shutters, gates). The Company earns revenue in this segment from the 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 is designated mainly for home use and enables remote control of devices, based mainly on radio transmission over the 868 Mhz band. The Company's revenue in this segment is earned from the sale of licenses for the system management firmware.

In view of our strategic orientation towards the development of the Bluetooth Mesh technology, the first two segments, i.e. Silvair Lighting Firmware and Silvair Platform, are critical for the Group's operation. The Group has discontinued to develop and support the other segments.

## **5. A brief summary of the Issuer's achievements and unsuccessful ventures in the period covered by the report, including a list of key events involving the Issuer**

### **A list of key events involving the Group**

In February 2018, the Company joined the International Electrotechnician Commission ANSI.

On 28 March 2018, a support agreement (grant allocation) was concluded between NCBiR, ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. and Sway sp. z o.o., as part of a project implemented under the Smart Growth Operational Programme 2014-2020 ("Support Agreement"). Pursuant to the Agreement, Sway Sp. z o.o. is to receive a NCBiR grant of up to PLN 3.4 million, for the implementation of tasks included in the B+R Project, specified in the Agreement, i.e. a project related to the Internet of Things (IoT) industry, entitled: "Identification of the topology of lighting fixtures layout by the way of directional measurement of lighting intensity".

The Support Agreement stipulates that NCBIr or an entity nominated by NCBIr shall enjoy certain preemptive rights as regards new shares of Sway Sp. z o.o and the intellectual property rights held by Sway Sp. z o.o in all areas of use if Sway Sp. z o.o intends to sell any of its intellectual property rights to a third party. Any intellectual property rights that Sway Sp. z o.o must hold to execute the Project have been transferred to Sway Sp. z o.o by Silvair Sp. z o.o, based on a non-exclusive license to use those rights. In addition, based on the terms specified in the Support Agreement.

In March 2018, the first range of products offered by the Company's partners was presented at the Light+Building fair in Frankfurt.

On 27 April 2018, the Company concluded an agreement with McWong International Inc., with its registered office in Sacramento, USA, for Silvair to deliver the Silvair Lighting Firmware with the Silvair MaTE tool and ancillary services. Silvair also appointed McWong as a non-exclusive partner responsible for introducing Silvair Lighting Firmware on the market and granted McWong non-exclusive licenses for, inter alia, use of the Silvair product for integration, testing and demonstration purposes, as well as for reproduction and sale.

On 22 May 2018, the Company concluded an agreement with Murata Manufacturing Co., Ltd, with its registered office in Kyoto, Japan, for Silvair to deliver the Silvair Lighting Firmware with the Silvair MaTE tool and ancillary services. Silvair also appointed Murata as a non-exclusive partner responsible for introducing Silvair Lighting Firmware on the market and granted Murata non-exclusive licenses for, inter alia, use of the Silvair product for integration, testing and demonstration purposes, as well as for reproduction and sale.

On 11 June 2018, the Company concluded an agreement with Danlers Limited, with its registered office in Chippenham, United Kingdom, for Silvair to deliver the Silvair Lighting Firmware with the Silvair MaTE tool and ancillary services. Silvair also appointed Danlers as a non-exclusive partner responsible for introducing Silvair Lighting Firmware on the market and granted Danlers non-exclusive licenses for, inter alia, use of the Silvair product for integration, testing and demonstration purposes, as well as for reproduction and sale.

On 25 June 2018, the Financial Supervision Authority (KNF) approved the Company's issue prospectus prepared in connection with the initial public offering of the Company's shares, and the intention to apply for admission of the shares into trading on the regulated market.

On 27 June 2018, the Company concluded an agreement with Fulham Co., Inc., with its registered office in Hawthorne, USA, for Silvair to deliver the Silvair Lighting Firmware with the Silvair MaTE tool and ancillary services. Silvair also appointed Fulham as a non-exclusive partner responsible for introducing Silvair Lighting Firmware on the market and granted Fulham and its related entities non-exclusive licenses for, inter alia, use of the Silvair product for integration, testing and demonstration purposes, as well as for reproduction and sale.

In the period from 27 December 2017 to 25 June 2018, the Company issued convertible promissory notes („Series Three Notes”), of the total par value of USD 2,141.0 thousand, out of which USD 2,051.0 thousand from 1 January 2018. The Company issued Third Series Notes with a total par value of USD 2,141.0 thousand. The Company does not plan to continue to issue more Series Three Bonds, however it does not rule out that such an issue could be organized in the future (the Company may issue Series Three Bonds up to the total value of USD 3.0 million).

## **6. Factors and events, including of extraordinary nature, having material impact on the condensed financial statements**

In the period from 1 January to 30 June 2018, no extraordinary events occurred that would have a material impact on the interim condensed consolidated financial statements.

After 30 June 2018, the following material events occurred:

In the period from July to the date of this report, the Company granted loans to its subsidiary Silvair Sp. z o.o., of the total value of PLN 3,000,000.

On 16 July 2018, 1,184,910 common bearer shares of the Company were issued, of the par value of USD 0.10 each, and issue price of PLN 17.00, offered in a public offering. Furthermore, in connection to the Company's shares issue referred to above, an issue of (i) 4,063,495 common bearer shares took place, with a par value of USD 0.10 each, as a result of the conversion of 4,063,495 Company's preferred series A shares (Series A Preferred Stock), and (ii) 448,015 Company's common bearer shares, with a par value of USD 0.10 each, issued as a result of conversion of convertible promissory notes.

On 26 July 2018, the Company's ordinary shares debuted on the Warsaw Stock Exchange.

## **7. Changes in the Issuer's Group organization, including as a result of combination of entities, acquisition or loss of control over subsidiaries or long-term investments, as well as division, restructuring or discontinuation of activities; and identification of entities subject to consolidation, and for an Issuer which is a parent entity not obligated to - pursuant to the existing legislation - prepare consolidated financial statements, or which cannot prepare such statements - additionally identification of the reason and legal basis for no consolidation**

On 18 May 2018, the Extraordinary Shareholder Meeting of Sway Sp. z o.o adopted a resolution to increase the share capital of Sway Sp. z o.o., from PLN 3,100,000.00 do PLN 3,410,000.00, i.e. by PLN 310 thousand, by the way of issuing 6,200 new shares of a par value of PLN 50.00 ("Shares"). The Shares were acquired by ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. ("ASI"). An amendment to the articles of association of Sway Sp. z o.o, reflecting the issue of Shares, was registered in the Court Register (KRS) on 22 June 2018.

On 18 May 2018, the Company concluded an agreement with ASI on the exchange of Sway Sp. z o.o.'s shares, pursuant to which ASI undertook to transfer the Shares to the Company. The Share transfer agreement will be concluded immediately after the share capital increase of Sway sp. z o.o. referred to above has been registered in the KRS.

## **8. Opinion of the Board of Directors with respect to the likelihood of reaching the previously published forecasts of results for the year, in the context of the results presented in the interim report vis-a-vis the forecast results**

The Company does not publish forecasts and profit estimates. The Company did not publish forecasts and profit estimates in the past, either.

**9. Shareholders holding, directly or indirectly via subsidiaries, at least 5% of the total number of votes at the Issuer's shareholder meeting, as of the interim report date, including the number of shares held by these entities, the percentage they hold in the share capital, the number of votes arising from them and their percentage in the total number of votes at the shareholder meeting; as well as changes in the ownership structure of significant packages of the Issuer's shares from the submission date of the previous interim report**

As at 30 June 2018, according to the information available to the Board of Directors, significant shareholders of the Company, holding at least 5% of the total number of votes at the general meeting, included the following entities:

Shareholder	Number of Common Shares	Number of Preferred Shares of the Company	Number of Preferred Founder Shares	Number of Shares	% of capital	Number of votes at the Shareholder Meeting <sup>1</sup>	% of votes at the Shareholder Meeting
Szymon Słupik	1,488,128	67,551	329,032	1,884,711	19.3	3,529,871	24.3
Rafał Han	920,000	50,041	326,400	1,296,441	13.3	2,928,441	20.1
Adam Gembala	793,408	0	225,352	1,018,760	10.5	2,145,520	14.7
VENTURE FIZ and other funds managed by Trigon TFI	246,000	1,002,243	0	1,248,243	12.8	1,248,243	8.6
Maciej Witaliński	316,864	0	79,216	396,080	4.1	792,160	5.4
Others	959,600	2,943,660	0	3,903,260	40.0	3,903,260	26.8
<b>Total</b>	<b>4,724,000</b>	<b>4,063,495</b>	<b>960,000</b>	<b>9,747,495</b>	<b>100</b>	<b>14,547,495</b>	<b>100</b>

<sup>1</sup> Pursuant to the Articles of Incorporation: (i) a holder of one Common Share holds one vote at the Shareholder Meeting, (ii) a holder of one Preferred Company Share holds as many votes at the Shareholder Meeting as corresponds to the number of Common Shares, which a Preferred Share may be exchanged into pursuant to the Articles of Incorporation (i.e. one Common Share); and (iii) a holder of one Preferred Founder Share holds as many votes at the Shareholder Meeting as corresponds to the six-fold of the number of Common Shares that a Preferred Founder Share may be exchanged into pursuant to the Articles of Incorporation (i.e. one Common Share). The Company's shareholders do not hold any other voting rights than the rights specified above.

On 24 July 2018, the Company was notified, pursuant to Article 69 sec. 1 item 1 in conjunction with Article 87 sec. 1 item 2 of the Act of 29 July 2005 on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies (i.e. Journal of Laws 2018 Item 512, as amended; "Act on Offering"), by Trigon Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (hereinafter: Trigon TFI S.A.), acting on behalf of the investment funds managed by Trigon TFI S.A., that the funds have exceeded the threshold of 10% of votes in the total number of the votes in the Company. The funds aggregate exceeded the threshold as a result of posting on the securities accounts of the funds of the Company's common bearer shares purchased by the funds under the initial public offering of the Company's shares ("Offering") and as a result of the Company converting its debt securities (Convertible Notes) to common shares and converting the Company's Series A preferred shares into common shares in connection with the receipt of proceeds from the Offering by the Company. As per the notification, as a result of the above actions,

the funds managed by Trigon TFI S.A. held, as at the notification date, a total of 2,213,781 Company's common shares, representing 19.5% of the Company's share capital and representing 2,213,781 votes at the Company's shareholder meeting, i.e. 13.7% of all the votes at the Company's shareholder meeting.

On 26 July 2018, the Company was notified, pursuant to Article 69 and in conjunction with Article 69b of the Act on Offering, about the change in the share of the total votes in the Company by Mr Rafał Han - Member of the Company's Board of Directors, as a result of the registration, on 20 July 2018, in Krajowy Depozyt Papierów Wartościowych S.A. (the National Depository of Securities) of 10,420,420 common bearer shares, comprising: 1,184,910 common shares issued in the Offering; 448,015 common shares resulting from the conversion of the Company's debt securities after receipt of proceeds from the Offering by the Company; 4,063,495 of common shares created in the conversion of series A preferred shares into common shares after receipt of proceeds from the Offering by the Company; 4,724,000 remaining common shares of the Company and settlement of the Offering.

As a result of the above mentioned events, Mr Rafał Han, as at the notification date, held 1,296,441 shares of the Company, representing 11.4% of the Company's share capital and 2,928,441 votes at its shareholder meeting, i.e. 18.1% of all the votes at the Company's shareholder meeting (including 970,041 common shares, representing 8.5% of the share capital and 970,041 votes at the shareholder meeting, i.e. 6.0% of the total number of votes at the shareholder meeting; and 326,400 preferred founder shares, representing 2.9% of the Company's share capital and 1,958,400 votes at the general meeting, i.e. 12.1% of the total number of votes at the shareholder meeting).

Furthermore, on 26 July 2018, the Company was notified by Mr Maciej Witaliński, one of the founders of the Company, pursuant to Article 69 of the Act on Offering, about the change in the share of the total votes in the Company, as a result of the registration, on 20 July 2018, in Krajowy Depozyt Papierów Wartościowych S.A. (the National Depository of Securities) of 10,420,420 common bearer shares, comprising: 1,184,910 common shares issued in the Offering; 448,015 common shares resulting from the conversion of the Company's debt securities after receipt of proceeds from the Offering by the Company; 4,063,495 of common shares created in the conversion of series A preferred shares into common shares after receipt of proceeds from the Offering by the Company; 4,724,000 remaining common shares of the Company and settlement of the Offering.

As a result of the above mentioned events, Mr Maciej Witaliński, as at the notification date, held 396,080 shares of the Company, representing 3.5% of the Company's share capital and 792,160 votes at its shareholder meeting, i.e. 4.9% of the total number of votes at the shareholder meeting (including 316,864 common shares, representing 2.8% of the share capital and 316,864 votes at the shareholder meeting, i.e. 2.0% of the total number of votes at the shareholder meeting; and 79,216 preferred founder shares, representing 0.7% of the Company's share capital and 475,296 votes at the shareholder meeting, i.e. 2.9% of the total number of votes at the shareholder meeting).

As at 28 September 2018, according to the information available to the Board of Directors, significant shareholders of the Company, holding at least 5% of the total number of votes at the shareholder meeting, included the following entities:

Shareholder	Number of Common Shares	Number of Preferred Founder Shares	Number of Shares	Share of capital (%)	Number of votes at the Shareholder Meeting:	Share of votes at the Shareholder Meeting (%)
Szymon Słupik	1,555,679	329,032	1,884,711	16.6	3,529,871	21.8
Rafał Han	970,041	326,400	1,296,441	11.4	2,928,441	18.1
Adam Gembala	793,408	225,352	1,018,760	9.0	2,145,520	13.3



VENTURE FIZ and other funds managed by Trigon TFI	2,213,781	0	2,213,781	19.5	2,213,781	13.7
Others	4,887,511	79,216	4,966,727	43.5	5,362,807	33.1
<b>Total</b>	<b>10,420,420</b>	<b>960,000</b>	<b>11,380,420</b>	<b>100</b>	<b>16,180,420</b>	<b>100</b>

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

### **10. Issuer's shares or rights to shares held by the persons managing and supervising the Issuer as at the submission date of the semi-annual report, with changes in share ownership in the period from the submission date of the previous interim report, separately for each of those persons**

First and last name	Number of shares as at 1 January 2018	Change	Number of shares as at 28 September 2018
Szymon Słupik	1,884,711	-	1,884,711
Rafał Han	1,296,441	-	1,296,441
Adam Gembala	1,018,760	-	1,018,760

Furthermore, the Company wishes to point out the exchange of the Company's preferred shares into common shares, referred to in item 6 above.

### **11. Proceedings pending before courts, arbitration body or public administration body, regarding obligations or liabilities of the Issuer or its subsidiary, including the subject matter of the proceedings, value of the subject matter of the dispute, date of instituting the proceedings, parties thereto, and position of the Issuer**

None.

### **12. Information on one or many transactions with related entities concluded by the Issuer or its subsidiary, if concluded on terms other than arm's length**

None.

### **13. Information about sureties for loans or borrowings, or guarantees granted by the Issuer - in aggregate to one entity or a subsidiary of that entity**

In the period covered by this report, the Company and members of the Group did not grant sureties for loans or borrowings, or guarantees.

#### **14. Other information which the Issuer considers important for an evaluation of its standing as regards personnel, property, financial situation, the financial result, and changes thereof, and information which is important for an evaluation of the Issuer's ability to meet its obligations.**

The Group is in a stable situation as regards, personnel, property and financial standing. There are no known indications of any adverse factors to the Group's ability to meet its obligations.

#### **15. Factors which the Issuer believes will have an impact on its results within at least the next quarter**

We expect that after the launch of the Silvair Lighting Firmware sales, the following factors will have an impact on our financial situation and operating results:

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

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

##### **Increase in the scale of our activities**

Our Company is at an early stage of development, therefore our organizational, technical and logistical resources are significantly limited. Consequently we are aware that the launch of Silvair Lighting Firmware sales and Silvair Platform services will require the Group to adapt to a increased scale of operations. In particular, we will have to promptly develop a sustainable and effective corporate structure, with representatives and sales, promotion and service outlets in a number of locations across the world. We also expect significant changes in the employment structure of the Group. The project teams - now constituting the core of the Group - will have to be joined by employees of marketing, sales, after-sale support and servicing units. A majority of those employees will be software programmers and IT specialists, as well as highly qualified experts who will be responsible for the development of our products across the whole world. It should therefore be expected that the Group's transition from the development stage to the product commercialization stage will call for substantial expenditures on organization, technology and logistics. Those activities will undoubtedly have a significant impact on an increase of our operating costs, and - as a result - on our financial standing and financial result.

##### **Foreign exchange rates**

The Group's Consolidated Financial Statements are presented in the US dollar (USD), which is the functional currency of the Company and the presentation currency of the Group. A functional currency is set for each subsidiary and then it is used to measure the subsidiary's assets and liabilities. The Group uses the direct consolidation method, which entails translation of figures in the financial statements of the subsidiaries directly into the Company's functional currency. The Group has chosen a method of recognizing translation gains and losses that is consistent with this method. We should note however that since our development operations are located in Poland, the majority of current operational costs is incurred in PLN; on the other hand, once we launch our product sales, a majority or significant part of our expected revenue will be denominated in other currencies, i.e. - according to our assumptions - primarily in USD and EUR.

We therefore expect that in the future foreign currency fluctuations may have an important impact on our competitive position and operating results. In view of our future plans to develop sales in foreign markets, an increase in foreign currency risk should be expected.

### **Capital needs**

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

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

## **16. Representation of the Board of Directors**

The Company's Board of Directors hereby represents that according to their best knowledge this semi-annual report on the Silvair Group's activities for the period from 1 January 2018 to 30 June 2018 presents a true view of the development, achievements and situation of the Group, including a description of key risks and threats.

Rafał Han  
President, CEO

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

Adam Gembala  
Chief Financial Officer (CFO), Vice-  
President of the Board of Directors,  
Secretary and Treasurer

Paweł  
Szymański  
Director

Marek Kapturkiewicz  
Director

Krakow, 1 October 2018

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**SILVAIR**