Annual consolidated financial statements of the Silvair, Inc. Group

Kraków, 6 April 2020

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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

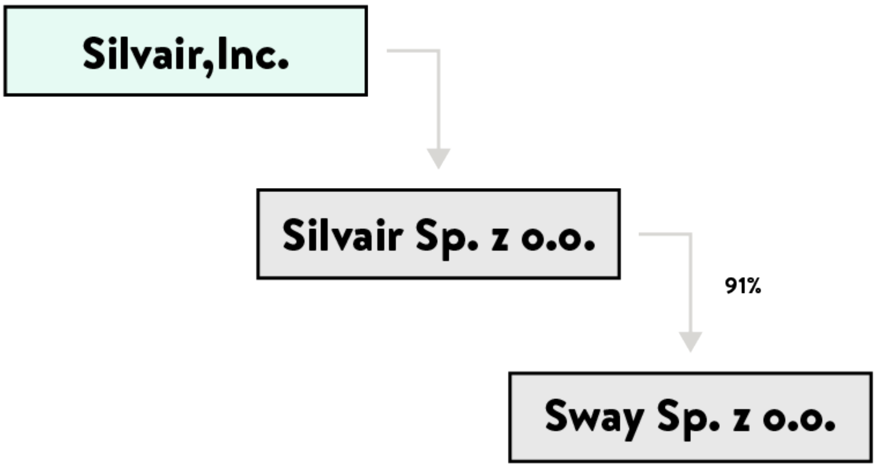
The Issuer is an entity operating in the field of new technologies focusing on the Internet of Things (IoT). The Group has developed an innovative technology for wireless communication of devices in the mesh topology and is currently launching in the global market a product in the form of software and services with special focus on smart lighting systems. The Group's strategic goal is to achieve a leading position on the market of modern technology solutions in the area of IoT, using the Bluetooth Mesh standard technology. The main factor contributing to our competitive advantage is our participation and the role we play in the Bluetooth Special Interest Group (Bluetooth SIG), organization supervising the development of standards. In 2014, the organization formed a task force under the name Mesh Working Group, aiming to develop a new version of the Bluetooth protocol, supporting wireless exchange of data in the mesh network topology. The Issuer has made a significant contribution to the work of this organization, both in the intellectual and organizational dimension, and many of the solutions developed earlier by the Issuer have been adopted to the protocol specification, becoming the foundation of the new Bluetooth Mesh standard, published by Bluetooth SIG in 2017.

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.

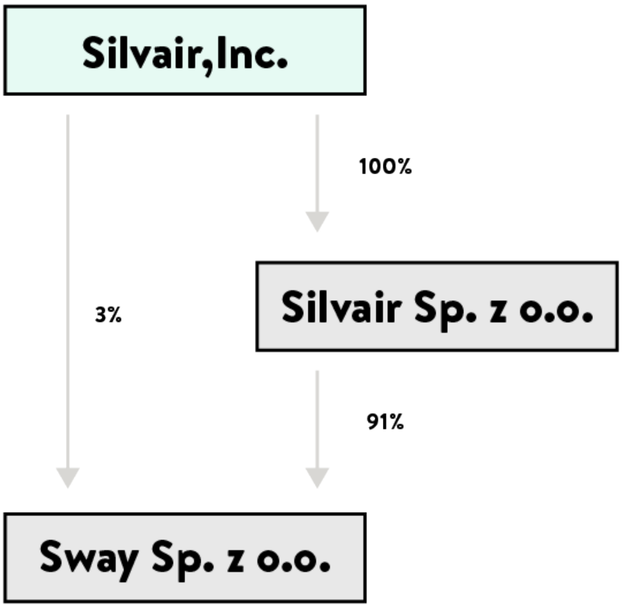
The Group has business presence on the global market, especially on the North American market and in Europe.

The Group

The Group structure for 31.12.2019



As at the publication date, 100% of the shares in Sway Sp. z o.o. are owned by the Group. On 7 January 2020, an agreement on transfer of 6,200 shares in Sway was signed between ASI Bridge Alfa Bitspiration Booster Sp. z o.o. Sp.k and Silvair, Inc. As of that date, Silvair Sp. z o.o. holds 90.9% and Silvair, Inc. holds 9.1% shares in Sway Sp. z o.o.



Functional and presentation currency

The annual 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 annual consolidated financial statements have been prepared as at 31 December 2019 and cover the period of 12 months, i.e. from 1 January 2019 to 31 December 2019.

For the data presented in the annual consolidated statement of financial position and off-balance sheet items, comparative financial data were presented as at 31 December 2018.

For the data presented in the annual consolidated profit and loss account, annual consolidated statement of comprehensive income, annual consolidated statement of changes in equity and consolidated cash flow statement, comparative financial data were presented for the period from 1 January 2018 to 31 December 2018.

Going concern assumption

The statements have been drawn up based on the going concern assumption for the foreseeable future.

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 started to generate revenues and the Silvair Group's intention is to keep expanding the scale of commercialization of its products in the years going forward. Since the beginning of 2019, the Group has entered into new cooperation agreements with leaders from the lighting industry, such as: Linmore LED Labs Inc with its registered office in the US, Mc Wong International Inc with its registered office in the US, which the Issuer has reported on in its current reports. On 10 July 2019, the Group signed another important cooperation agreement with Osram GmbH with its registered office in Germany, and on 18 July 2019 with Legrand Electric Limited from the United Kingdom, which the Issuer reported in its Current Reports No. 11/2019 and 12/2019, respectively.

However, in connection with the coronavirus pandemic, the Parent Company's Management Board has identified a risk of disruptions in sales caused by disruptions of the chain of supply of lighting components to the Group's cooperating partners, as well as postponement of investments associated with replacement of the lighting infrastructure by customers due to the widespread lockdown. In connection with the coronavirus pandemic, the Management Board also notes major difficulties with access to capital, which at this stage of commercialization of the Group's products, is an important source of financing of its day-to-day activity.

This situation may raise concerns regarding the Group continuing as a going concern. The Parent Company's Management Board has taken actions aimed at eliminating these threats.

Consequently, the Parent Company's Management Board has made a pertinent revision of the 2020 sales assumptions, which will contribute to delaying the breakeven point in the Group. At the same time, in connection with the reduced marketing and sales activity, the Management Board has made a decision to reduce the operating expenses, among others through reduction of headcount and change of the terms of compensation for the Group's key employees and collaborators, required to execute the Group's strategy and maintain its competitive advantage. The Group's operating expenses optimization process was planned in such a way as not to disrupt the Group's product development and contacts with the Group's key partners, and make it possible to immediately restore market activity after the pandemic effects pass. The cost-cutting measures will make it possible to reduce the costs by at least 40%.

As at the date of preparation of these statements, the Group in principle finances its operations from the issue of debt securities convertible into the Company's common shares (Convertible Promissory Note). As part of the total maximum issue amount of USD 5.5 million approved by the Board of Directors, the issues of Convertible Securities are effected in the form of private placements without the registration obligation pursuant to the United States Securities Act of 1933 ("United States Securities Act") and without the obligation to prepare a prospectus or other offering document, in accordance with the Company's capital requirements. The resolution adopted by the Company's Board of Directors does not define the schedule or the deadline for Convertible Securities issues.

As at the date of preparation of these statements the Company issued Convertible Securities with the total par value of USD 3.412 million. After the limit of the current issue is exhausted the Group intends to carry out another issue of Convertible Securities and a new issue of the Company's shares. In accordance with earlier disclosures, 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). The Parent Company's Management Board estimates that the funds that can be raised in this form will range from USD 1 to 2 million.

In the context of the difficulties with access to capital caused by the coronavirus pandemic, the cost-cutting measures taken by the Group's Management Board are also aimed at reducing the demand for capital needed to finance the day-to-day operations and thus expedite reaching the breakeven and self-financing point by the Group.

In the opinion of the Parent Company's Management Board, these measures will be successful and in the nearest future, after the epidemic passes, the Group will continue its development.

Composition of the corporate bodies of the Parent Company as at 31 December 2019

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)

On February 4 2020, Silvair, Inc. received information from Marek Kapturkiewicz about his resignation from the function of a member of the Board of Directors, as well as from the function of a member of the Company's Audit Committee. At the same time, the Company appointed Christopher Morawski as a non-executive director, member of the Board of Directors, and a member of the Company's Audit Committee. The Issuer informed about this change in Current Report No. 3/2020 of 7 February 2020.

Board of Directors:

Szymon Słupik — President

Adam Gembala — Vice-President,
Secretary and Treasurer

Rafał Han — Director

Paweł Szymański — Director

Christopher Morawski — Director

Officers:

Rafał Han — Chief Executive Officer (CEO)

Szymon Słupik — Chief Technology Officer (CTO)

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Consolidation

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

As at 31 December 2019 and as at 31 December 2018, consolidation encompasses Silvair, Inc. and two subsidiaries: Silvair Sp. z o.o. and Sway Sp. z o.o. As at 31 December 2019, Silvair, Inc. held directly 100% shares in Silvair Sp. z o.o. and 9% of rights to shares in Sway Sp. z o.o. and, indirectly through Silvair Sp. z o.o., 91% shares in Sway Sp. z o.o. As at 31 December 2018, Silvair, Inc. held directly 100% shares in Silvair Sp. z o.o. and 9% of rights to shares in Sway Sp. z o.o. and, indirectly through Silvair Sp. z o.o., 91% shares in Sway Sp. z o.o. The financial data 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. IFRS conversion 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 2019 – 31 December 2019	1.1190	1.0893	1.1524	1.1213
1 January 2018 – 31 December 2018	1.1798	1.1235	1.2528	1.1437

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 2019 – 31 December 2019	0.2601	0.2490	0.2685	0.2633
1 January 2018 – 31 December 2018	0.2762	0.2613	0.3014	0.2660

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.

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 2019 – 31 Dec 2019	1 Jan2018 – 31 Dec 2018	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
Net revenue on the sale of products, goods and materials	177	21	158	18	680	76
Operating profit (loss)	-3 725	-3 103	-3 329	-2 630	-14 319	-11 235
Profit (loss) before tax	-3 881	-3 204	-3 468	-2 716	-14 919	-11 600
Profit (loss) of the period	-3 906	-2 779	-3 491	-2 355	-15 015	-10 062
Net cash flows from operating activities	-1 939	-2 648	-1 733	-2 245	-7 454	-9 589
Net cash flows from financing activities	-2 824	-2 204	-2 524	-1 868	-10 855	-7 980
Net cash flows from investing activities	2 726	7 167	2 436	6 075	10 479	25 949
Total net cash flows	-2 037	2 315	-1 820	1 962	-7 830	8 380

For items of the statement of financial position

Item	**USD**		**EUR**		**PLN**	
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Total assets	12 389	13 077	11 048	11 434	47 050	49 162
Liabilities and provisions for liabilities	4 736	1 769	4 224	1 547	17 986	6 650
Non-current liabilities	484	683	432	597	1 838	2 568
Current liabilities	4 252	1 086	3 792	950	16 148	4 082
Equity	7 653	11 308	6 825	9 887	29 064	40 941
Share capital	1 143	1 138	1 019	995	4 341	4 278
Number of shares	11 425 670	11 380 420	11 425 670	11 380 420	11 425 670	11 380 420
Weighted average number of shares	11 403 045	10 556 458	11 403 045	10 556 458	11 403 045	10 556 458
Earnings/(loss) per share (in USD and EUR)	-0.34	-0.24	-0.30	-0.22	-1.30	-0.94
Book value per share (in USD and EUR)	0.67	1.07	0.60	0.90	2.55	3.88

Representation by the Board of Directors

These annual 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 2019.

Representations by the Board of Directors on the preparation and publication of the financial statements for the period from 1 January to 31 December 2019 are presented in the Report by the Board of Directors of Silvair, Inc. on the activity of the Silvair Group and Silvair, Inc. for 2019.

Annual consolidated financial statements of Silvair, Inc.

Annual consolidated statement of financial position

	Note No.	31 Dec 2019	31 Dec 2018
A. Non-current assets		**10 752**	**9 540**
I. Costs of development work	**1**	9 896	8 838
II. Other intangible assets	**2**	17	18
III. Property, plant and equipment	**3**	34	57
IV. Right-of-use assets	**3.7**	171	-
V. Financial assets	**4**	7	7
VI. Deferred tax assets	**5**	627	620
B. Current assets		**1 637**	**3 537**
I. Inventory	**6**	9	13
II. Trade receivables	**7**	48	20
III. Other receivables	**8**	223	140
IV. Prepayments and accruals	**9**	61	31
V. Financial assets		-	-
VI. Cash and cash equivalents	**11**	1 296	3 333
Total assets		**12 389**	**13 077**

	Note No.	31 Dec 2019	31 Dec 2018
A. Equity		**7 653**	**11 308**
Equity attributable to the shareholders of the parent company		**7 653**	**11 308**
I. Share capital	**12**	1 143	1 138
II. Capital from revaluation of options	**13**	375	155
III. Other capital	**14**	21 253	21 147
IV. Minority interest transactions	**14.3**	-445	-445
V. Capital from foreign exchange differences from translation of foreign operations		954	1 034
VI. Retained earnings	**15**	-11 840	-9 079
VII. Financial result of the current period		-3 867	-2 761
Equity attributable to non-controlling entities		**80**	**119**
B. Non-current liabilities		**484**	**683**
I. Deferred tax liabilities	**17**	24	28
II. Lease liabilities		-	-
III. Other non-current liabilities	**18**	11	137
IV. Prepayments and accruals	**21**	449	518
D. Current liabilities		**4 252**	**1 086**
I. Trade liabilities	**19**	231	172
II. Liabilities from contracts with customers	**20**	36	-
III. Lease liabilities	**18.1**	171	-
IV. Liabilities on bonds convertible to shares	**20**	2 954	-
V. Other current liabilities	**20**	345	318
VI. Other short-term provisions	**20**	82	52
VII. Prepayments and accruals	**21**	433	544
Equity and liabilities		**12 389**	**13 077**

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

Consolidated profit and loss account	Note No.	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
A. Revenue	**22**	**177**	**21**
B. Cost of sales		**730**	**-**
C. Gross sales result		**-553**	**21**
I. Selling and distribution expenses		599	591
II. General and administrative expenses		1 913	2 558
D. Net sales result		**-3 065**	**-3 128**
I. Recognition of impairment losses through costs of development work	**25**	688	-
II. Other operating income	**24**	91	71
III. Other operating expenses	**25**	63	46
E. Operating result		**-3 725**	**-3 103**
I. Financial income	**27**	21	16
II. Financial costs	**28**	177	117
F. Result before tax		**-3 881**	**-3 204**
I. Income tax	**29**	25	-425
a) current part		23	14
b) deferred part		2	-439
G. Profit/(loss) for the period		**-3 906**	**-2 779**
Profit/(loss) attributable to:			
shareholders of the parent company		-3 867	-2 761
non-controlling interest		-39	-18

	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Net earnings/(loss) per share (in USD)	**-0.34**	**-0.26**
Diluted earnings/(loss) per share (in USD)	**-0.31**	**-0.26**

Annual consolidated statement of other comprehensive income	**1 January 2019 – 31 December 2019**	**1 January 2018 – 31 December 2018**
Profit/(loss) for the period	**-3 906**	**-2 779**
Other comprehensive income	**-80**	**-464**
1. Other comprehensive income to be reclassified to result in the future	-80	-464
– foreign exchange differences from translation of foreign operations	-80	-464
2. Other comprehensive income not to be reclassified to result in the future	-	-
Total comprehensive income	**-3 986**	**-3 243**
Total comprehensive income attributable to:		
shareholders of the parent company	-3 947	- 3 225
non-controlling interest	-39	-18

Annual consolidated statement of changes in equity

Consolidated statement of changes in equity	Share capital	Capital from reval. of options	Other capital	Minority interest transactions	Capital from foreign exchange differences	Retained earnings	Financial result	Total equity	Equity attributable to non-controlling entities	Total equity
At the beginning of the period 1 January 2019	**1 138**	**155**	**21 147**	**-**	**1 034**	**-12 573**	**-**	**10 901**	**407**	**11 308**
Corrections of errors:	**-**	**-**	**-**	**-445**	**-**	**733**	**-**	**288**	**-288**	**-**
adjustment associated with the right to acquire shares				-445		445		-	-	-
minority interest adjustment						288		288	-288	-
At the beginning of the period 1 January 2019, corrected	**1 138**	**155**	**21 147**	**-445**	**1 034**	**-11 840**	**-**	**11 189**	**119**	**11 308**
Changes to equity in the period from 1 January to 31 December 2019										
Exercise of stock options for Company shares	1	-108	104	-	-	-	-	-3	-	-3
Issue of new shares as part of the stock plan	4	-2	2	-	-	-	-	4	-	4
Valuation of stock options under IFRS 2	-	330	-	-	-	-	-	330	-	330
Bonds convertible to shares classified as equity instruments	-	-	-	-	-	-	-	-	-	-
Change in the group's structure (transactions with non-controlling entities)	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**5**	**220**	**106**	**-**	**-**	**-**	**-**	**331**	**-**	**331**
Result of the period	-	-	-		-	-	-3 867	-3 867	-39	-3 906
Other comprehensive income for the period	-	-	-		-80	-	-	-80	-	-80
Total comprehensive income	**-**	**-**	**-**		**-80**	**-**	**-3 867**	**-3 947**	**-39**	**-3 986**
At the end of the period 31 December 2019	**1 143**	**375**	**21 253**	**-445**	**954**	**-11 840**	**-3 867**	**7 573**	**80**	**7 653**

Consolidated statement of changes in equity	Share capital	Capital from reval. of options	Other capital	Minority interest transactions	Capital from foreign exchange differences	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**
Corrections of errors:	-	-264	-	-	-	264	-	-	-	-
adjustment of option measurement (payments with shares)	-	-264	-	-	-	264	-	-	-	-
At the beginning of the period 1 January 2018, corrected	**973**	**23**	**15 286**	**-**	**1 498**	**9 831**	**-**	**7 949**	**-**	**7 949**
Changes to equity in the period from 1 January to 31 December 2018										
Exercise of stock options for Company shares	2	-34	34	-	-	17	-	4 537	-	4 537
Issue of new shares as part of the stock plan	119	-	4 401	-	-	-	-	2	-	2
Valuation of stock options under IFRS 2	-	166	-	-	-	-	-	166	-	166
Bonds convertible to shares classified as equity instruments	44	-	1 426	-	-	-	-	1 470	-	1 470
Change in the group's structure (transactions with non-controlling entities)	-	-	-	-445	-	735	-	290	137	427
Total transactions with owners	**165**	**132**	**5 861**	**-445**	**-**	**752**	**-**	**6 465**	**137**	**6 602**
Result of the period	-	-	-		-	-	-2 761	-2 761	-18	-2 779
Other comprehensive income for the period	-	-	-		-464	-	-	-464	-	-464
Total comprehensive income	-	-	-		-464	-	-2 761	-3 225	-18	-3 243
At the end of the period 31 December 2019	**1 138**	**155**	**21 147**	**-445**	**1 034**	**-9 079**	**-2 761**	**11 189**	**119**	**11 308**

Annual consolidated cash flow statement

	Note No.	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Profit (loss) before tax		**-3 881**	**-3 204**
Adjustments for:		**1 942**	**556**
1. Depreciation and amortization	**26**	1 184	683
2. Foreign exchange gains (losses)		66	-18
3. Interest and profit sharing (dividends)		50	131
4. Movement in provisions		30	52
5. Movement in inventory		4	38
6. Movement in receivables		-111	-31
7. Movement in current liabilities, except for loans and borrowings		117	-21
8. Tax paid		23	14
9. Movement in prepayments and accruals		-217	449
10. Other adjustments resulting from ope ating activity	**11.1**	842	-741
Net cash from operating activities		**-1 939**	**-2 648**
Proceeds		-	-
1. Disposal of intangible assets and property, plant and equipment		-	-
2. From financial assets, including:		-	-
a) in related entities		-	-
b) in other entities		-	-
Expenditures		2 824	2 204
1. Purchase of intangible assets and property, plant and equipment		32	87
2. Expenditures incurred for development work		2 792	2 117

3. For financial assets, including:	-	-
a) in other entities	-	-
Net cash from investing activities	**-2 824**	**-2 204**
Proceeds	3 033	7 331
1. Net proceeds from issuing shares and additional capital contributions	111	7 315
2. Loans and borrowings drawn	-	-
3. Proceeds from the issue of debt securities	2 912	-
4. Interest	10	16
Expenditures	307	164
1. Repayment of loans and borrowings	127	140
2. Repayment of lease liabilities	161	-
3. Interest	19	24
Net cash from financing activities	**2 726**	**7 167**
Net cash flows	**-2 037**	**2 315**
Movement in cash	**-2 037**	**2 315**
- movement in cash on account of foreign exchange differences	-	-
Cash at the beginning of the period	**3 333**	**1 018**
Cash and cash equivalents at the end of the period	**1 296**	**3 333**

Explanatory notes to the annual consolidated financial statements

Corrections of prior period errors

Type of error

In 2019, the Parent Company effected a retrospective correction of an error made in the previous reporting period. The error pertained to failure to disclose the rights to the shares in Sway sp. z o.o., which Silvair, Inc. obtained in 2018.

In performance of the investment agreement dated 28 March 2018 concluded between, among others, Sway sp. z o.o. and ASI Bridge Alfa Bitspiration Booster Sp. z o.o. Sp.k. (hereinafter "ASI Bridge"), on 18 May 2018 ASI Bridge acceded to Sway and took up 6,200 (six thousand two hundred) indivisible common shares in SWAY ("Shares"), created through increasing SWAY's share capital and taken up for a cash contribution of PLN 1,600,000 (USD 427 thousand, as at the take-up date). The par value of the Shares was PLN 310,000. The investment agreement provided for ASI Bridge's divestment of Sway and transfer of the shares to Silvair, Inc. On 18 May 2018, Silvair, Inc. and ASI Bridge entered into a share exchange dispositive agreement under which ASI Bridge undertook to transfer the ownership of to the Shares to Silvair, Inc. immediately after the competent registration court registers SWAY's share capital increase in which the Shares were created, in return for transfer by Silvair, Inc. of the title to convertible notes ("Notes") with the value corresponding to the USD equivalent of PLN 1,600,000, translated at the average NBP exchange rate from the date of signing the convertible promissory note document, convertible into Silvair, Inc.'s shares. As part of the initial public offering (IPO) of Silvair, Inc. at the Warsaw Stock Exchange, which took place on 26 July 2018, the said Notes were received by ASI Bridge, converted into Silvair, Inc.'s shares, as a result of which ASI Bridge became the owner of 91,722 shares of Silvair, Inc.

On 22 June 2018, all conditions for the acquisition of the Shares by Silvair, Inc. were satisfied, however, for reasons independent of the Company, ASI Bridge did not transfer the Shares to Silvair, Inc. in 2018 and 2019. Consequently, the Company made successive actions aimed at bringing about the intended result. Among other things, on 2 September 2018, and again on 2 January 2020, Silvair, Inc. summoned ASI Bridge to perform its obligation of divestment of Sway sp. z o.o. and transfer of the legal title to the Shares. As a consequence of the actions taken by the Company, the agreement transferring the ownership of the Shares in Sway from ASI Bridge to Silvair, Inc. was entered into on 7 January 2020.

Due to the fact that the company did not take into account in 2018 the obtained right to the Shares, it was justified to make a correction with the effects presented below.

The Company did not take into account in 2018 the obtained right to the shares in Sway and the value of the taken up shares was covered with corrections in the results of previous years.

The consequences of the correction are described below.

The Issuer has also made a presentation change regarding division of accrued expenses (subsidies settled over time) into short- and long-term ones.

Impact on consolidated financial statements

Statement of financial position as at 31 December 2018	
Item	**Amount**
Minority interest transactions	-444 542
Retained earnings	733 696
Net profit attributable to the shareholders of the parent company	-1 813
Equity attributable to non-controlling entities	-287 341

Impact on earnings/(loss) per share

The change had an insignificant impact on the 2018 loss and did not affect the loss per share, which amounted to USD - 0.26.

Impact on financial statements

Statement of financial position (USD '000s)	Year 2018 published	Change	Year 2018 corrected
A. Non-current assets	**9 540**	**-**	**9 540**
I. Costs of development work	8 838	-	8 838
II. Other intangible assets	18	-	18
III. Property, plant and equipment	57	-	57
IV. Financial assets	7	-	7
V. Deferred tax assets	620	-	620
B. Current assets	**3 537**	**-**	**3 537**
I. Inventory	13	-	13
II. Trade receivables	20	-	20
III. Other receivables	140	-	140
IV. Prepayments and accruals	31	-	31
V. Financial assets	-	-	-
VI. Cash and cash equivalents	3 333	-	3 333
Total assets	**13 077**	**-**	**13 077**

	Year 2018 published	Change	Year 2018 corrected
A. Equity	**11 308**	**-**	**11 308**
Equity attributable to the shareholders of the parent company	**10 901**	**288**	**11 189**
I. Share capital	1 138	-	1 138
II. Capital from revaluation of options	155	-	155
III. Other capital	21 147	-	21 147
IV. Transakcje z kapitałem mniejszości	-	-445	-445
V. Capital from foreign exchange differences	1 034	-	1 034
VI. Retained earnings	-9 814	735	-9 079
VII. Financial result of the current period	-2 759	-2	-2 761
Equity attributable to non-controlling entities	**407**	**-288**	**119**
B. Non-current liabilities	**165**	**518**	**683**
I. Deferred tax liabilities	28	-	28
II. Other non-current liabilities	137	-	137
III. Prepayments and accruals	-	518	518
C. Current liabilities	**1 604**	**-518**	**1 086**
I. Trade liabilities	172	-	172
II. Other current liabilities	318	-	318
III. Other short-term provisions	52	-	52
IV. Prepayments and accruals	1 062	-518	544
Equity and liabilities	**13 077**	**-**	**13 077**

Basis for preparation and accounting policies

Basis for preparation of the consolidated financial statements

These annual consolidated financial statements of the Group cover the period of 12 months ended 31 December 2019 and have been prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS") and interpretations issued by the International Accounting Standards Board approved by the European Union, effective for annual periods beginning on or after 1 January 2019.

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

Amendments to standards or interpretations

In these consolidated financial statements the Group applied for the first time the IFRS 15 standard "Contracts with Customers" and clarifications to IFRS 15 "Revenue from Contracts with Customers". The standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts". The fundamental principle of the new standard is to recognize revenues in a manner that reflects the transfer of promised goods or services to customers and in an amount that reflects the fee to which the Group expects to be entitled in exchange for such goods or services. All goods or services sold in bundles which can be separated within the bundle should be recognized separately and all discounts and rebates applicable to the transaction price should be, in principle, allocated to individual elements of the bundle. If the amount of revenue is variable, according to the new standard, variable consideration is only included in revenues if it is highly probable that there will be no revenue reversal in the future as a result of revaluation.

In addition, in accordance with IFRS 15, the costs incurred to obtain and secure a contract with a customer should be capitalized and settled throughout the period of consuming the benefits from such contract.

The Company did not report any sales revenues in 2018, thus the new standard had no impact on the financial statements for 2018. As of 2019, in connection with concluded contracts with customers, the Group applied IFRS 15. A description of the accounting policies is presented in the description of adopted accounting policies and the disclosures were made in Notes 20.4, 22.1, 22.2.

<u>New or amended standards and interpretations that have been in force since 1 January 2019 and their impact on the Group's consolidated financial statements:</u>

- New IFRS 16 "Leases"

  The new standard replaces IAS 17 and several interpretations. Apart from the change of the definition of lease, the standard introduces changes in lessees' accounting: it requires that the balance sheet recognizes, for every lease contract, the value of the "right-of-use asset" and the corresponding financial liability. The right-of-use asset is then amortized, while the liability is measured at amortized cost. In specific situations identified in the standard, the lease liability is subject to remeasurement, whose effects are, as a rule, recognized as an adjustment to the right-of-use asset.

  Practical expedients were envisaged for short-term contracts (up to 12 months) and low-value asset leases, which the Group adopted in its accounting policies. The practical expedient involves the possibility of not recognizing the liabilities for such leases.

  The accounting approach to leases on the part of the lessor is similar to the rules laid down in the existing IAS 17.

The Group implemented IFRS 16 using the modified retrospective method, i.e. without transformation of comparative data, and recognizing the total effect of initial application of the standard as an adjustment to the opening balance of retained earnings on initial application date. In addition, the Group applied the following practical solutions allowed by the standard:

- as at the date of initial application of IFRS 16, the Group did not carry out a reassessment of whether the given contract is a lease or whether it comprises a lease; the Group applied the standard only to agreements which were identified as leases before such date pursuant to IAS 17 and IFRIC 4,
- the value of the right-of-use under all contracts previously classified by the Group as operating lease pursuant to IAS 17 as at the date of initial application of IFRS 16 was determined in the amount of the lease liability adjusted by the fees and prepayments recognized in the consolidated statement of financial position directly before the date of initial application,
- the knowledge acquired *post factum* when determining the lease period was used.

Due to using the practical expedients, the Group used IAS 36 as at the date of initial application of IFRS 16 to assess the necessity to recognize impairment losses on the value of the right-of-use assets. The analysis has not shown such necessity.

The Group does not have any real property in perpetual usufruct.

The new standard has impact on the Group's financial statements. As at the date of initial application, the Group was the lessee in 2 lease agreements, described more broadly in Note 38. As at 1 January 2019, the Group carried out an analysis of the impact of IFRS 16 on the Group's financial statements. Due to the short-term nature of the contracts, the Group's took advantage of the exemption envisaged for short-term contracts (up to 12 months).

On 30 June 2019, the term of the contracts providing for the right to use the property in which Silvair Sp. z o.o. and Sway Sp. z o.o. conduct activity was extended to 31 December 2020. In connection with the change of the contracts, the Group reassessed the classification of the contracts pursuant to IFRS 16 and concluded that the contracts satisfy the criteria for recognition of right-of-use assets.

Since the Issuer does not use any bank loans or borrowings or other leases, for the needs of the interest rate it could not rely on its own ratios, hence it adopted the rate of 3.82% (WIBOR3M + interest for 2-year treasury bonds) as the interest rate used to determine the lease liability.

In the statement of financial position the Group presented right-of-use assets and lease liabilities separately from other assets and liabilities. The interest expense on financial lease liabilities were presented as a component of financial costs, separately from amortization of the right-of-use. In the cash flow statement, interest was presented in financing activities while amortization and variable costs not included in the measurement of the lease liability were presented in operating activities.

- New IFRIC 23 "Uncertainty over Income Tax Treatments"

  This interpretation for IAS 12 "Income Tax" unifies the approach to situations in which interpretation of income tax regulations is not clear and there is no definitive answer whether taxation authorities or courts accept the company's tax treatment The management should first assess whether its interpretation is likely to be accepted by tax authorities. If it is then such an interpretation should be adopted for the preparation of the financial statements. If it is not then uncertainty associated with the income tax-related amounts should be taken into account using the most likely amount or the expected value. The company should reassess the assumed amount if facts and circumstances affecting it change. If the amount is adjusted then it is treated as a change in an accounting estimate in accordance with IAS 8.

The Group did not have any transactions whose recognition raised tax doubts. The Group decided to reduce the amount of deferred tax assets in connection with the probable reduction of the possibility of using them in entirety in the future. Information about the change of the deferred tax assets is presented in Note 5.

- New IFRS 9 "Financial Instruments"

  This amendment enabled the entity to account as "assets measured at amortized cost" some prepayable instruments with the so-called negative compensation (meaning that upon prepayment the entity would receive less than the sum of principal and accrued interest).

  Amendment of this standard did not affect to the financial statements since there were no transactions affected by these changes. Classification of financial instruments according to IFRS 9 is presented in Note 33.

Other amendments introduced in 2019:

- Amendment 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.

  The amendment to the standard did not affect the financial statements because the Group does not have such financial instruments.

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 did not materially affect the financial statements because:

- The Group is not a party to transactions subject to the amendment to IAS 12,
- all adjustments of an assets of a significant value are financed by the Group using funds acquired externally especially for that purpose.
- The Group does not conduct any joint activities within the meaning of IFRS 11.

- Amendments to IAS 19 "Employee Benefits"

  In accordance with the amendment, if a net asset or liability under a defined benefit plan is remeasured as a result of an amendment, curtailment or settlement, the entity should determine the current service cost and the net interest for the period after the remeasurement using the assumptions used for the remeasurement and determine net interest for the remaining period based on the remeasured net asset or liability.

  The amendment to the standard did not affect the financial statements because the Group does not offer defined benefit plans to employees for the post-employment period.

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

<u>Published standards and interpretations that have not entered into force for periods starting 1 January 2019 and their impact on the Company's consolidated financial statements.</u>

Until the date of preparation of these standalone financial statements, certain new or amended standards and interpretations have been published as applicable to annual periods following 2019. The list also includes amendments, standards and interpretations that have been published but not yet endorsed by the European Union.

- New IFRS 17 "Insurance Contracts"

The new standard regulates the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. The standard replaces the IFRS 4 applied previously.

The Group estimates that the new standard will not affect its financial statements because it does not conduct insurance activity.

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

The amendment entails the introduction of a new definition of the term "material" (in respect to an omission or misstatement in the financial statements). The previous definition included in IAS 1 and IAS 8 differed from the one included in the Conceptual Framework for Financial Reporting, which could cause difficulty in judgments made by the entity preparing the financial statements. The amendment will cause unification of definitions in all the applicable IASs and IFRSs.

The Group estimates that the new standard will not affect its consolidated financial statements because the previous judgments regarding materiality were consistent with the ones that would have be made using the new definition.

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

- Amendments to IFRS 3 "Business Combinations"

  The amendment concerns the definition of a business and covers mainly the following matters:

  - it clarifies that to be considered a business, an acquired set of activities and assets must include an input and a material process that together significantly contribute to the ability to create outputs;
  - narrows the definitions of outputs and thereby also of a business by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
  - adds guidance and illustrative examples to help entities assess whether a material process has been acquired;
  - removes the assessment of whether it is possible to replace any missing inputs or processes and continue to operate a business in order to produce outputs; and
  - adds an optional possibility of conducting a simplified assessment of whether an acquired set of activities and assets is not a business.

  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 amendment in question will not affect the data presented in the Group's existing financial statements. As of now, the Group is not able to predict any future business acquisition transactions.

- Amendments to References to the Conceptual Framework in IFRS

  The Board has prepared a revised version of the conceptual framework for financial reporting. Consequently, for the sake of consistency, the references to the conceptual framework contained in individual standards have been adapted accordingly.

  The amendments are effective for annual periods beginning on or after 1 January 2020 and, in the Group's assessment, will not impact its financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS 7

  The IAS Board has introduced amendments to hedge accounting principles in connection with the planned reform of benchmark interest rates (WIBOR, LIBOR etc.). These rates are often the hedged position e.g. in the case of IRS hedging. The planned replacement of the existing rates with new benchmark rates has caused doubts as to whether a forecast transaction is still highly probable, whether future hedged cash flows are still expected to occur or whether there is an economic link between the hedged and the hedging position. The amendment to the standards has specified that the estimations should assume that changes to benchmark rates will not occur. Since the Group does not use hedge accounting, the uncertainty associated with derivative instruments based on interest rates will not have influence on its financial statements.

- Amendments to IAS 1 "Presentation of Financial Statements"

  The IAS Board has specified the principles for classification of liabilities as current and non-current, primarily in two aspects:

  - it has been specified that the classification depends on the rights that the company has as at the balance sheet date,
  - the management's intentions with regard to expediting or delaying the payment of the liability are not taken into consideration.

  These amendments are effective for annual periods beginning on or after 1 January 2022. The Group is analyzing the impact of the amendments on its financial statements. 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

These annual consolidated financial statements have been prepared on the historical cost basis, except for equity instruments to be measured at fair value through other comprehensive income, which are carried at fair value.

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 2019	31 December 2018
PLN/USD	0.2633	0.2660

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

	Year ended 31 December 2019	Year ended 31 December 2018
PLN/USD	0.2601	0.2769

Segments

In previous reports, the Group specified 2 segments: Silvair Platform and Silvair Mesh Stack, as well as ancillary activity. The Silvair Mesh Stack segment consisted of universalized firmware compliant with the Bluetooth Mesh standard, which is intended primarily for installation in electronic components of lighting products, as well as in sensor devices. Currently, Silvair Mesh Stack belongs to the Lighting Control segment.

The digital platform segment – Silvair Platform – included a set of services related to the management of a smart lighting network and the use of data generated by such a network to provide services that go beyond the smart lighting category. Currently, Silvair Platform belongs to the Lighting Control segment.

The Board believes that the modified presentation of the segments better reflects the Group's product offer while taking into account the strategic directions of its development.

The Company focuses its activities on the following three market segments:

I. Lighting Control

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

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

- **Silvair Lighting Firmware** is firmware based on the global Bluetooth Mesh standard. After integration with a lighting component, it enables wireless communication with other devices using the Bluetooth Mesh technology. This, in turn, opens up multiple new possibilities with regard to lighting control, monitoring of the lighting infrastructure operation, and the use of data generated by lighting infrastructure. A component with installed firmware allows e.g. autonomous control of light intensity and color temperature, as well as the implementation of advanced scenarios for intelligent lighting control. These include:
    - Automatic occupancy-based control (*Occupancy Sensing*) – it is a scenario that uses data from a network of motion sensors to automatically adjust the operation of luminaires to the presence of people in a given space. In practice, this means automatic switching off / dimming of the light when

motion sensors do not detect occupancy in a given room. LBNL estimates that this scenario generates average energy savings of 24%.

- Automatic control based on natural light availability (*Daylight Harvesting*) – it is a scenario that uses data from a network of light sensors to automatically adjust the light intensity depending on the availability of natural light in a given space. In practice, this means automatic switching off / dimming of the light when the natural light coming in through the windows fully or partially covers the lighting needs in a given room. LBNL estimates that this scenario generates average energy savings of 28%.
- Automatic control based on a defined schedule – it is a scenario that involves defining a time schedule for the operation of a lighting installation. Such a schedule can be defined based on a 24-hour clock (e.g. turning the lights on at 7 a.m. and turning them off at 6 p.m. on every weekday) or based on the astronomical clock (e.g. turning the lights on at sunset and turning them off at sunrise). LBNL estimates that this scenario generates average energy savings of 24%.

The above scenarios can be combined with each other to maximize energy efficiencies. In the case of smart lighting networks, these and other advanced lighting control strategies can be freely configured and optimized using intuitive software - e.g. an application installed on a mobile phone or tablet. The software provided by Silvair is designed in such a way that its operation does not require lighting control expertise, as is the case with traditional cable systems.

Silvair Lighting Firmware is offered to lighting component manufacturers in a one-time payment model for each activated firmware license (one activated license means one smart component sold by the Company's partner).

- **A set of digital tools (Silvair Commissioning)** for commissioning, configuration and management of smart lighting networks based on the Bluetooth Mesh standard. It includes a web application that allows designing a lighting control system and defining the desired lighting control scenarios before visiting the building where the project is to be implemented. The configuration process is finalized on-site using a mobile application. This division simplifies the work of an installer while minimizing the costs of commissioning. The tools are designed in such a way as to simplify and accelerate the commissioning as much as possible, since thus far it has been considered an arduous and expensive process that can be carried out only by a highly qualified specialist. Full automation of processes related to the establishment of a smart network and a ready-to-use library of lighting scenarios allow easy implementation of advanced, energy-efficient lighting control strategies while also enabling flexible adjustment of the system operation to users' needs.

  Also in this case, a one-time payment model is used - for each smart component commissioned and configured using the tools provided by Silvair.

II. Connected Lighting

This relatively young market segment has appeared as a result of the emergence of wireless lighting control technologies. The providers of innovative smart lighting services are companies that offer software solutions allowing utilization of the potential of wireless control systems with regard to the use of data generated by smart components. Appropriate aggregation and analysis of this data allows the provision of services that significantly increase the reliability of lighting installations, while enabling more flexible control over their operation. The customers of these companies are usually suppliers of complete control systems who increasingly often decide to provide additional services that go beyond the traditionally understood definition of lighting control. This allows them to increase the value of offered solutions and, as a consequence, improve their competitive advantage. End users are property owners and managers who can use the innovative services to e.g. optimize the costs of electricity and increase the satisfaction of building occupants.

In the **Connected Lighting** segment, the Group plans to provide services related to the provision of digital tools for, among others, the following applications:

- **Lighting infrastructure diagnostics -** unlike traditional lighting products, smart luminaires enable bidirectional exchange of information. This means they not only receive instructions sent by switches, dimmers or occupancy sensors, but are also able to transmit a wide range of data regarding the operation of the installation. This information can be transmitted in real time, providing a very precise insight into the current state of the entire lighting infrastructure. When the appropriate software is used, this data allows – for example – generation of automatic alerts in the event of any irregularities. This in turn allows immediate reaction, e.g. replacement of a faulty luminaire. This functionality eliminates the need for carrying out a visual inspection of the system in order to identify defective luminaires. In the case of extensive lighting networks installed e.g. in hotels, this increases the reliability of the installation, significantly improves the effectiveness of maintenance works, substantially reduces costs, and increases customer satisfaction. It is also possible to develop more advanced software that analyzes data packets on an ongoing basis to identify even minor anomalies, e.g. fluctuations in device operating temperature or fluctuations in the level of generated light. This provides the foundation for implementing the so-called predictive maintenance practices which allow predicting failures of lighting components in advance. This, in turn, further increases the reliability of the entire installation, while eliminating the undesirable consequences of device failures. In addition, data generated by smart luminaires can be used by customers to exercise their warranty rights. Having precise information on the total lifetime operating hours of the device, the customer can easily verify the manufacturer's warranty regarding its lifetime, and exercise the customer’s rights in the event of a warranty breach. On the other hand, a device manufacturer can obtain a wide range of data regarding the ways its component is used by the customers in order to be able to design solutions that better meet the needs of consumers.
- **Emergency lighting system test automation**. Emergency lighting systems are not used on a daily basis, but it is necessary to ensure their reliability in emergency situations, including situations that threaten human life, e.g. in the event of a fire. For this reason, fire regulations oblige property managers to regularly inspect such installations. These inspections must be carried out by specialists with appropriate qualifications who verify the reliability of the installation on-site. Unlike traditional cable installations, a smart lighting system can autonomously verify the operation of individual system components, and automatically diagnose potential problems. It is possible to generate periodic reports that include all data required by fire regulations, which significantly reduces the expenses associated with carrying out mandatory periodic maintenance inspections.
- **Energy consumption monitoring**. Using appropriate software, a building administrator can keep track of the amount of electricity consumed by the lighting installation - from individual luminaires, through individual rooms and floors, to the entire building. This allows optimizing the lighting system operation and implementing other advanced lighting control scenarios. Energy monitoring is also important from the point of view of entities applying for energy rebates, as it allows easy documentation of e.g. the fact that a system meets specific energy efficiency requirements, or that specific energy savings have been achieved through a lighting control system modernization.

- **Remote control and configuration of the lighting installation**. Smart lighting systems provide the ability to remotely control the operation of a lighting installation in real time, and to remotely configure lighting settings (e.g. relating to the implemented advanced control scenarios). As a result, it is possible to adjust the system operation to current needs and circumstances without the need for physical presence of the system administrator in the building. This functionality enables more flexible management of the lighting infrastructure while reducing the costs associated with a specialist visit.

Silvair Connected Lighting solutions will be offered primarily to the suppliers of complete lighting control systems, as well as to energy service companies (ESCOs). By improving the efficiency and reliability of lighting installations, these services constitute an attractive addition to the offer of such entities, increasing their competitiveness and creating new revenue opportunities. The Group plans to offer the above-mentioned services in a subscription model.

III. Building Intelligence

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

Silvair Building Intelligence is a set of smart building management services that can be provided using digital tools developed by the Company. Based on the analysis of data generated by occupancy sensors, which are an integral part of responsive and energy-efficient lighting control systems, these tools allow obtaining detailed information on processes occurring within the building. The provided services are not directly related to the functioning of the lighting network, however, they allow owners and managers of commercial buildings to use space more efficiently while increasing the productivity of their occupants. The Group plans to develop a wide range of tools enabling the provision of innovative services such as:

- **Occupancy Monitoring.** Motion and occupancy sensors not only help increase the comfort of people in a given space by adjusting lighting, air conditioning and heating to their needs at a given moment, which actively supports energy saving efforts, but are also able to collect and transfer space occupancy data which can later be used for:
  - Optimizing space utilization and optimizing space maintenance costs, as well as increasing employee productivity e.g. through more efficient organization of the office space, increase in the efficiency of cleaning services (deploying them only in the spaces that have been used), and increase in the efficiency of building processes such as heating or air conditioning.
  - Improving sales by recognizing and understanding customers' shopping habits and improving the efficiency of the sales space,
  - Increasing the safety of the building, as well as people and assets inside the building, by improving the operation of alarm and security systems or integrating with such systems.
- **Indoor navigation**. GPS navigation works great outdoors, but performs poorly indoors due to interference and significant weakening of the radio signal. Implementing the Bluetooth Mesh technology in the lighting infrastructure enables sending radio signals to mobile devices which – after the mapping process is carried out – allow determining the location inside a building. Due to the fact that

the locating process is based on information received by a mobile phone, this functionality can be used without users losing their privacy, which is the case with video recording

- **Asset Tracking.** Employees are often involved in the search for equipment, which generates significant time and financial losses in some organizations. Asset tracking eliminates the need for employees to find items manually. It also provides accurate insight into how efficiently spaces are used in a given organization, office or warehouse, while enabling identification of relationships with regard to how resources are used. This in turn allows streamlining of business operations. Collecting data on where the equipment is and how it is used allows understanding what actions should be taken to keep the equipment in operation for as long as possible, e.g. by anticipating necessary repairs before they become urgent.

- **Monitoring of environmental conditions**. Once the lighting infrastructure is equipped with appropriate sensor technology, it is possible to collect and analyze data relating to environmental quality assessment. Monitoring of relevant indicators contributes to the safety of processes, resources and humans. Examples include:

  - Protecting inventory and maintaining specific conditions for products stored in warehouses or used in production processes,
  - Preventing equipment failures and downtimes,
  - Increasing productivity by maintaining comfortable and safe environmental conditions for building occupants

  Optimal environmental conditions can be ensured by remote monitoring of, among others, ambient temperature, humidity, lighting, pollution, air pressure, or sound volume.

Silvair Building Intelligence solutions will be offered primarily to the owners and managers of commercial buildings. The software developed by the Company will enable monitoring and optimization of processes taking place inside buildings in order to increase employee productivity and improve the efficiency of available resources utilization. The Group plans to offer the above-mentioned services in a subscription model.

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 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. Profits or losses resulting from the sale, liquidation or discontinuation of the use of fixed assets are defined as the difference between sales revenues and the net value of such fixed assets. These profits and losses are recognized in the result in other operating income or costs at the time of take-over of control over the property, plant and equipment by the buyer in accordance with the requirements of IFRS 15. The amount of the compensation under property, plant and equipment sale transactions is determined in accordance with the requirements of IFRS 15 for determining the transaction price.

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.

The estimate useful lives for the costs of development work is no more than 10 years.

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.

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the ability to measure reliably the expenditure incurred during development which may be assigned to the intangible 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.

The moment of starting the capitalization of costs is determined on the basis of the management's professional judgment regarding the (technological and economic) possibility of completing the project. This moment is triggered by reaching a project stage (milestone) after which there is justified certainty that the entity is able to complete the intangible asset to make it fit for use or sale and that future economic benefits obtained as a result of the use or sale will exceed the production cost of the given intangible asset.

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 verifies intangible assets for indications of impairment. If it is identified that any events or circumstances may point to difficulties with recovery of the carrying amount of the given asset, an impairment test is carried out. An annual impairment test is carried out for costs of development works which have not yet been accepted for use.

Due to the unique nature of the activities, comprising comprehensive development and implementation of an innovative technology, the impairment tests for intangible assets are carried out for the set of assets which jointly generate cash flows, independently of other assets or asset groups (referred to as cash generating units). Assets that generate cash independently are tested separately.

If the carrying amount exceeds the estimated recoverable amount of the assets or the cash generating units to which the assets belong, then the carrying amount is reduced to the level of the recoverable amount. The recoverable amount corresponds to the higher of: fair value minus selling and distribution expenses or value in use. In determining the value in use, the estimate future cash flows are discounted to the present value, using a discount rate reflecting up-to-date market assessments of time value of money and the risk associated with the given asset.

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, having carried out an impairment test, 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. The estimate amortization period of intangible assets ranges from 2 to 5 years. 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 indications of impairment and assesses the need to recognize impairment losses on this account. The need to recognize impairment losses occurs when the Group, based on the carried out impairment test, concludes 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, save for receivables recognized in accordance with IFRS 15, 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.
- 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 receivables are measured transaction price, within the meaning of IFRS 15, at initial recognition and at amortized cost as at the balance sheet date using the effective interest rate minus impairment losses.

If the trade receivables contain a material financing component, 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.

In the case of trade receivables the Group applies a simplified approach assuming calculation of the allowances for expected credit losses for the entire lifetime of the instrument. Since the Group's sales revenues appeared in material amounts in 2019, there is no possibility of relying on the historical data regarding repayment of receivables by business partners. To estimate the impairment losses on trade receivables, the Group applies the individual approach to each customer, taking into account the available forward-looking information.

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.

Assets from contracts with customers

The Group recognizes, in contract assets, the right to remuneration in return for goods or services that the Group has provided to the customer if this right is dependent on a condition other than the passage of time.

The Group assesses whether a contract asset is impaired on the same principles as in the case of financial assets under IFRS 9.

If the Group incurred additional costs associated with efforts aimed at executing the contract with the customer which the Group expects to recover they are recognized as an asset. The additional costs associated with efforts aimed at executing the contract are the costs incurred by the Group to execute the contract with the customer which it would not have incurred if the contract had not been concluded. The costs associated with efforts aimed at executing the contract incurred regardless of whether the contract was concluded or not are recognized as costs at the time they are incurred.

The costs of performance of a contract which are recognized as an asset are understood by the Group, in particular, as:

- sales commissions on extension of contracts (retention),
- costs of installations not subject to IAS 16.

Capitalized costs associated with efforts aimed at executing and performing a contract are subject to amortization in the period in which the services under the contract are provided to the customer.

An analysis of the contracts from the perspective of IFRS 15 has shown that there are no assets on account of contracts with customers.

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. For the needs of presentation in the consolidated statement of financial position, the Group does not deduct subsidies from the carrying amount of assets but recognizes subsidies as revenue from future periods in the “Prepayments and accruals” line item.

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 measured at amortized cost.

Non-current assets classified as held for sale

Non-current assets (non-current asset groups) are classified by the Group as held for sale if their carrying amount is recovered primarily as a result of sales transactions rather than through further use. This condition is deemed satisfied only when the asset (asset group) is available in its current condition for immediate sale, in keeping with normal and customary sales terms, and the conclusion of a sales transaction is highly probable during one year from the change of the classification.

Non-current assets classified as held for sale are carried at the lower of: carrying amount or fair value minus cost of sale. Some non-current assets classified as held for sale, such as financial assets and deferred tax assets are measured according to the same accounting principles as were applied by the Group before their classification as non-current assets held for sale. Non-current assets classified as held for sale are not subject to depreciation.

Equity

The Group's equity is comprised of:

- Share capital.
- Capital from revaluation of options.
- Other capital.
- Minority interest transactions
- 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.

After exercise of options convertible into shares, the capital from revaluation of granted options is moved to the share premium account, less cost of issue.

Other capital is created from:

- share premium account less cost of issue. Share issue costs incurred upon incorporation of the company or upon increase in the share capital reduce supplementary capital,
- 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.

The minority interest transactions line item presents transactions with non-controlling entities which do not result in loss of control by the Parent Company:

- purchase of interests from non-controlling entities – the difference between the purchase price and the carrying amount of net assets acquired from non-controlling entities,
- partial sale of interests to non-controlling entities – the difference between the sales price and the carrying amount of net assets of the subsidiary attributable to the interests sold to non-controlling entities.

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 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.

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 fulfillment 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.

Liabilities from contracts with customers

Liabilities from contracts with customers constitute the Group's obligation to transfer goods or services to the customer in return for which the Group has obtained remuneration (or the amount of remuneration is due) from the customer. From the moment of occurrence of sales revenues the Group has been applying the requirements of IFRS 15 and liabilities from contracts with customers present future revenues on account of such services as IT maintenance, which are spread over time. Each time the Group makes a professional judgment and estimate of the advancement of performance of the contracts in relation to the issued invoices and allocation of the transaction price.

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.

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.

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 with regard to unsettled tax losses on subsidiary activities. 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.

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. Where it refers to transactions settled with equity it is posted to equity, and where it refers to transactions posted in other comprehensive income, it is charged to other comprehensive income.

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:

- 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,
- 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.

Assessing whether the receipt of the consideration is likely, the Group takes into account only the ability and intention to pay the consideration amount by the customer on the required date. The consideration amount to which the Group will be entitled may be lower than the price defined in the contract if the consideration is variable, because the Group may offer a price discount 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.

Significant financing component

If the contract includes a significant financing element, determining the transaction price, the Group adjusts the promised amount of consideration by the change of the time value of money. A significant financing element appears in the contract if the distribution of the payments over time agreed by the parties (express or implied) gives the customer or the Group significant benefits on account of financing the transfer of the goods or services to the customer.

To determine the transaction price the Group adjusts the promised amount of consideration by the significant financing component, using the discount rate which would be applied in the case of conclusion of a separate financing transaction between the Group and its customer at contract inception.

However, the Group applies the practical expedient specified in paragraph 63 of IFRS 15, making it possible to assume that the amount of consideration does not comprise a significant financing component because in the Company's business practice the expected period (in accordance with the contracts with customers) from the delivery of the goods or performance of services to the receipt of the payment from the customer does not exceed one year. Therefore for short-term prepayments the Group did not single out any significant financing element.

Capitalized costs associated with efforts aimed at executing the contract and performing the contract

The Group capitalizes 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 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 capitalization also commissions payable to employees of the Sales Department associated only with efforts aimed at executing contracts. Capitalized 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 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. The Group conducts sales on the basis of 2 types of contracts defining the scope of delivered services, materials and licenses.

The contracts have a written form and include:

- Commissioning Service Agreement (CSA), consisting in delivery of a web application and a mobile application for activation and control of lighting management software.
- Supply, License and Service Agreement (SLS), where, on the basis of a license agreement, the Group delivers firmware for wireless lighting control, hardware for downloading software, and software service and maintenance.

Under **Commissioning Service Agreements (CSA)**, the Group delivers, maintains and operates applications for control of the lighting management software for and on behalf of the Partner. Under these agreements it is also possible to provide the Silvair platform for lighting without the firmware developed by Silvair.

The revenue from the sale of the products and services provided under CSA agreements (except for service and maintenance services) is recognized at the time of performance of the obligation to provide the service and hand-over of control and benefits to the customer.

Under CSA agreements, guarantee software service and maintenance are a separate item.

The revenue from service and maintenance is recognized over time because the customer uses the provided service as it is provided by the supplier.

Revenues under CSA agreements are included in the Lighting Control segment.

Under **Supply, License and Service Agreements (SLS)**:

- a product in the form of firmware for wireless lighting control is delivered. The software is downloaded from the cloud via the Internet and is installed on components manufactured by the Partner. The software is delivered on the basis of a license.
- In addition, hardware is delivered for installation of the Silvair MaTE software, which is connected on the production line to the Partner's computer (making it possible to download activation keys for the software and installation of the firmware from the cloud in the Partner's components).
- Software service and maintenance is guaranteed.

Revenues under SLS contracts are included in the Lighting Control segment.

Under the agreements, the licenses sold by the Group constitute a separate obligation to deliver a performance and have the nature of a license with the right to use intellectual property, which means that the revenue from the sale of such licenses is recognized once, at the time of hand-over of control over the license to the customer. This is equivalent to an assertion that in the case of own licenses sold without significant accompanying services, regardless of the term for which the license is sold, the revenue is recognized at the time of hand-over of control, which leads to one-off recognition of the revenue at such time. In the case of sale of licenses which grant the right to access intellectual property, such licenses are sold, as a rule, for a definite term. CSA and SLS agreements present also revenues from own maintenance services, and the revenue is recognized over time because the customer uses the provided service as it is provided by the supplier. CSA and SLS agreements define the consideration for each contractual obligation. The transaction price is allocated to each performance obligation 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. The Group has analyzed whether it performed its entire obligation and estimated which services should be settled over time and which should be included in the revenues for the period. The Group does not appear in agreements in the capacity of an agent, intermediary or principal.With regard to its customers the Group applies payment terms in the range 14-60 days and classifies then as current receivables.

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.

Uncertainty of estimates

In preparation of the consolidated financial statements the Parent Company's Management Board uses its judgment in making numerous estimates and assumptions that affect the adopted accounting policies and the presented values of assets, liabilities, revenues and costs. Although the adopted assumptions and estimates rely on the best knowledge of the Company's management on current actions and events, the actual results may differ from the expectations. As regards the development works conducted by the Issuer, two key assumptions have been identified for which there is a significant risk of material adjustments of the carrying amounts of the Group's assets:

- Commercial success of the products and services depends on the pace and scale of dissemination and commercial implementation of the Bluetooth Mesh standard. It cannot be ruled out that Bluetooth Mesh will not bring the expected market success.
- The pursuit of the Group's strategy depends on the success of its research work and effective commercialization of the developed products. Although the first products have already been launched in the market, the Issuer cannot rule out that the current form of our products will not satisfy customer requirements and will require additional, unpredicted modifications.

Since the above assumptions pertain to a longer time horizon, in the Issuer's assessment, they do not have any significant impact on the risk of major adjustments of the carrying amount of the Group's assets during the next financial year.

Subjective assessments and judgments

Relevant notes present the main areas in which, in the process of application of accounting principles (policy), in addition to accounting estimates, an important role was played also by the management's professional judgment, and for which a change of the estimates may have significant impact on the Group's financial data presented in such notes in the future.

- impairment of expenditures for development work (see Note 1.1 and 1.3)
- impairment of other intangible assets (see Note 2.1)
- impairment of property, plant and equipment (see Note 3.1)
- impairment losses (see Note 1.1, 5, 6 and 7)
- revenues from contracts with customers (see Note 22.1)
- provisions (see Note 20.3)
- term of lease contracts (see Note 18.1)
- share-based payment agreements (see Note 30)

In the reporting period, no changes were made in the methods used to make estimations, compared to 2018.

Seasonality of business

The Group's business is not seasonal.

Business combinations and loss of control

In the first 12 months of 2019, there were no business combinations or loss of control in the Group. There were no such events in 2018 either.

Notes and explanations to the annual consolidated financial statements

Note 1.1 Costs of development work

Costs of development work	31 December 2019	31 December 2018
Completed development work	8 425	8 601
Development work not yet completed	1 471	237
Total	**9 896**	**8 838**

In the period from 1 January to 31 December 2019, the Group's capitalized costs of development work amounted to USD 2.79 million, of which: USD 947 thousand – Silvair Platform, USD 1.32 thousand - Silvair Mesh Stack, USD 200 thousand - Bluetooth Mesh Protocol and USD 319 thousand for execution of the Multi ALS project, assigned to the segment (other activity). The work under the ALS project is financed from the NCBiR grant described in Note 40.

Due to the uniqueness of its activity the Issuer has singled out and currently executes 3 interrelated development projects, whose total value is a major part of the development work assets:

Bluetooth Mesh protocol:

The aim of the project is to prepare and develop a wireless communication protocol in the mesh topology based on the Bluetooth technology. The project is executed in cooperation with other partners in the task force appointed by the Bluetooth Special Interest Group, aiming to prepare the specification and develop the Bluetooth Mesh standard. The project has been being developed since 2014 and is of open nature, i.e. individual protocol development work stages are closed (i.e. accepted for use) together with publication of subsequent versions of the Bluetooth Mesh standard. The first stage of the development work under the project was closed in 2017, combined with publication of the new standard. The second stage started in the same year (2017) and its aim is to develop and publish the next version of the Bluetooth Mesh standard. In the reporting period from 1 January to 31 December 2019 the expenditures incurred for development of the next project stage increased the value of completed development work.

Silvair Mesh Stack:

The aim of the project is to develop a firmware stack for electronic devices (in particular for electronic lighting components) on the basis of a standardized communication protocol Bluetooth Mesh. The project has been being developed since 2015, in parallel with the work on the Bluetooth Mesh protocol, and is of open nature, i.e. individual development work stages are closed (i.e. accepted for use) together with publication of subsequent commercial versions of the software. The first stage of development work was completed in 2017, one day after the publication of the standard, together with the qualification, by the Bluetooth SIG, of implementation of the software released by the Issuer, i.e. the software stack (the so-called Mesh Core) and the application layer (the so-called Model Mesh Core). The second stage of development work was completed by the end of 2018 together with the Issuer releasing the next commercial version of the software (the so-called Silvair Lighting Firmware). From the beginning of 2019 the third stage of the work has been under way. In the reporting period, the expenditures incurred for development of the next project stage increased the value of completed development work.

Silvair Platform:

The aim of the project is to develop a technology and service platform, comprising digital tools for launch, configuration and management of smart lighting networks, and an infrastructure that allows the Company to provide innovative services. The project has been being developed since 2015, in parallel with the work on the Bluetooth Mesh protocol and the Silvair Mesh Stack, and is of open nature, i.e. individual development work stages are closed (i.e. accepted for use) together with delivery of subsequent commercial versions of the tools and expansion of the scope of the services provided by the Issuer. The first stage of development work was completed by the end of 2018 together with the Issuer releasing the commercial version of the tools (the so-called Commissioning Tool). From the beginning of 2019 the second stage of the work has been under way. In the reporting period, the expenditures incurred for development of the next project stage increased the value of development work not yet completed.

The development works completed during the reporting period corresponds to the intangible assets which were completed and the Issuer has made a decision to accept them for use.

Amortization of costs of development work	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Completed development work	974	617
Development work not yet completed	-	-
Total	**974**	**617**

From 1 January 2019 amortization of completed development work has been charged to cost of sales, which is dictated by the sale of the products subject to completed development work. In previous years amortization was charged to general and administrative expenses, while amortization of other intangible assets used to carry out R&D projects was capitalized as the value of development work.

Estimates:

As at each balance sheet date, the Group analyzes whether or not objective grounds exist that might imply an impairment of expenditures on development work.

Due to the unique nature of the activities, comprising comprehensive development and implementation of an innovative technology, the Issuer carries out impairment tests for the set of assets which are jointly referred to as cash generating units. In carrying out impairment tests for completed and not yet completed development works, the Issuer follows two key factors:

- The pace of adoption and scale of dissemination and commercial implementation of the Bluetooth Mesh standard. The Issuer conducts, among others, observations and assesses the current behavior of market participants, analyzes market trends, participates in industry events and keeps track of market activity regarding implementations of the technology based on the Bluetooth Mesh standard, keeps track of the involvement of new entities in the work of the Bluetooth SIG working group and observes the behaviors of the competitors.

- The scale of market interest in the products and services offered by the Group. In this regard the Issuer assesses the dynamics of the process of acquisition and contracting of partners and customers and the dynamics and scale of the sale of the Group's products subject to such contracts.

The Issuer has also assessed:

- the technical feasibility of completion of the intangible asset,
- the intention to complete, use or sell the asset,
- the ability to use or sell the asset,
- how the given asset will generate future economic benefits,
- availability of sufficient resources to complete the development work or sell the asset,
- the ability to reliably measure the expenditures incurred on the asset during its development.

Amortization is recognized, in principle, using the straight-line method for the estimate useful life of the given asset.

The adopted 10-year amortization period is justified by the innovative nature of the developed technology and its market potential, backed up by the global Bluetooth Mesh standard. The amortization period has been estimated taking into account the useful life of the technology and the possibility of deriving benefits from individual development works.

At least once a year, the Group revises the assumed periods of useful life, based on its current estimates.

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 2019**	**10 186**	**10 186**
	Additions, including:	2 792	2 792
	– expenditures incurred	2 792	2 792
	– foreign exchange differences from measurement in presentation currency	-	-
	Reductions, including:	66	66
	– liquidation and sale	-	-
	– foreign exchange differences from measurement in presentation currency	66	66
2.	**Gross value at the end of the period 31 December 2019**	**12 912**	**12 912**
3.	**Accumulated depreciation at the beginning of the period 1 January 2019**	**1 349**	**1 349**
	Additions	974	974
	Reductions	-	-
4.	**Accumulated depreciation at the end of the period 31 December 2018**	**2 323**	**2 323**
5.	**Impairment losses as at 1 January 2019**	**-**	**-**
	Additions	693	693
	Reductions	-	-
6.	**Impairment losses as at 31 December 2019**	**693**	**693**
7.	**Net value at the beginning of the period 1 January 2019**	**8 837**	**8 837**
8.	**Net value at the end of the period 31 December 2019**	**9 896**	**9 896**

(*) 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.

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**

(*) 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 1.3 Results of impairment tests of the costs of development work

The Group has reviewed the development work from the perspective of the possibility of generating expected economic benefits in the future. As a result of the review, the Group has identified intangible assets worth USD 693 thousand, which have lost their value as a result of no interest in the market in the products based on these assets and discontinuation of the development of the technology implemented in them. These assets have been covered by an impairment loss in the full amount.

For the remaining development works with significant value, both under way and completed, impairment tests have been carried out. In order to assess the recoverable amount, individual development works have been grouped into cash generating units.

The impairment tests have been carried out for the following cash generating units:

- Bluetooth Mesh Protocol and Silvair Mesh Stack,
- Silvair Platform and Multi ALS,
- Wi-Home.

The recoverable amount has been determined on the basis of the value in use of the assets, understood as the present estimate value of future cash flows, whose recovery is expected due to further use of the cash generating unit.

Assumptions adopted for the needs of impairment tests:

- The tests are prepared on the basis of an internal financial forecast of the Silvair Group for 2020-2029 (Forecast) based on the discounted cash flow method.
- Due to the innovative nature of the commercialized technology, a 10-year projection period has been adopted.
- The execution of development work has multiple stages, i.e. individual development work stages are closed upon release of the next software versions and/or launch of the next service or package of digital services.
- The development work volume in individual projection years comprises: initial carrying amount, direct expenditures (personnel and non-personnel) on continuation of individual work stages, direct expenditures on and other expenditures of the Group which are aimed to contribute to earning revenues from the tested assets.
- The initial carrying amount comprises all expenditures incurred both for development works completed and not yet completed included in the cash generating unit.
- To determine the discount rate, the weighted average cost of capital was used. The WACC value calculated for the needs of the Test was 14.21%.

The financial forecast has been prepared on the basis of the following assumptions:

- The market size and potential have been estimated on the basis of market reports, including, among others: "Intelligent Lighting Controls" prepared by Navigant Research and "Smart Lighting Market" prepared by Markets&Markets.
- The business model has been verified with the partners and confirmed by already concluded contracts.
- The revenue increase rate in the years to come has been based on the so-called S-Curve – characterizing the implementation of new technologies.
- A 10-year projection period has been adopted.
- It has been assumed that the in the projection period the Group will reach the stage of business maturity.

The pace and scale of acquisition of new customers have been based on historical data on the contracted clients and the scaling of the sales team, taking into account an appropriate cost relation.

Cash generating unit	Development work as at 31 December 2019	Recoverable amount
Bluetooth Mesh Protocol and Silvair Mesh Stack	4 575	17 306
Silvair Platform and Multi ALS	4 170	103 727
Wi-Home	1 151	2 296
Total	**9 896**	**123 329**

The tests carried out have not identified the need to recognize new impairment losses for the costs of development work.

Note 2.1 Other intangible assets

Other intangible assets	31 December 2019	31 December 2018
Other intangible assets (computer software)	17	18
Total	**17**	**18**

Estimates:

As at each balance sheet date, the Group analyzes whether or not objective grounds exist that might imply an impairment of other intangible assets.

Amortization is recognized, in principle, using the straight-line method for the estimate useful life of the given asset.

The amortization rates are determined on the basis of the anticipated useful life of other intangible assets.

At least once a year, the Group revises the assumed periods of useful life, based on its current estimates.

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 2019**	**578**	**578**
	Additions	4	4
	Reductions	1	1
2.	**Gross value at the end of the period 31 December 2019**	**581**	**581**
3.	**Accumulated depreciation at the beginning of the period 1 January 2019**	**560**	**560**
	Additions	4	4
	Reductions	-	-
4	**Accumulated depreciation at the end of the period 31 December 2019**	**564**	**564**
5	**Net value at the beginning of the period 1 January 2019**	**18**	**18**
6	**Net value at the end of the period 31 December 2019**	**17**	**17**

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**

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 2019 and 31 December 2018, 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 2019	31 December 2018
Owned	17	18
Third party	-	-
Total	**17**	**18**

Note 3.1 Property, plant and equipment

Property, plant and equipment	31 December 2019	31 December 2018
a) fixed assets, including:	34	57
land	-	-
buildings and structures	8	10
plant and machinery	26	41
means of transport	-	-
other fixed assets	-	6
b) fixed assets under construction	-	-
Total	**34**	**57**

Information about fixed assets used on the basis of lease agreements is presented in Note 3.7. 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 2018-2019 were charged to general and administrative expenses or capitalized in the value of development work, depending on the purpose of non-current assets.

As at 31 December 2019 and 31 December 2018, there were no contractual obligations related to the purchase of property, plant and equipment. As at 31 December 2019 and 31 December 2018, there were no liabilities to the state budget or local government units related to the acquisition of ownership titles to buildings and structures.

Estimates:

As at each balance sheet date, the Group analyzes whether or not objective grounds exist that might imply an impairment of the given property, plant and equipment component. Amortization is recognized, in principle, using the straight-line method for the estimate useful life of the given asset. The amortization rates are determined on the basis of the anticipated useful life of property, plant and equipment components. At least once a year, the Group revises the assumed periods of useful life, based on its current estimates.

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

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 2019**	**-**	**22**	**230**	**-**	**38**	**-**	**290**
	Additions, including:	-	2	27	-	-	-	29
	acquisition	-	-	27	-	-	-	27
	internal relocation	-	2	-	-	-	-	2
	Reductions, including:	-	-	5	-	6	-	11
	liquidation and sale	-	-	3	-	6	-	9
	foreign exchange differences from measurement in presentation currency	-	-	2	-	-	-	2
2.	**Gross value as at 31 December 2019**	**-**	**24**	**252**	**-**	**32**	**-**	**308**
3.	**Accumulated depreciation 1 January 2019**	**-**	**14**	**187**	**-**	**32**	**-**	**233**
	Additions	-	2	42	-	1	-	45
	Reductions	-	-	3	-	1	-	4
4.	**Accumulated depreciation 31 December 2019**	**-**	**16**	**226**	**-**	**32**	**-**	**274**
5.	**Net value as at 1 January 2019**	**-**	**8**	**43**	**-**	**6**	**-**	**57**
6.	**Net value as at 31 December 2019**	**-**	**8**	**26**	**-**	**0**	**-**	**34**

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**

Note 3.3 Ownership structure of property, plant and equipment

Property, plant and equipment	31 December 2019	31 December 2018
Owned	34	57
Third party	-	-
Total	**34**	**57**

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 2019 and 31 December 2018, 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.

As at the date of preparation of the Group's consolidated financial statements, the agreement did not fulfill the criteria of IAS 17 for recognizing it in the Group's statement of financial position as a lease. On 29 June 2019, the Issuer extended the agreements to the end of 2020 and thus changed the balance sheet classification of the agreements and presented them pursuant to IFRS 16. The information about the change of the presentation is described in the section Accounting policy of these statements. The information about the agreements is presented in Note 38. Related party transactions.

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

In the period from 1 January to 31 December 2019 and in the comparable period of 2018, 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 2019 – 31 December 2019	Value in the period of 1 January 2018 – 31 December 2018
Expenditures incurred on property, plant and equipment	28	87
Expenditures incurred on intangible assets	2 796	2 117
Total	**2 824**	**2 204**

Due to the coronavirus pandemic the Group expects that in 2020 the expenditures on intangible assets will drop by approx. 25% relative to 2019. In the period from 1 January to 31 December 2019 and in the comparable period of 2018, the Group did not incur expenditures for environmental protection. The Group does not intend to make any environmental protection expenditures in 2020.

Note 3.7 Right-of-use assets

Right-of-use assets	31.12.2019	31.12.2018
Real estate right-of-use asset	171	-
Other assets	-	-
Total	**171**	**-**

As at 31 December 2019 and 31 December 2018, 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. As at the date of preparation of the Group's consolidated financial statements, the agreement did not fulfill the criteria of IAS 17 for recognizing it in the Group's statement of financial position as a lease. On 29 June 2019, the Issuer extended the agreements to the end of 2020 and thus changed the balance sheet classification of the agreements and presented them pursuant to IFRS 16. The information about the change of the presentation is described in the section Accounting policy of these statements. The information about the agreements is presented in Note 38. Related party transactions.

Since the entire right-of-use assets pertain to one category (lease of premises), the changes are presented without a category breakdown.

No.	Item	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018
1.	**Gross value at the beginning of the period**	**-**	**-**
	Additions, including:	-	-
	acquisition	-	-
	internal relocation	332	-
	Reductions, including:	-	-
	liquidation and sale	-	-
	foreign exchange differences from measurement in prese tation currency	-	-
2.	**Gross value at the end of the period**	**332**	**-**
3.	**Accumulated depreciation at the beginning of the period**	**-**	**-**
	Additions	161	-
	Reductions	-	-
4.	**Accumulated depreciation at the end of the period**	**161**	**-**
5.	**Net value at the beginning of the period**	**-**	**-**
6.	**Net value at the end of the period**	**171**	**-**

Note 4 Financial assets (long-term)

Financial assets (long-term)	31 December 2019	31 December 2018
In related entities	-	-
In other entities	7	7
Total	**7**	**7**

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 2019	31 December 2018
Deferred tax assets – at the beginning of the period, including:	**620**	**185**
through profit or loss	620	185
through equity	-	-
Additions	**395**	**435**
through profit or loss	382	435
through equity	13	-
Reductions	**388**	**-**
through profit or loss	388	-
through equity	-	-
Deferred tax assets at the end of the period, including:	**627**	**620**
through profit or loss	614	620
through equity	13	-

Deferred tax assets arising from temporary differences resulting from:	31 December 2019	31 December 2018
Accumulated tax losses to be used	9 263	8 084
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)	-5 965	-4 823
Total	**3 298**	**3 261**
Deferred tax assets (19%)	**627**	**620**

Deferred tax assets are treated in entirety as non-current assets and are not subject to discounting.

Deferred tax assets are calculated using tax rates that are expected to be effective at the time of realization of particular asset, based on tax rates (and tax legislation) using tax rates enacted or substantively enacted at the balance sheet date.

Estimates:

The Company evaluates as at each balance sheet date the possibility of realization of the deferred tax asset. This assessment requires a professional judgment and estimates regarding, among others, future tax results. The analysis of anticipated tax revenues has shown a limited possibility of settling the tax loss for 2017 and partially for 2018. Therefore the Group has made a decision to recognize an additional impairment loss for the deferred tax assets. The recognized deferred tax assets cover the loss from 2019 and partly from 2018. The adopted assumptions regarding the probability of realization of revenues by the Group in individual years justify the keeping of the asset on the presented level.

Regulations regarding corporate income tax are subject to frequent changes, as a result of which there is often no reference to well-established line of rulings. The prevailing regulations are not always unambiguous, which additionally leads to differences in their interpretation. Tax settlements are subject to audits by tax authorities. If irregularities are identified in the tax settlements the taxpayer is obligated to pay the overdue amount together with the statutory interest due. Payment of overdue liabilities does not always release the taxpayer from criminal tax liability. As a result of the aforementioned phenomena tax settlements are burdened with risk. Tax settlements may be subject to audit within a period of five years from the end of the year in which the tax returns were submitted. As a result, the amounts reported in the financial statements, and thus the basis for calculation of the asset on tax losses and the asset itself, may change at a later date after their final determination by the tax authorities.

Note 6 Inventory

Inventory	31 December 2019	31 December 2018
Materials in processing (own entrusted for testing)	0	5
Goods for resale	47	42
Impairment loss on merchandise	-38	-34
Total	**9**	**13**

Inventory releases are recognized using the detailed identification method. As at each balance sheet date the Company analyzes whether the carrying amount of inventory is higher than or equal to the realizable sales price. Impairment losses on the inventory are recognized in operating expenses. In 2018, USD 34 thousand worth of inventory was covered in full by an impairment loss. As at 31 December 2019, the impairment loss additionally covered materials, which has increased the value of the impairment loss by USD 4 thousand.

Note 7 Trade receivables

Trade receivables	31 December 2019	31 December 2018
From related entities	-	-
From other entities	74	49
Impairment losses	-26	-29
Total	**48**	**20**

Note 7.1 Impairment losses on trade receivables

As at 31 December 2019, impairment losses on trade receivables amounted to USD 26 thousand. As at 31 December 2018, impairment losses on trade receivables amounted to USD 29 thousand. The change of the impairment loss results from the measurement of the receivable subject to the impairment loss.

Estimates:

To estimate the impairment losses on trade receivables, the Group applies the individual approach to each customer. Since the Issuer's sales revenues appeared in material amounts only in 2019, there is no possibility of relying on the provisions matrix prepared on the basis of historical data regarding repayment of receivables by business partners. The estimates were based on such parameters as delay time, and position and reliability of the business partner in the market.

Note 7.2 Aging of trade receivables

Trade receivables	31 December 2019	31 December 2018
Not overdue	**17**	**20**
Overdue, incl.:	**31**	**-**
up to one month	4	-
over 1 month to 3 months	4	-
over 3 months to 6 months	21	-
over 6 months to 1 year	2	-
over 1 year	26	29
Impairment losses on receivables	-26	-29
Trade receivables	**48**	**20**
of which overdue (gross)	57	29

Note 8.1 Other receivables

Other receivables	31 December 2019	31 December 2018
On taxes and other public benefits	223	131
Other receivables	0	9
Impairment losses	-	-
Total	**223**	**140**

Note 8.2 Impairment losses on other receivables

As at 31 December 2019 and 31 December 2018, the Group did not recognize any impairment losses on other short-term receivables.

Note 9 Prepayments and accruals

Prepayments and accruals	31 December 2019	31 December 2018
Fees for fairs and conferences	40	22
IT services	12	9
Other	9	-
Total	**61**	**31**

In accruals the Group presents expenditures which pertain to future periods incurred before the balance sheet date. Prepayments and accrued income as at 31 December 2019 and as at the end of the comparable period comprised mainly the costs of prepaid participation in fairs and conferences associated with presentation of the Group's activity and license fees to be incurred in the profit and loss account successively in future periods.

Note 10 Financial assets (short-term)

Financial assets (short-term)	31 December 2019	31 December 2018
in related entities	-	-
in other entities	-	-
Total	**-**	**-**

Note 11 Cash and cash equivalents

Cash and cash equivalents	31 December 2019	31 December 2018
Cash on hand	1	1
Cash in bank	1 295	1 337
Bank deposits	-	1 995
Total	**1 296**	**3 333**

Note 11.1 Explanation o selected items of the statement of cash flows

The line item “Other adjustments resulting from operating activity” shows the value charged to the general and administrative expenses corresponding to the value of accrued option capital, taking into account the executed portion in the amount of USD 149 thousand and the value of impairment losses for the costs of completed development work in the amount of USD 693 thousand.

Note 12 Share capital

Share capital of the Parent Company as at 31 December 2019

Type	Number of shares	Par value (USD ’000s)	Share subscription price (USD ’000s)	Share premium account (USD ’000s)
Common Stock	10 465 670	1 047	20 317	19 273
Preferred Stock	960 000	96	125	29
Total	**11 425 670**	**1 143**	**20 442**	**19 302**

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

Share capital ownership structure	Number of shares	% of shares	Number of votes(1)	% of votes
IPOPEMA TFI(2)	2 213 781	19.38	2 213 781	13.64
Szymon Słupik	1 884 711	16.50	3 529 871	21.75
Rafał Han	1 335 071	11.68	2 967 071	18.29
Adam Gembala	1 018 760	8.92	2 145 520	13.22
Other shareholders holding less than 5% of shares	4 973 347	43.52	5 369 427	33.10
Total	**11 425 670**	**100.00**	**16 225 670**	**100.00**

(1)In accordance with the Certificate of Incorporation:
(i) a holder of a Common Share holds one vote at the Shareholder Meeting,
(ii) a holder of one Preferred Founder Share holds as many votes at the Shareholder Meeting as corresponds to the six-fold of the number of Common Shares that a share of the Founders Preferred Stock may be converted into pursuant to the Certificate of Incorporation (i.e. one Common Share). The Company’s shareholders do not hold any other voting rights than the rights specified above.
(2) IPOPEMA TFI has taken over the management of the funds earlier managed by Lartiq TFI in connection with the decision of the Polish Financial Supervision Authority (“KNF”) of 5 November 2019, based on which Lartiq TFI’s permit to conduct activity has been withdrawn

On 8 March 2019, the Company issued 40,250 Common Restricted Shares with a par value of USD 0.1 each ("Issue") to a consultant as part of the 2016 Stock Plan described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 25 June 2018 ("Stock Plan"). As a result of the Issue, the Company's share capital is PLN 1,142,067 and consists of 11,420,670 shares with a par value of USD 0.1 each, including 10,460,670 Common Shares and 960,000 shares of the Founders Preferred Stock, representing 16,220,670 votes at the Company's shareholder meeting, of which 10,460,670 are votes attaching to the Common Shares and 5,760,000 are votes attaching to the Preference Founder Shares. After the Issue, the total number of the Company's common shares remaining to be issued under the Stock Plan is 250,750 shares. The contract between the Company and its consultant provides for the granting of 2,300 shares on each 18th day of the month following 18 February 2019 up until and inclusive of 18 July 2020 as well as 1,150 shares on 30 July 2020 if the consultant maintains the Continuous Service Status within the meaning of the contract as at the date of granting the shares in question. As at 31 December 2019, 23,000 shares were allocated to the Consultant. In 2019 there was no issue, redemption or repayment of non-equity and equity securities.

As at 31 December 2019, out of the 11,425,670 issued shares, 11,405,420 shares were paid up in full, and 17,250 shares were not paid up.

Share capital 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.

As at 31 December 2018, out of the 11,380,420 issued shares, all shares were paid up in full.

Note 13 Capital from revaluation of options

Capital from revaluation of options	31 December 2019	31 December 2018
Valuation of stock options under IFRS 2	375	155
Total	**375**	**155**

Additional information on the valuation of options is presented in Note 30.

Note 14.1 Other capital

Other capital	31 December 2019	31 December 2018
Supplementary capital	21 253	21 147
Total	**21 253**	**21 147**

Note 14.2 Changes in other capital

In the period from 1 January 2019 to 31 December 2019:

Changes in other capital	Other capital
As at 1 January 2019	21 147
Exercise of stock options for Company shares	108
Expenditures incurred in connection with the stock issue	-
Issue of new shares (IPO)	-
Unpaid capital which has been called up	-2
Issue of bonds convertible to shares	-
As at 31 December 2019	**21 253**

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**

Note 14.3 Minority interest transactions

The use of this balance sheet item is the consequence of the transactions that took place in 2018 and pertains to issue of bonds and their replacement for the shares in the parent company in return for the right to shares in the subsidiary Sway. This event was described in detail in the chapter "Corrections of prior period errors". In the assets of the standalone financial statements, the Issuer presents Rights to shares in the amount of USD 445 thousand, corresponding to the value of the bonds as at the date of their exchange for shares. This amount adjusted the value of capital in the Retained earnings line item. The consolidation adjustments excluded the Rights to shares line item from the assets and the corresponding value was presented as reduction of capital in the Minority interest transactions item.

Converted value of minority interest:

Item	USD
Sway's net assets as at 31 December 2018	**1 301**
Sway's results for the period June-December 2018	-201
Total	1 502
Share of non-controlling interest in capital	9.09%
Assets handed over to the minority shareholder	137
Result for the minority shareholder for 2018	-18
Equity attributable to non-controlling entities as at 31 December 2018	**119**

The transaction was settled on 7 January 2020 on the basis of the agreement transferring the ownership of the shares in Sway from ASI Bridge to Silvair, Inc., which is described in Note 30 Material events after the balance sheet date.

Note 15 Retined earnings

Retained earnings	31 December 2019	31 December 2018
Accumulated losses brought forward	-11 840	-9 079
Total	**-11 840**	**-9 079**

Note 16 Earnings (loss) per share

Earnings/(loss) per share are calculated by dividing the net profit/(loss) for the reporting period attributable to the shareholders of the parent company 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) adjusted for the impact of interest on potential common shares for the reporting period attributable to the shareholders of the parent company 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.

Earnings/(loss) per share in the period covered by the financial statements:	**31.12.2019**	**31.12.2018**
Weighted average number of Parent Company's shares in the period	11 403 045	10 556 458
Number of diluting options	2 118 665	569 000
Weighted average number of Parent Company's shares in the period after diluting options	12 323 584	10 503 726
Continued operations		
Earnings/(loss) per share (USD)	**-0.34**	**-0.26**
Diluted earnings/(loss) per share (USD)	**-0.31**	**-0.26**
Discontinued operations		
Earnings/(loss) per share (USD)	-	-
Diluted earnings/(loss) per share (USD)	-	-
Continued and discontinued operations		
Earnings/(loss) per share (USD)	**-0.34**	**-0.26**
Diluted earnings/(loss) per share (USD)	**-0.31**	**-0.26**

Note 17 Deferred tax liabilities

Earnings/(loss) per share in the period covered by the financial statements:	31 December 2019	31 December 2018
Deferred tax liabilities at the beginning of the period, including:	**28**	**33**
through profit or loss	28	33
through equity	-	-
Additions:	**-**	**-**
through profit or loss	-	-
through equity	-	-
Reductions:	**4**	**5**
through profit or loss	4	5
through equity	-	-
Deferred tax liabilities at the end of the period, including:	**24**	**28**
through profit or loss	24	28
through equity	-	-

Deferred tax liabilities arising from temporary differences resulting from:	31 December 2019	31 December 2018
Difference between the tax value and carrying amount of completed development work	126	147
Total	**126**	**147**
Deferred tax liabilities (19%)	**24**	**28**

Note 18 Other liabilities (non-current)

Other liabilities	31 December 2019	31 December 2018
PARP loan	11	137
Other loans from other entities	-	-
Total	**11**	**137**

In 2015, the subsidiary received a loan from the Polish Agency for Enterprise Development (PARP) to finance the purchase of intangible assets and the costs of completed development work. The loan repayment date is 21 January 2021. In order to secure the loan granted by PARP in the amount of PLN 2.0 million with the outstanding balance of PLN 564 million (USD 144 thousand) as at 31 December 2019, PLN 1.05 million (USD 271 thousand) as at 31 December 2018, Sway Sp. z o.o. issued a blank promissory note.

The current part is presented in the financial statements in Other current liabilities.

Note 18.1 Liabilities under leases

Lease liabilities	31.012.2019	31.12.2018
Long-term	-	-
Short-term	171	-
Total	**171**	**-**

The lease liability pertains to real property lease agreements which, pursuant to IFRS 16, have been classified to lease liabilities. A detailed description is presented in the description of Accounting policy IFRS 16.

Valuation of liabilities does not comprise variable fees for consumption of utilities associated with the use of the real properties.

Repayment of the interest part in the reporting period amounted to USD 9 thousand.

In the Issuer's opinion, as at the publication date, in the future there will be no cash outflows to which the lessee would be exposed and which are not included in the valuation of lease liabilities.

The agreements do not contain limitations or covenants imposed by the lessor.

Note 19.1 Trade liabilities

Other liabilities	31 December 2019	31 December 2018
To related entities	-	-
To other entities	231	172
Total	**231**	**172**

Note 19.2 Aging of trade liabilities

Trade liabilities	31.12.2019	31.12.2018
up to one month	224	128
over 1 month to 3 months	-	-
over 3 months to 6 months	-	15
over 6 months to 1 year	-	28
over 1 year	-	-
Overdue, incl.:		
up to one month	6	-
over 1 month to 3 months	-	-
over 3 months to 6 months	-	-
over 6 months to 1 year	1	-
over 1 year	-	-
Total	**231**	**172**

Note 20.1 Other liabilities (current)

Other current liabilities	31 December 2019	31 December 2018
To related entities	-	-
To other entities, including:	344	318
on loans	133	134
on taxes and other public benefits	113	96
on payroll	92	88
other	7	-
Total	**345**	**318**

Note 20.1.1 Liabilities on bonds convertible to shares

Current liabilities on account of issue of bonds convertible to shares	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018
As at the beginning of the period	-	-
additions	2 954	
reductions	-	-
Total	**2 954**	**-**

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

As part of the total maximum issue amount approved by the Board of Directors, the issues of Convertible Securities have to be effected in the form of private placements without the registration obligation pursuant to the United States Securities Act of 1933 ("United States Securities Act") and without the obligation to prepare a prospectus or other offering document, in accordance with the Company's capital requirements. The resolution adopted by the Company's Board of Directors does not define the schedule or the deadline for Convertible Securities issues. In accordance with the decision of the Company's Board of Directors, the Convertible Securities bear interest at a fixed interest rate. The holders of Convertible Securities may demand their redemption after elapse of one year from the issue date ("Redemption Date"). In addition, with the consent of the holders of Convertible Securities representing a majority of the outstanding par value of Report of the Board of Directors on the activities of the Silvair Group for the period from 1 January to 30

June 2019 All figures, unless indicated otherwise, are expressed in thousands of USD. ir@silvair.com www.silvair.com page 42 the Convertible Securities, the Company may, according to the terms of the Convertible Securities, repay the liabilities resulting from the Convertible Securities before their Redemption Date. Notwithstanding the foregoing, Convertible Securities are due and payable in the cases defined in the terms of the Convertible Securities, including in particular submission of a petition for the Company's bankruptcy or petition for application of any remedy pursuant to the federal bankruptcy law and appointment of a commissioner or trustee to manage the Company's assets.

The terms of the Convertible Securities define the mechanisms for conversion of claims following from the Convertible Securities, comprising a claim for payment of the par value of the Convertible Securities and accrued interest ("Conversion Amount") to the Company's common shares of a new issue in the case: (i) the Company effects a new share issue in one or several related transactions bringing gross receipts for the Company in the amount of at least USD 5.0 million ("New Equity Financing") or (ii) change of control over the Company occurs in accordance with the definition laid down in the terms of the Convertible Securities, including, among others, sale of essentially all assets of the Company, merger, consolidation, capital reorganization or other similar transaction, subject to the specific provisions of the terms of the Convertible Securities ("Change of Control"). In the case of New Equity Financing or in the case of Change of Control, the Company will issue for the holders of Convertible Securities the Company's common shares in the number following from dividing the Conversion Amount by the lower of: (i) price per share paid for most of the Company's shares in return for a cash contribution as part of New Equity Financing (in the case of New Equity Financing) multiplied by the discount rate of 80% or the price per the Company's common share paid in connection with the Change of Control (in the case of Change of Control); and (ii) the quotient of USD 37.0 million and the Company's capitalization (within the meaning of the terms of the Convertible Securities). The terms of the Convertible Securities contain provisions prohibiting the disposal of the Company's securities in the case of effecting an initial public offering of the Company's securities pursuant to the United States Securities Act. The Convertible Securities are subject to the laws of the state of California.

By 31 December 2019, the Company issued Convertible Securities with the total par value of USD 2,912 million. As at the publication date, Convertible Securities with a par value of USD 0.5 million were issued. In accordance with the executed contracts, the annual interest rate on the bonds is 5% and is fixed.

Bonds convertible to shares	**31 December 2019**	**31 December 2018**
Par value of issued bonds	2,912	-
Interest expense	42	-
Interest paid	-	-
Bond liability	**2,954**	**-**

As a result of the assessment it has been concluded that the bonds do not contain a equity element and have not been classified as compound financial instruments in accordance with IAS 32, hence they are in entirety a liability carried at amortized cost.

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

As at 31 December 2019 and as at 31 December 2018, the Group had no other contingent liabilities. As at 31 December 2019 and 31 December 2018, 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. The contingent liabilities regarding loans are described in Note 18.1 Other liabilities (current).

Note 20.3 Other short-term provisions

The Group recognizes a “provision” for unused vacation time, which pertains to periods preceding the balance sheet date and will be used in the future for all Company employees, because in the Polish system unused vacation time constitutes cumulative paid absences (the entitlement to such absences passes on to future periods and can be used if it has not been used in the current period). The amount of the provision depends on the monthly salary and number of unused days of vacation time to which the employee is entitled as at the balance sheet date. The Company recognizes the costs of unused vacation time on the accrual basis, based on the estimate values, and presents them in the profit and loss account in the payroll line item (in accordance with the place where they occur). The provision for unused vacation time is a short-term provision and is not subject to discounting.

In 2019, the Group recognized provisions of liabilities resulting from disputable claims.

On 2 June 2019, F2VS Technologies, Inc. with its registered office in the US (hereinafter: F2VS) filed a statement of claim against Silvair, Inc. The proceedings pertain to an allegation that the Company breached F2VS’s patents. The litigation is conducted by a Delaware court (DISTRICT COURT FOR THE DISTRICT OF DELAWARE, USA) under the US law. F2VS moved for discontinuation of the breach by the Company and a compensation in an unspecified amount. Based on the facts of the case, the Company is of the position that its products and services do not breach the plaintiff’s patents. Consequently, in the Company’s opinion, the probability of winning the dispute by the Company, is high. Considering this, on 3 September 2019 the Company submitted its statement of defense, denying the breaches and moved for dismissing F2VS’s statement of claim in entirety. Nonetheless, considering the time and potential costs of the court proceedings in the USA, the parties have embarked on negotiations to conclude a settlement. The provision estimated at the time amounted to USD 10 thousand. The provision was reversed in connection with a settlement which ended with signing an agreement on the purchase of the right to the licenses used. The value of the agreement was USD 60 thousand.

As at 31 December 2019, the Company recognized a provision for USD 20 thousand in connection with information received from a lawyer about another claim for payment of a “license fee” from JSDQ. In the Company’s opinion it does not breach JQSD’s patent. Nonetheless, considering the time and potential costs of the litigation in the case, if any, and the necessity to enter into such a license agreement, the Company has made a decision to recognize a provision. A detailed description of JSDQ’s claims is presented in Note 31 Major events after the balance sheet date.

Other short-term provisions	31.12.2019	31.12.2018
Provision for unused vacation time	62	52
Provisions for disputes	20	-
Total	**82**	**52**

Provision for unused vacation time	31.12.2019	31.12.2018
As at the beginning of the period	**52**	**-**
Additions	13	52
Reductions	3	-
As at the end of the period	**62**	**52**

Estimates:

The Group estimates the amount of the provisions on the basis of adopted assumptions and methodology, assessing the probability of spending the funds comprising economic benefits and classifies amounts with a high probability of spending, as at the balance sheet, as liabilities.

The estimates pertaining to the value of provisions for unused vacation time were based on the data on the number of vacation time days unused by employees, the value of the average compensation individually for each employee divided by the average number of business days per month (22 days) and the charges on compensations charged to the employer. The percentage rate of social security charged to the employer was adopted at the level of 20.61%.

Note 20.4 Liabilities from contracts with customers

Liabilities from contracts with customers	Value as at 1 Jan 2019	Additions	Reductions	Value as at 31 Dec 2019
Maintenance services for the Silvair Platform	-	76	47	29
Maintenance services for the Silvair Mesh Stack	-	12	5	7
Total	**-**	**88**	**52**	**36**

As at 31 December 2019, the Group identified liabilities associated with maintenance agreements according to the description in section Operating revenues in the Explanatory notes to the financial statements and Note 23. The payment terms specified in the agreements do not exceed 60 days. Elements such as obligations to accept returns or to refund the fees and other similar obligations, as well as warranties and related obligations do not apply to liabilities from contracts with customers. The Group settles the identified performance obligations using the straight-line method, spread evenly over time, as the activities are performed evenly throughout the entire period of performance. As at 31 December 2018 there were no liabilities from contracts with customers.

Note 21 Prepayments and accruals

Prepayments and accruals	Value as at 1 Jan 2019	Additions	Reductions	Value as at 31 Dec 2019
Financing under the Smart Growth Operational Programme	448	-	105	343
NCBiR subsidy for fixed assets	614	-	75	539
Total	**1 062**	**-**	**180**	**882**

The amount of grants from the National Center for Research and Development decreased by the PLN 400 thousand (USD 100 thousand) returned by a member of the Group (Sway) in connection with the decision to reduce the extent of development work in a pending project. The company finished the project after the completion of completing stage II of the Milestone. The decision was caused by a change in priorities of the development work.

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**

The Group changed the presentation of prepayments and accruals for 2018 relative to the data published and itemized in the financial statements the long-term part of the accrued expenses.

Prepayments and accruals	Value as at 31 December 2019	Value as at 1 December 2018
Non-current part	449	518
Current part	433	544
Total	**882**	**1 062**

Note 22.1 Sales revenues

Sales revenues	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Revenues from sales of products	79	19
Revenues from sales of goods and services	98	2
Total	**177**	**21**

For the first time in 2019, the Group recorded revenues from sales of products and services, which are to become the main source of revenues. These are revenue from contracts with customers:

- Commissioning Service Agreement (CSA), consisting in delivery of a web application and a mobile application for activation and control of lighting management software.
- Supply, License and Service Agreement (SLS), where, on the basis of a license agreement, the Group delivers firmware for wireless lighting control, hardware for downloading software, and software service and maintenance.

Breakdown of revenues from contracts with customers:

Contract type					
Product/service type	**Fee type**	**CSA agree-ments**	**SLS agreements**	**Other revenues from contracts**	**Total**
Firmware license	one-off	-	45	1	46
Activation	one-off	33	-	-	33
Development	one-off	46	-	-	46
Maintenance	periodic	38	9	-	47
Other	one-off	-	4	1	5
Total	**-**	**117**	**58**	**2**	**177**
Delivery date	-				
At the time	-	79	51	2	132
Over time	-	38	7	-	45
Total	**-**	**117**	**58**	**2**	**177**

Under **Commissioning Service Agreements (CSA)**, the Group delivers, maintains and operates applications for activation and control of the lighting management software for and on behalf of the Partner. Under these services it is also possible to provide the Silvair platform for lighting without the firmware developed by Silvair. Revenues under CSA agreements are included in the Lighting Control segment.

Under Supply, License and Service Agreements (SLS):

- A product in the form of firmware for wireless lighting control is delivered. The software is downloaded from the cloud via the Internet and is installed on components manufactured by the Partner. The software is delivered on the basis of a license.
- In addition, hardware is delivered for installation of the Silvair MaTE software, which is connected on the production line to the Partner's computer (making it possible to download activation keys for the software and installation of the firmware from the cloud in the Partner's components).
- Software service and maintenance is guaranteed.

Revenues under SLS contracts are included in the Lighting Control segment. Revenues broken down by segment and description of the segments are presented in Note 23.

Estimates:

In the case of obligations performed over time (service and maintenance), the Group used the straight-line method to recognize revenues, pro rata to the elapse of time. The Group's actions and expenditures are executed evenly throughout the entire period of performance. In the case of revenues recognized at the time, the Group has made a judgment that the licenses offered under SLS agreements have the nature of a license with the right to use intellectual property, which means that the revenue from the sale of such licenses is recognized once, at the time of hand-over of control over the license to the customer. In the case of granting access to the Silvair platform the Group estimated that the benefits are transferred at the time of activation of access to the platform for each connected device.

Note 22.2 Sales revenues – geographic structure

Sales revenues	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Revenues from sales of products	**79**	**19**
domestically	1	19
within the European Union	48	-
in third countries	30	-
Revenues from sales of services	**98**	**2**
domestically	-	1
within the European Union	50	1
in third countries	48	-
Total	**177**	**21**

Information on sales revenues in 2019 – main buyers

In 2019 the Group generated sales exceeding 10% of consolidated revenues in cooperation with three buyers:

- buyer A: 41.6% of the Group's total consolidated sales revenues,
- buyer B: 18.4% of the Group's total consolidated sales revenues,
- buyer C: 15.84% of the Group's total consolidated sales revenues.

The buyers listed above are not affiliates or subsidiaries of Silvair, Inc. The increase in the share of one of the customers results from the longer period of cooperation. In the Issuer's opinion, the shares in the next year will be less concentrated.

Information on sales revenues in 2019 – geographic structure

Country	Sales to external customers	01.01.2019 – 31.12.2019
European Union including Poland	USD	99
	%	56%
Other countries	USD	78
	%	44%
Total revenues	**USD**	**177**
	%	**100%**

Information on sales revenues – main buyers in 2018.

The revenues pertained mainly to sales of firmware licenses and radio modules and came nearly completely from one buyer. The buyer is not an affiliate or subsidiary of Silvair, Inc.

Country	Sales to external customers	01.01.2018 – 31.12.2018
European Union including Poland	USD	21
	%	100%
Other countries	USD	-
	%	0%
Total revenues	**USD**	**21**
	%	**100%**

Note 23 Operating segments

Pursuant to IFRS 8, an operating segment is a component of an entity that is a profit center, that has discrete financial information available, and whose results are reviewed regularly by the entity's chief operating decision maker for purposes of performance assessment and resource allocation.

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

- Silvair Platform
- Silvair Mesh Stack

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

The segments have been distinguished taking into account the uniqueness of the Group's activity and directions of development, the possibility of generating revenues by such segments in the long run. The Group has analyzed whether there is a significant possibility of allocating the costs and assigning assets to the distinguished segments.

Currently, the Group distinguishes 3 segments: Lighting Control, Smart Lighting Services and Smart Building Management. In the reporting period, the Group earned revenues only in the Lighting Control segment and revenues in the other two segments will appear next year.

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

General and administrative expenses, selling and distribution expenses, other operating income and expenses, financing of the Group (including financial income and expenses) and income tax are not monitored on the segment level, hence these items are not allocated to segments. The Management Board does not analyze cash flows by segment either.

The table below presents the key figures reviewed by the chief decision maker in the Company.

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

Segment type	Lighting Control	Other activity	Total
Revenues and expenses	**175**	**2**	**177**
Sales to external customers	175	2	177
Inter-segment sales	-	-	-
Cost of sales	679	51	730
Income and expenses (operating and other operating)	-44	-3 128	-3 172
EBIT	**-548**	**-3 177**	**-3 725**
Net financial income (costs)	-	-156	-156
Share in profits of associates	-	-	-
Gross profit	**-548**	**-3 333**	**-3 881**
Income tax (current and deferred)		25	25
Net profit for the reporting period			**-3 906**
Assets			
Costs of development work	8 085	1 811	9 896
Receivables	47	224	271
Unallocated assets		2 222	2 222
Total assets			**12 389**
Liabilities			
Financial liabilities	-	315	315
Liabilities from contracts with customers	36	-	36
Unallocated liabilities		**4 385**	**4 385**
Total liabilities			**4 736**
Other information			
Depreciation and amortization	679	505	1 184

The Group does not allocate the following items to segments: general and administrative expenses, selling and distribution expenses, other operating income and expenses, financial income and expenses and income tax. These items are presented in other activities.

Operating segments from 1 January 2018 to 31 December 2018, USD '000s

Segment type	Lighting Control	Other activity	Total
Revenues and expenses			
Sales to external customers	-	21	21
Inter-segment sales	-	-	-
Income and expenses (operating and other operating)	-	-3 124	-3 124
EBIT			**-3 103**
Net financial income (costs)	-	-101	-101
Share in profits of associates	-	-	-
Gross profit		**-3 204**	**-3 204**
Income tax (current and deferred)	-	-425	-425
Net profit for the reporting period		**-2 779**	**-2 779**
Assets			
Costs of development work	6 516	2 322	8 838
Receivables	10	150	160
Unallocated assets	-	4 079	4 079
Total assets			**13 077**
Liabilities			
Financial liabilities	-	271	271
Unalocated liabilities	-	1 498	1 498
Total liabilities			**1 769**
Other information	-	-	-
Depreciation and amortization	288	395	683

In 2016-2018 and in 2019, 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 about segments broken down by region, product lines and recognition time.

Segment type				
		Lighting Control	**Other activity**	**Total**
REGION				
European Union		91	1	92
Other countries		84	-	84
Poland		-	1	1
Total		**175**	**2**	**177**
Product/service type	**Fee type**			
Firmware license	one-off	45	1	46
Activation	one-off	33	-	33
Development	one-off	46	-	46
Maintenance	periodic	47	-	47
Other	one-off	4	1	5
Total		**175**	**2**	**177**
Delivery date		-	-	-
At the time		130	2	132
Over time		45	-	45
Total		**175**	**2**	**177**

Note 24 Other operating income

Other operating income	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Profit on the sale of non-financial non-current assets	-	-
Revaluation of non-financial assets	6	-
Other operating income	85	71
Total	**91**	**71**

Note 25 Other operating expenses

Other operating income	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Revaluation of non-financial assets	688	34
By segments:		
Lighting Control	207	-
Other	481	-
Other operating income	63	12
Total	**751**	**46**

The costs associated with revaluation of non-financial assets are described in Note 1.1 and 1.2 and in Note 6.

Note 26 Breakdown of costs

Other operating income	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Depreciation and amortization	1 184	683
Consumption of materials and energy	84	128
External services	2 803	2 072
Taxes and fees	15	15
Payroll	1 430	1 548
Social security and other benefits	317	328
Other costs by nature	214	260
Cost of products and materials sold	-	-
Total costs by type	**6 047**	**5 034**
Movement in inventory of products and production cost of products for own use (development work)	**2 805**	**1 862**
Cost of sales	730	-
Selling and distribution expenses	599	591
General and administrative expenses	1 913	2 558
Total costs by function	**3 242**	**3 149**

Since the Company recognizes costs using the accrual method, some of the costs recognized in the profit and loss account are costs recognized as a result of estimations pertaining to, for example, expected costs associated with unused vacation time.

Note 27 Financial income

Financial income	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Interest	**10**	**16**
Interest on bank deposits and accounts	10	16
Other financial income	11	-
Total financial income	**21**	**16**

Note 28 Financial costs

Financial income	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Interest	**61**	**24**
To other entities	61	24
Interest on financial liabilities	42	-
Interest on received loans	10	24
Interest on lease agreements	9	-
Foreign exchange differences	116	93
Financial costs	**177**	**117**

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

Item	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Profit before tax	**-3 382**	**-3 204**
Costs not classified as tax-deductible expenses, including:	**1 204**	**804**
Depreciation and amortization	80	82
PFRON disability fund tax	13	16
Unpaid interest	-	5
Unpaid payroll and social security contributions	68	49
Foreign exchange differences in the balance sheet	45	345
Impairment losses	693	-
Other costs	369	306
– including valuation of stock options (Note 30)	330	132

Costs of the previous year recognized as tax-deductible expenses in the current year	**49**	**39**
ZUS from November-December of the previous year, paid in January of the next year	35	31
Other	14	8
Revenues that are not tax revenues	**82**	**94**
Unpaid interest	-	5
Foreign exchange differences in the balance sheet	13	24
Subsidy	63	65
Other	6	
Previous year revenues subject to taxation in the current year	**-**	**-**
Interest paid	-	-
Zwiększenie przychodów (przychody bilansowe rozliczane w czasie)	35	-
Income / loss	**-1 986**	**-2 643**
Deductions from income (*)	-	-924
Taxation base	**-1 986**	**-3 567**
Tax – Parent Company	23	14
Impact of change in the deferred tax asset	**-6**	**-434**
Impact of movement in the deferred tax liability	**-4**	**5**
Total charges to profit before tax	**-25**	**-425**

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 2019, options have been granted from the “Option Pool” for all the shares for the Management Board and Venture FIZ, as well as 80,000 out of 132,000 shares for the Key Personnel.

By 31 December 2019, all the options granted to the Management Board members and Venture FIZ have been exercised and in the Key Personnel pool, options for 50,000 shares will be exercised by 31 December 2019 including 5,000 shares exercised in 2019.

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.

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 Option 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 aforementioned contract. By 31 December 2019, options for 23,000 shares were exercised in that pool. The granting and exercise of the stock options takes place at the price of USD 4.08, i.e. at the market price of the shares on 18 February 2019.

By 31 December 2019, options were granted from the “Additional Option Pool” for all the shares for Rafał Han, as well as options for 40,250 out of 279,000 shares for the Key Personnel. By 31 December 2019, no options from Rafał Han’s pool were exercised.

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

	In 2019	In 2018
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	**191 000**	**544 000**
Number of shares granted under option agreements	40 250	353 000
Number of shares taken up in exercise of the options	28 000	15 000
Number of shares available to be taken up in subsequent periods under option agreements	250 250	378 000
Number of shares released upon expiration of options	140 000	-
Number of shares available to be granted under further option agreements at the end of the period	**290 750**	**191 000**

As at the publication date, the number of shares in the Option Plan was increased to 2,000,000, which is described in Note 31 Events after the balance sheet date.

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 in KPI Agreement 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 eΔt = 0%.
- Stock price volatility (σ) = 46.6%.

For the options granted after the public issue of the parent company’s shares, the services received in exchange for equity securities were valued using the fair value determined indirectly, by reference to the fair value of the stock price on the date of granting the options.

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

	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Management cost	330	166
Capital from revaluation of options	330	166

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

	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Other capital	110	34
Capital from revaluation of options	-110	-34

The change in capital from revaluation of options in 2018 resulted from the exercise 15.000 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 the period from 1 January to 31 December 2018 was USD 1,5 thousand.

The change in capital from revaluation of options in the period of 01.01.2019 to 31.12.2019 resulted from the exercise of 28.000 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 this period was USD 2,8 thousand.

Estimates:

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 and the assumptions were presented in the note above. In the case of awarding further options from the available pool the valuation will be carried out on the basis of the current stock price from the date of award. A significant increase of the stock price in the future may have significant impact on the value of the costs recognized on account of the option plan.

Note 31 Major events after the balance sheet date

The following material events occurred after the balance sheet date:

COVID-19 coronavirus pandemic

At the end of 2019, news from China regarding COVID-19 (coronavirus) emerged for the first time. In early 2020, the virus spread around the world, and its negative impact gained momentum. The Board considers such a situation not as an event that would cause adjustments to the financial statement for 2019, but as an event occurring after the balance sheet date and requiring additional disclosures. The Board is closely monitoring the situation and looking for ways to minimize its impact. The Report has been drawn up on the assumption that the business will continue as a going concern in the foreseeable future.

However, in connection with the coronavirus pandemic, the Board has identified the risk of sales disruptions caused by interruption to lighting component supply chains of the partners with whom the Group cooperates, as well as the risk of postponing lighting infrastructure modernization investments by customers due to widespread lockdown. In connection with the above, the Board has adequately reviewed sales assumptions for 2020, which will delay the achievement of the profitability threshold by the Group. At the same time, in connection with the reduction of marketing and sales activities, the Board decided to reduce operating costs, i.a. by reducing employment and changing remuneration conditions for key employees and associates of the Group who are necessary to implement the Group's strategy and maintain its competitive advantage. The process of optimizing the Group's operating costs has been planned so as not to disrupt the development of the Group's products and the implementation of contracts with the Group's key partners, while enabling immediate restoration of the scope of market activity after the pandemic effects cease to occur

In connection with the coronavirus pandemic, the Board also observes significant difficulties in accessing capital. In the context of these difficulties, the Board's activities related to cost reduction are also aimed at reducing the need for capital financing current operations, and thus accelerating the achievement of break-even point and self-financing by the Group.

Conclusion of an agreement with ASI Bridge Alfa Bitspiration Booster

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

Conclusion of an agreement with F2VS Technologies

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

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

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

Changes in the Board of Directors of Silvair, Inc.

On February 4, Silvair, Inc. received information from Marek Kapturkiewicz about his resignation from the function of a member of the Board of Directors, as well as from the function of a member of the Company’s Audit Committee. At the same time, the Company appointed Christopher Morawski as a non-executive director, member of the Board of Directors, and a member of the Company’s Audit Committee. The Issuer informed about this change in Current Report No. 3/2020 of 7 February 2020.

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

Patent dispute with JSDQ

On 13 February 2020, JSDQ, based on the alleged infringement of JSDQ patents by the Company, made a proposal to conclude a license agreement with the Company, the scope of which grants the Company the right to use JSDQ technological solutions covered by certain patents. Based on the facts, the Company is of the opinion that its products and services do not infringe JSDQ patents. In the Company's opinion, this court case is an example of the so-called patent trolling. Nevertheless, taking into account the duration and potential costs of possible court proceedings relating to the case, or the need to conclude such a license agreement, the Company decided to establish a provision.

Information on transactions concerning shares in Silvair, Inc.

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

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

On 4 March 2020, as part of the issue of Convertible Notes approved by the Board of Directors, the Company issued Convertible Notes with a nominal value of USD 0.5 million.

Change of the stock option plan

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

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.

Impact of credit risk on the Group's main operating segments: production of software for remote communication between devices and smart lighting systems, due to its uniqueness, is 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 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.

Considering the stage of the Group's development, the pace of adoption of the developed technology and the innovative nature of the products based on this technology, we are exposed to a risk that we will not be able to fulfill our obligations when due, in particular due to limited access to funding, failure to earn revenues, delay in earning revenues or earning lower future revenues than assumed, or increased costs resulting from the development of our activity or other factors. In addition, we are exposed to the risk that key customers might fail to fulfill the contractual obligations towards the Group companies.

The Group takes a number of actions aimed at securing the funding for its current and future capital requirements, primarily through concentrating efforts on commercialization of its products, in parallel with efforts aimed at achieving the breakeven point as soon as practicable, and raising funding in the transition period from: issue of convertible notes, stock issue addressed to existing shareholders and a group of new investors, and research and development support programs (subsidies).

In 2020, the Group plans to use up the limit under the current bond issue IV, carry out a new bond issue or a share issue. In the share issue, conversion of issue IV bonds is likely to take place. Redemption of convertible securities before maturity on the holder's request is possible with the Company's consent.

The Company does not plan an early redemption but assumes a conversion of bonds into shares. The Company monitors the risk of shortage of funds through periodic liquidity planning, taking into account the payment due/maturity of for assets and liabilities and projected cash flows from operating activity.

Financial liabilities by maturity date as at 31 December 2019 .

	On demand	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 year
Bank loans	-	35	98	11	-
Bond liabilities	-	-	2,954	-	-
Trade liabilities	7	224	-	-	-
Lease liabilities	-	41	130	-	-
Total	**7**	**300**	**3,182**	**11**	**-**

Financial liabilities by maturity date as at 31 December 2018

	On demand	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 year
Bank loans	-	38	96	137	-
Bond liabilities	-	-	-	-	-
Trade liabilities	58	114	-	-	-
Lease liabilities	-	-	-	-	-
Total	**58**	**152**	**96**	**137**	**-**

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.

The Group monitors the currency rates and discerns a continuing trend of appreciation of USD vs. PLN. This trend is good for the Group from the perspective of earning revenues in USD and EUR. When significant revenues appear, the Group will take steps to use instruments hedging sudden exchange rate fluctuations.

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 2019 and 2018, 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, bonds. 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.

The Group assesses the risk associated with concentration of business partners, foreign currencies, markets and debt instruments as low.

Classification of financial instruments according to IFRS 9

Financial assets by balance sheet item	31 Dec 2019 fair value	31 Dec 2019 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	48	48	-	-	48	-
Receivables other than above, which are financial assets	-	-	-	-	-	-
Short-term securities	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Bank deposits	-	-	-	-	-	-
Cash	1 296	1 296	-	-	1 296	-

Financial liabilities by balance sheet item	31 Dec 2019 fair value	31 Dec 2019 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	144	144	-	144	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	2 954	2 954	-	2 954	-
Measurement of other instruments - derivatives	-	-	-	-	-
Trade liabilities	231	231	-	231	-
Liabilities other than above, which are financial liabilities	-	-	-	-	-

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

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	-	-	-	-	-

Revenue, cost, profit and loss line items recognized in the statement of comprehensive income by financial instrument category

Year ended 31 December 2019

Financial assets	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of impairment losses	Gains / (losses) on measurement	Total
Trade receivables	C	-	-1	3	-	2
Cash and cash equivalents	C	10	-12	-	-	-2
Total		**10**	**-13**	**3**	**-**	**-**

Financial liabilities	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of impairment losses	Gains / (losses) on measure-ment	Total
Bank loans	F	-10	-	-	-	-10
Finance leases	F	-9	-	-	-	-9
Bond liabilities	F	-42	-	-	-	-42
Trade liabilities	F	-	-103	-	-	-103
Other liabilities which are financial liabilities	F	-	-	-	-	-
Total		**-61**	**-103**	**-**	**-**	**-164**

Year ended 31 December 2018

Financial assets	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of impairment losses	Gains / (losses) on measurement	Total
Trade receivables	C	-	-	-	-	-
Cash and cash equivalents	C	16	-79	-	-	-63
Total		**16**	**-79**	**-**	**-**	**-63**

Financial liabilities	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of impairment losses	Gains / (losses) on measurement	Total
Bank loans	F	-24	-	-	-	-24
Finance leases	F	-	-	-	-	-
Bond liabilities	F	-	-	-	-	-
Trade liabilities	F	-	-14	-	-	-14
Other liabilities which are financial liabilities	F	-	-	-	-	-
Total		**-24**	**-14**	**-**	**-**	**-38**

A – Assets measured at fair value through profit or loss
B – Assets measured at fair value with changes through other comprehensive income
C – Assets measured at amortized cost
D – Financial liabilities measured at fair value through profit or loss
E – Financial liabilities measured at fair value through other comprehensive income
F – Financial liabilities measured at amortized cost

Sensitivity analysis

As for 31 December 2019 and 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 2019 - 31 December 2019

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	7	-1	-	1	-
Loans	0	-	-	-	-
Long-term security deposits and other long-term receivables	-	-	-	-	-
Trade receivables	48	-3	-	3	-
Receivables other than above, which are financial assets	-	-	-	-	-
Short-term securities	-	-	-	-	-
Debt securities	-	-	-	-	-
Bank deposits	-	-	-	-	-
Cash	1 296	-5	-	6	-
cash in bank	1 296	-5	-	6	-
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-

Loans	144	13	-	-16	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	-	-	-	-	-
Trade liabilities	231	14	-	-17	-
Liabilities other than above, which are financial liabilities	-	-	-	-	-

Currency risk 1 January 2018 – 31 December 2018

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	-	-	-	-	-
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	-	-	-	-	-

Financial instruments by currency

Year ended 31 December 2019

Financial assets	**USD**	**PLN**	**EUR**	**Total**
Interest and shares	-	7	-	7
Trade receivables	17	-	31	48
Cash and cash equivalents	1 240	48	8	1 296
Cash in bank	1 240	47	8	1 295
Financial liabilities	**USD**	**PLN**	**EUR**	**Total**
Bank loans	-	144	-	144
Long-term	-	11	-	11
Short-term	-	133	-	133
Finance leases	-	171	-	171
Bond liabilities	2 954	-	-	2 954
Trade liabilities	79	150	2	231
Liabilities other than above, which are financial liabilities	-	-	-	-

Year ended 31 December 2018

Financial assets	**USD**	**PLN**	**EUR**	**Total**
Interest and shares	-	7	-	7
Trade receivables	19	1	-	20
Cash and cash equivalents	-	1 995	-	1 995
Cash in bank	18	1 316	4	1 338
Financial liabilities	**15**	**1 315**	**4**	**1 334**
Bank loans	**USD**	**PLN**	**EUR**	**Total**
Long-term	-	271	-	271
Short-term	-	137	-	137
Finance leases	-	134	-	134
Bond liabilities	-	-	-	-
Trade liabilities	-	-	-	-
Financial assets	49	123	-	172
Liabilities other than above, which are financial liabilities	-	-	-	-

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, leasing), 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 2019	31 December 2018
Debt	315	320
Equity	7 653	10 901
Reserve capital, total	10 751	11 221
Debt to equity ratio	3,95%	2,8%

Note 34 Employment in the Group

Item	Average headcount in the period from 1 January 2019 to 31 December 2019		
(persons)	**total**	**white-collar employees**	**blue-collar employees**
Silvair, Inc.	-	-	-
Silvair Sp. z o.o.	40	40	-
Sway Sp. z o.o.	6	6	-
Total	**46**	**46**	**-**

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**	**-**

Note 35 Entity authorized to audit financial statements

The annual consolidated financial statements prepared as at 31 December 2019 and the annual consolidated financial statements prepared as at 31 December 2018 were reviewed by Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Poznań, ul. Abpa Antoniego Baraniaka 88E.

The net amount of the contractor's fee for auditing the annual consolidated financial statements for 2019 was PLN 22,000.

The net amount of the contractor's fee for auditing the annual consolidated financial statements for 2018 was PLN 22,000.

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.

Note 37 Compensation of key management personnel

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

Item	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Szymon Słupik	81	79
Adam Gembala	80	79
Rafał Han	80	79
Oktawian Jaworek	-	8
Gross compensation paid	**241**	**245**

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

Item	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Szymon Słupik	-	-
Adam Gembala	-	-
Rafał Han	164	102
Gross compensation paid	**164**	**102**

Total compensation of key personnel

Total compensation of key management	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Rafał Han	244	181
Szymon Słupik	81	79
Adam Gembala	80	79
Oktawian Jaworek	-	8
Total compensation	**405**	**347**

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 9% shares in w Sway Sp. z o.o. and 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 2019, in connection with this loan, Silvair Sp. z o.o. posted a liability under the loan from Silvair, Inc. in the amount of USD 8,521 thousand (principal) and as at 31 December 2018, it posted a receivable in the total amount of USD 4,454 thousand.

The Group assumes that the loan will be settled through conversion to capital.

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

As at 31 December 2019, in connection with the loan Sway Sp. z o.o. showed a liability on account of the loan received from Silvair Sp. z o.o. in the amount of USD 290 thousand. 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.

The Group assumes that the loan will be settled through conversion to capital.

The loans between Group companies and the financial costs and income in connection with such loans were excluded from the consolidated financial statements.

Trade settlements within the Group

As at 31 December 2019, Sway Sp. z o.o. and Silvair Sp. z o.o. posted no mutual trade receivables or liabilities. 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 2019, Silvair, Inc. and Silvair Sp. z o.o. posted no mutual trade receivables or liabilities. As at 31 December 2018, Silvair Sp. z o.o. reported trade receivables from Silvair, Inc. in the amount of PLN 205 thousand (USD 54 thousand).

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 31 December 2019, 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.

In the financial years 2018-2019, the Group leased space from Centrum Jasnogórska 44 Spółka z o.o. where the total cost of the transactions was USD 268 thousand in 2019, and USD 278 thousand in, respectively. The total cost was USD 225 thousand in the financial year 2018 and USD 218 thousand in the period from 1 January to 31 December 2019.

As regards the recognition of the above lease agreement in the statement of financial position, the Group presented them as leases according to IFRS 16.

As at 31 December 2019 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 2019 and 31 December 2018, 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 and business travels.

Note 39 Minority interest

Movement in non-controlling interest	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
As at the beginning of the financial year	**119**	**-**
Contributions to capital of Sway	-	427
Result for the year attributable to non-controlling interest	-39	-18
Reduction of the right to shares for non-controlling interest	-	-290
As at the end of the financial year	**80**	**119**

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.

Information on the aforementioned changes is presented in the section "Corrections of prior period errors" and Note 31 Major events after the balance sheet date.

Note 40 Subsidiaries with non-controlling interest

Non-controlling interest exists in the subsidiary SWAY Spółka z ograniczoną odpowiedzialnością 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.

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.

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 for 31.12.2019 – 529 thousands USD and for 31.12.2018 - 825 thousands USD.

Condensed financial information for the subsidiary with non-controlling interests:

	31 December 2019	31 December 2018
A. Non-current assets	**1 640**	**1 600**
including costs of development work	1 617	1 563
B. Current assets	**58**	**686**
Total assets	**1 698**	**2 286**

	31 December 2019	31 December 2018
A. Equity	855	1 301
B. Non-current liabilities	301	331
C. Current liabilities	542	654
Equity and liabilities	**1 698**	**2 286**

Profit and loss account	**01.01.2019–31.12.2019**	**01.01.2018–31.12.2018**
A. Revenue	-	-
B. Costs of sales	-	-
C. Gross sales result	-	-
D. Net sales result	-338	-313
E. Profit/(loss) for the period	-428	-312
Total comprehensive income	**-428**	**-342**

Cash flow statement	**01.01.2019–31.12.2019**	**01.01.2018–31.12.2018**
A. Net cash from operating activities	-270	260
B. Net cash from investing activities	-328	331
C. Net cash from financing activities	-26	34
D. Net cash flows, total (A.+B.+C.)	-624	625
E. Movement in balance sheet cash	-624	625
F. Cash at the beginning of the period	**660**	**35**
G. Cash at the end of the period	**36**	**660**

The annual consolidated financial statements for the period of 1 January to 31 December 2019 (including comparative data) were approved for publication by the Board of Directors on 6 April 2020.

Rafał Han	Szymon Słupik	Adam Gembala
Chief Executive Officer	Chief Technology Officer (CTO), President of the Board of Directors	Chief Financial Officer, Vice-President of the Board of Directors, Secretary and Treasurer

Paweł Szymański	Marek Kapturkiewicz
Director	Director